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EXHIBIT 1

DELIVERING FOR AMERICA

Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence

UNITED STATES POSTAL SERVICE®

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LETTER FROM **THE POSTMASTER GENERAL AND THE CHAIRMAN OF THE UNITED STATES POSTAL SERVICE BOARD OF GOVERNORS**

Few organizations so thoroughly and tangibly engage the public as does the United States Postal Service.

Nearly every person in America experiences the Postal Service brand every day—by saying hello to their mail carrier on their daily rounds, passing postal vehicles on the street, visiting a Post Office or USPS.com, using Postal Service mobile applications, or simply reading their mail or opening a package at the end of the day. On any given day, the Postal Service delivers for America—from essential medicines and COVID-19 stimulus checks, to packages and election ballots.

The 644,000 women and men of the Postal Service—who live, work, and serve in every American community—represent our brand with every customer interaction and through constant dedication to our mission of universal service. As we fulfill our role of binding the nation together—as we have for 246 years—their commitment ensures that our delivery platform and services are always a trusted, visible, and valued part of America's social and economic infrastructure.

And yet, our organization is in crisis. Our business and operating models are unsustainable and out of step with the changing needs of the nation and our customers. We have seen steep annual financial losses in the billions of dollars, unmet service performance goals, and less market relevancy as consumer behaviors have changed.

In 2020, our Board of Governors, with a new Postmaster General and a newly established officer corps—composed of experienced postal executives with expert knowledge of our business and marketplace—moved quickly to address our financial and operational challenges and forge a bold vision for transformation.

With a deep commitment to preserve our mission, Postal leadership began a wide-ranging effort to address our challenges rigorously, holistically, and collaboratively to define a new high performing future. We realigned the organization to streamline operations and enable the effective planning, management, and execution of change.

The team evaluated and quantified the many compounding challenges across the postal enterprise. We dissected the dramatic shift from traditional letter mail to package delivery; underperformance in processing, transportation, delivery, and retail operations; failure to meet service performance standards; unacceptably high rates of non-career employee turnover; and a perilous and worsening financial situation—marked by $87 billion in losses over the last 14 years.

The COVID-19 pandemic led to even sharper declines in First-Class Mail and Marketing Mail and historic levels of demand for package delivery, dramatically reinforcing the urgent case for change.

We studied market research; prior internal plans and proposals; reports from the Office of Inspector

General, the Government Accountability Office and the Postal Regulatory Commission; and many white papers and documents authored by postal stakeholders. We received feedback from key customers and industry associations, our unions and management associations, and members of Congress—valuable input from a diverse set of stakeholders.

Throughout the development of this Plan, the Postal Board of Governors played an active role in representing the public interest as we sought to preserve our ability to fulfil our universal service mission while transforming our business and operations. Their collective expertise—in logistics; leading and working with unions; leading and serving on boards of large organizations; advising on finance and restructurings; and working in the political arena with political parties on both sides of the aisle—has provided a solid foundation for the Plan.

The resulting Plan—Delivering for America—establishes clear strategies to quickly achieve financial sustainability and service excellence. Our new operating model will dramatically improve service through strategies aligned to the changing needs of our customers. We will optimize our mail and package processing capabilities, improve the technology and oversight of our surface logistics network, realign service standards to enable the best use of our transportation and processing networks, strengthen our delivery network, promote measurable operating excellence, modernize vehicles and infrastructure, revitalize our post offices, enable long-term postal careers for employees, and innovate solutions and services for customers.

The Plan's strategic initiatives are designed to reverse a projected $160 billion in losses over the next ten years by achieving break-even operating performance. We can accomplish this goal with modest regulatory and legislative changes, effective use of newly acquired and existing pricing authorities, operating more efficiently across our enterprise, and by driving revenue growth through innovative customer solutions. We seek service excellence and financial sustainability that preserves our universal service mission of providing the nation with six days of mail and seven days of package delivery.

We look forward to productive discussions with our stakeholders about our goals for the future of the organization and the most effective strategies to pursue them. We will listen and learn and adapt the plan to take account of stakeholder advice and guidance, carefully considering advice from the Postal Regulatory Commission, findings from the Office of Inspector General, and feedback from our customers. We will adhere to legal, statutory, contractual, and regulatory requirements as we implement the initiatives within this Plan.

Most importantly, we recognize that our success depends upon implementing the totality of the Plan—which will occur through deliberate, well-communicated phases in the coming years—and that doing so with the broad, bipartisan support of the Congress will ensure its full and enduring impact.

We present this Plan as another important chapter for the Postal Service in our long history and tradition of changing and improving to better serve the public. We trust you will find this Plan to be convincing that a high performing, financially sustainable future for the Postal Service is both necessary and attainable.

LOUIS DEJOY
Postmaster General & Chief Executive Officer
United States Postal Service

THE HONORABLE RON BLOOM
Chair, Board of Governors
United States Postal Service

EXECUTIVE SUMMARY

The Postal Service operates as a basic and fundamental service provided by the Government of the United States to the American people.

Our basic mission is to provide prompt, reliable, and efficient mail and package shipping services to all Americans—regardless of where they live—and at affordable rates. We are expected to fulfill this universal service mission in a self-sufficient manner through revenue generated from the sale of our products and services. We constitute a fundamental part of the Nation's critical infrastructure, delivering essential services to American households and businesses.

> **"The Postal Service shall have as its basic function the obligation to provide postal services to bind the nation together through the personal, educational, literary and business correspondence of the people."**
>
> — Title 39 Section 101(a) of the United States Code

The dramatic evolution of the mailing and shipping industries over the past decade—accelerated by the COVID-19 pandemic—requires a new business model and a reorientation of the Postal Service's management, network, and processes. With consumer and public demands only expected to continue to rapidly evolve, our success as an American institution depends upon our ability to adapt to change.

Through exhaustive diagnostic analysis across the postal enterprise, we quantified the many compounding challenges that have come with long-term declines in mail volume and resulted in unacceptable financial and operational underperformance. For example, as the Postal Service's product mix shifted dramatically away from traditional letter mail toward package delivery, unreliable service performance greatly degraded customer confidence. In fact, our

package volume flattened in 2019 even as rapid growth occurred in the e-commerce marketplace.

Throughout the process of developing this Plan, we also explored a wide range of opportunities to better serve our business and residential customers, and the American public. We especially examined new ways to participate more fully in the strengthening U.S. market for package delivery services, and to more fully leverage our network to better meet customer needs.

From these efforts, we determined that there is a compelling need to redesign our operating model to enable growth in our package delivery business, and that doing so would have strong operational benefits across our enterprise. In fact, the breadth of our operating model changes will improve the value and reliability of the service that we provide to our mail customers and is essential in providing the flexibility and financial stability necessary to achieve our universal service mission.

OUR PLAN DELIVERS:

1. **A modernized Postal Service capable of providing world class service reliability at affordable prices**
2. **Maintenance of universal six-day mail delivery and expanded seven-day package delivery reach**
3. **Workforce stability and investment strategies that empower, equip, and engage each employee and put them in the best possible position to succeed**
4. **Innovation that grows revenue and meets changing marketplace needs**
5. **Financial sustainability to fund our universal service mission**

High Performing Future

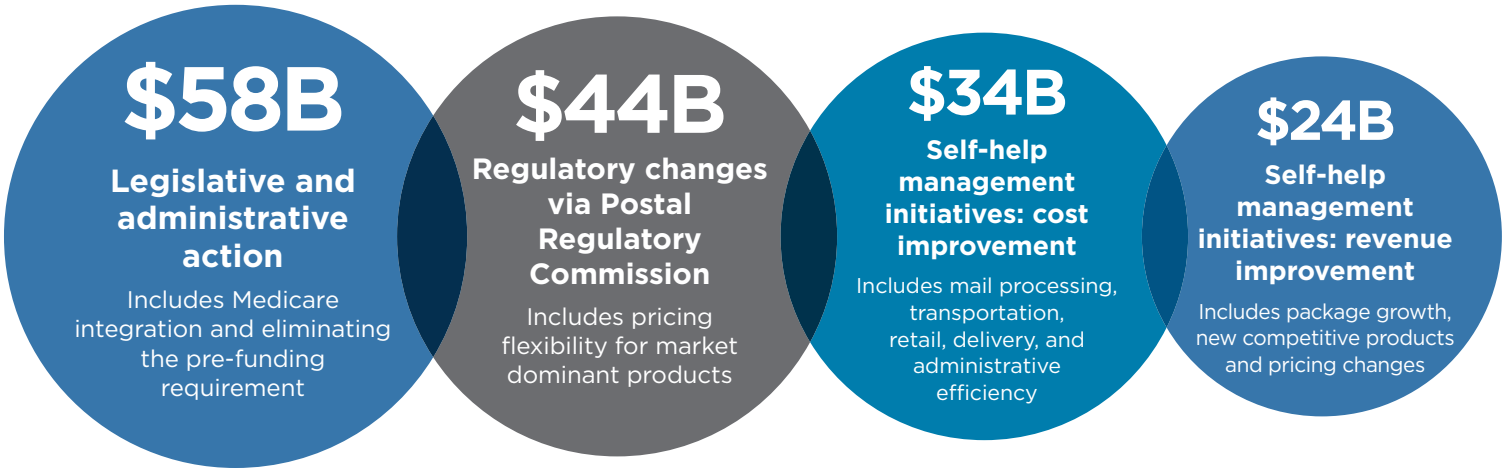
To best serve the American public and the needs of the nation in the decades to come, we envision the Postal Service performing at a much higher level in terms of the service we provide every day, the value we deliver to American commerce and communities, our pace of innovation, and our relevance at every home and business.

Our vision is to realize two central and complementary goals: Service Excellence and Financial Sustainability. Only through service excellence can we maintain the confidence and trust of the public and grow our business to fund our universal service mission. But service excellence requires investments to gain network efficiencies and innovate products and services, especially given that we have deferred many necessary investments over the past 10 years. With new self-funded investments—for which we have allocated $40 billion—we will achieve service excellence, grow our business, and achieve financial sustainability over the coming decade.

Our goal is to operate as a high performing organization with the following characteristics:

- **A strengthened public service mission** – that embraces our role as a critical part of our government's infrastructure and in binding the nation together.
- **Service standards that foster service excellence** – achieved through an optimized network providing dramatic improvements in reliability, on-time delivery, and cost-to-serve—and meeting or exceeding 95 percent on-time delivery across mail and shipping product classes.
- **A bold approach to growth, innovation, and continued relevance** – by providing customers with greater access to the Postal Service network and greater opportunity to receive same-day and next day delivery;

FIGURE 1: Total Plan Benefit



launching robust new products and services and digital experiences; spurring growth in the e-commerce economy; and strengthening the mail channel for the nation's commercial and personal needs.

- **Environmental stewardship** – continuously advancing our sustainability goals and environmentally-focused solutions that reduce greenhouse gas emissions, energy, fuel, and waste.
- **Best-in-class mail and package processing** – following disciplined operating principles, aligning operations and infrastructure with volume demand, accelerating investments in package and material handling equipment; and providing greater resiliency and adaptability to volume spikes and marketplace needs.
- **A modern, transformed network of Post Offices** – designed as go-to destinations to support community needs, providing a wider range of government and commercial services, and better aligned to customer demand.
- **A fully optimized surface and air transportation network** – in which a higher percentage of First-Class Mail and First-Class Package Service are carried on surface transportation, third party long-haul truckers are more integrated and better managed, and integrated logistics systems drive greater performance and efficiency.
- **Best-in-class delivery operations** – powered by investments in a new vehicle fleet, equipping carriers with mobile technology to improve service and tracking and optimizing routes and processes throughout last mile delivery.
- **A stable and empowered workforce** – marked by opportunity creation, well-defined career development and growth—including for non-career employees—resulting in decreased turnover and a winning culture that prizes diversity, equality, inclusion, and customer service excellence.
- **An organization structured for success** – aligned to meet marketplace needs,

Financial stability will enable investment in our people, customers, communities, and the organization—it will also preserve our ability to self-finance and avoid any need for a costly bailout, which could total as much as $160 billion.

and designed to foster clarity of purpose, accountability, flexibility, and effectiveness.

- **A supportive legislative and administrative framework** – to address unwarranted retiree health benefit and pension funding obligations, which includes redefining retiree health benefit obligations and appropriate accounting for Civil Service Retirement System funding.
- **A more rational pricing approach** – as approved by the Postal Regulatory Commission for our market-dominant products, and by more effectively aligning prices to the marketplace for our competitive products.
- **Financial sustainability and investment** – generating enough revenue to cover our operating costs and obligations, and investing $40 billion in our network, technology, and people.

By implementing the totality of the strategies identified above—and doing so in a timely manner—we project that we will operate with a positive net income beginning in 2023 or 2024 and realize break-even operations over the next ten years.

10-YEAR CUMULATIVE NET INCOME

$160 Billion

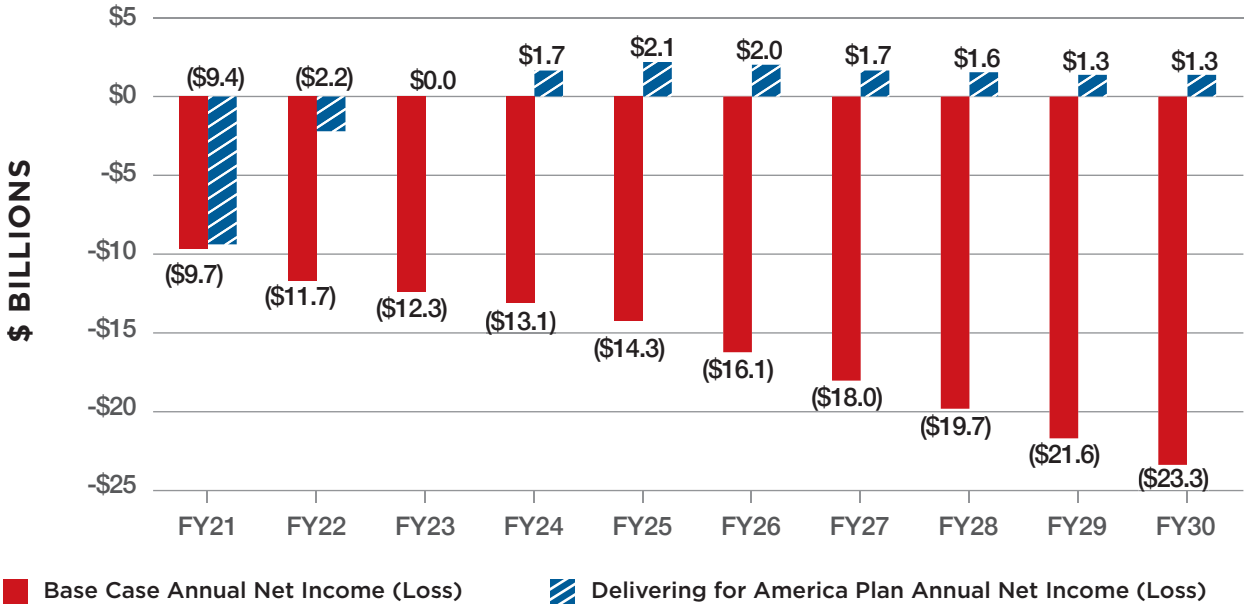
BASE PROJECTION ANNUAL NET INCOME

$0.2 Billion

NET INCOME WITH STRATEGIC PLAN

But we cannot delay implementation of core elements without degrading our ability to meet financial targets. The combination of revenue growth, cost savings, and investments in our future, combined with legislative and administrative actions, will enable the Postal Service to operate in a financially self-sustaining manner—generating sufficient cash flow to cover operating costs and ongoing capital investments while fulfilling our universal service mission for decades to come.

FIGURE 2: Comparison of the 10-Year Base Projection Net Income vs. Projected Net Income with Strategic Plan Initiatives



A CHALLENGING PRESENT

As we built this Plan throughout 2020, it was evident to us that the COVID-19 pandemic had exacerbated and highlighted the many long neglected shortcomings of our inflexible, misaligned, and underperforming business model and operating practices.

During the pandemic, gradual trends in declining mail and growing package volumes accelerated beyond all expectation, creating innumerable operating challenges that were compounded by workforce and transportation availability issues. These forces brought to the surface core operating, workforce and business model deficiencies that could not be overcome with short-term investments in personnel and other resources in order to meet basic performance goals.

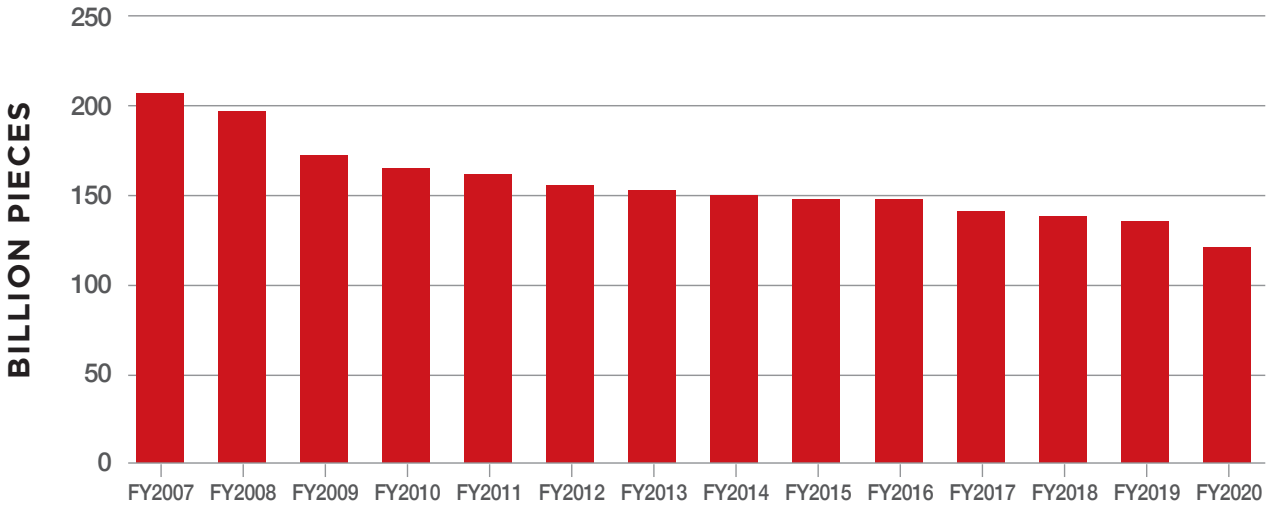
We are committed to our fundamental mission to provide timely, reliable, secure, and affordable mail and package delivery to the more than 160 million residential and business addresses we serve across the country, six and seven days a week.

The COVID-19 experience, and a decade of widening financial losses, declining service performance, loss of customer confidence, stalled innovation, and unacceptably high rates of employee turnover, gave us the conviction to build a plan that takes a comprehensive approach to the future. We methodically identified the challenges, as outlined below, and addressed each to give us a path to achieve our ambitious and interrelated financial, operational, and service performance goals for the next decade.

Mail Revenue and Volume Declines

Dramatic changes in customer demand has put downward pressure on the traditional letter and flat product volumes that we deliver to our customers' mailboxes, especially First-Class Mail volume. These sharp declines since FY2007 have

FIGURE 3: USPS Total Mail Volume (FY2007 – FY2020)



severely impacted our finances as well as our processing, logistics, and delivery networks.

- Domestic mail revenue has declined from $60.6 billion in FY2007 to $38.7 in FY2020 —a decline of over $21.9 billion (36%) or an average annual decline of 2.8 percent, including a decline of more than 8 percent during the COVID-19 pandemic in FY2020.

- Similarly, total mail volume declined by 42 percent since FY2007 (Figure 3), a decline of about 3 percent per year. During the FY2020 pandemic year alone, our mail volume declined by a steep 11 percent.

- Most concerning, First-Class Mail volume —which provides the greatest contribution towards covering the costs of maintaining our universal service network—has declined by 45 percent since FY2007.

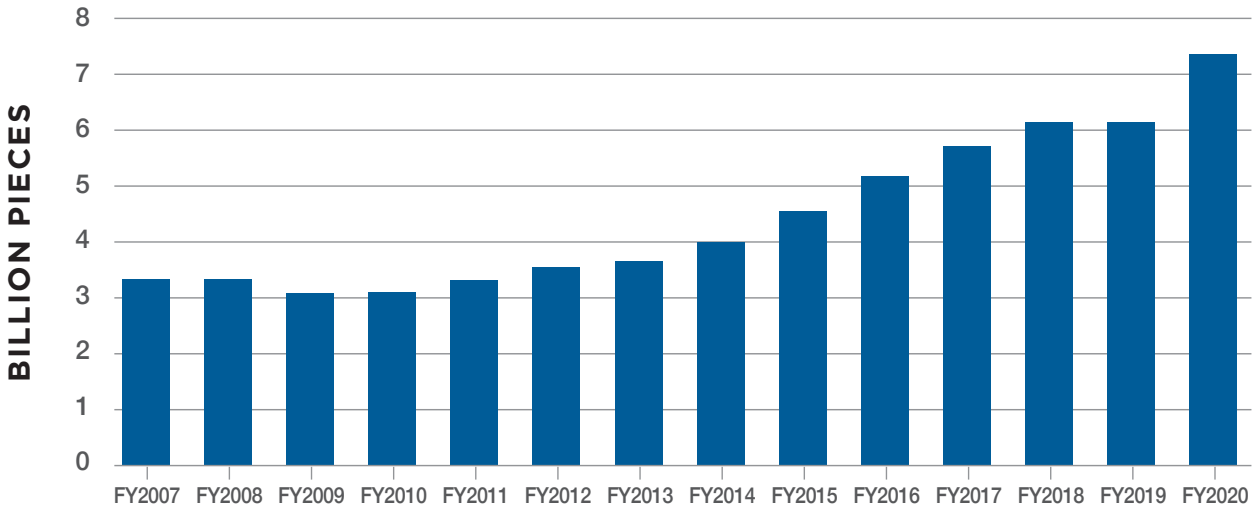
- At the same time, every year our cost to deliver mail increased as our mail volume and revenue declined. This was driven by increased demand on our network, including the number of delivery points we serve growing on average by more than one million each year. The result has been that pieces per delivery point per day dropped from 5.6 pieces of mail and packages in FY2006 to 3.0 pieces in FY2020, reinforcing that we are delivering less mail to more delivery points each year. These trends are expected to continue in the coming decade, with total volume expected to decline by 36 percent and total pieces per delivery expected to decline to 1.7 by FY2030.

- As our mix of mail and packages continues to change, our processing, transportation, and delivery network is increasingly misaligned with the products we accept, process, transport, and deliver, because of our reliance on facilities, trucks, and delivery tools that were originally designed for much higher letter mail volume, far smaller packages, and far lower package volume.

Package Revenue and Volume Trajectory

Although Postal Service package volume have grown since FY2007, in the last three fiscal years we have not kept pace with the market's overall

FIGURE 4: USPS Total Package Volume — Billion Pieces (FY2007 – FY2020)



rate of growth for package delivery services.[1] In fact, the Postal Service's volume flattened in 2019 due to increased competition and customer in-sourcing, and lack of investment, innovation, and performance. And, the package volume growth we have experienced has not been sufficient to offset the revenue loss from declines in mail volume.[2]

- Package revenue increased from $9.9 billion in FY2007 to $21.5 billion in FY2018, slowed to $22.8 billion in FY2019, and spiked to $28.5 billion during the pandemic year of FY2020.

- As shown in Figure 4, package volume grew from FY2007 to FY2018, and flattened in FY2019. Given these trends, we had forecasted package volumes to decline in FY2020.

However as the pandemic accelerated e-commerce, our package volume jumped by 19 percent, which was ten points lower than the 29 percent market growth rate.[3] While demonstrating the vital role the Postal Service plays in meeting the nation's package delivery needs, the increased volume severely tested our processing and transportation capacity, and further degraded our ability to meet customer expectations. Unless we take action, we will continue to be challenged in meeting the nation's critical package delivery needs resulting in limited, if any, growth in our shipping business that is necessary to fund our infrastructure to fulfil our universal service mission.

[1] As measured by the PRC, our share of the package-delivery market shrank by 0.2 percent in FY2019, after an eleven-year growth trend broken only during a single year of the Great Recession (FY2011). Library Reference PRC-LR-ACR2019-10, Appropriate Share Calculation, Microsoft Excel file "PRC-LR-ACR2019-10.xlsx", tab "Competitive Growth Differential", cells I17-I28. See also Gov't Accountability Office, No. GAO-20-385, Congressional Action Is Essential to Enable a Sustainable Business Model (May 2020), at 10 ("The volume of USPS competitive products more than tripled since fiscal year 2007. This volume, however, began to decline in the second half of fiscal year 2019 due to growing competition for package delivery."); USPS OIG, No. RISC-WP-20-008, Package Delivery in Rural and Dense Urban Areas (Sept. 16, 2020), at 19 ("As letter mail declines and e-commerce rises, package delivery has taken on greater importance for the Postal Service. Postal package volume had been rising steadily until FY2019.").

[2] Former PRC Chairman Robert Taub has testified that, despite the significant growth in Postal Service package volume, that volume continues to represent only a minor portion of overall volume. Moreover, because packages' margin is lower than for letters and flats, package growth has only mitigated, and not offset, the financial harm from letter volume decline. Testimony of Robert G. Taub, Chairman, PRC, Before the U.S. Senate Comm. on Homeland Security & Govtl. Affairs, 116th Cong. (Mar. 12, 2019), at 26 ("While Competitive products volume and revenue have grown consistently in recent years, its volume only makes up 3.9 percent of the total mail volume of the Postal Service. In addition, the margin (i.e., the overall cost coverage) on Competitive products is lower than the margin for First-Class Mail. In other words, the Postal Service earns more money from First-Class Mail than it does from Marketing Mail or Competitive product parcels. The continuous decline in First-Class Mail volume and revenue seriously jeopardizes the Postal Service's ability to cover its fixed overhead costs.").

[3] Colography, Total U.S. Parcel Market Trends.

Misaligned Processing Network

Our processing network was originally designed to meet the demands of a robust, and ever-growing mail market.[4] Similarly, our facilities were located geographically and set up operationally to facilitate the timely and efficient processing of mail. As mail volume has decreased, our machines and facilities have been left under-utilized, leaving us with a physical network infrastructure that does not correspond to the current and projected needs of our customers.

- Despite record election and peak holiday volume in the past year, our utilization rate of mail sorting machines has fallen below 50 percent, as mail volume has continued to decline.
- Missed operating plans at our processing facilities also reflect our failure to adapt to current mail and package volume realities. More than half of our facilities do not meet key operating plan indicators, which means that the mail and packages they handle are not being processed on schedule.[5]
- Even under the most efficient operating scenario, a dramatically lower number of packages can be processed per employee workhour compared to the 10,000 letters and flats that can be processed per workhour.
- The footprint of our current network of facilities is inefficiently dispersed and accommodates too many disparate flows across products and classes, which drains resources, capacity, and degrades performance. The design of our facilities also limits their ability to process growing package volumes. This is due to the increased cubic space requirements of packages—which has resulted in rising processing costs[6] and declining service performance—a trend that will continue absent realignment.

644,000

WOMEN AND MEN OF THE UNITED STATES POSTAL SERVICE

live, work and serve in every community in America.

Underperforming Air and Surface Transportation Networks

Our air and surface networks are underperforming and unreliable.[7] Air transportation comes with a high price and significant risk, as we are reliant on external carriers. Additionally, our surface transportation is riddled with inefficiencies and burdensome manual processes.

- 43 percent of Priority Mail, 42 percent of First-Class Packages, and more than 21 percent of First-Class Mail are transported via air.

[4] As the United States Postal Service Office of Inspector General ("OIG") explained in a September 2020 report, given the Postal Service's history, "delivery infrastructure was primarily designed with mail in mind—from the vehicles to the facilities to the mailboxes." See USPS OIG, No. RISC-WP-20-008, at 3 (finding that "[w]hatever strategies the Postal Service employs, it must recognize both the importance of package volume to its future and the extent to which the extremes of the country require different creative approaches.").

[5] A recent OIG report determined that Postal Service operations were routinely not completed as designed, based on a review of FY2019 nationwide performance metrics. USPS OIG, No. 19XG013NO000-R20, U.S. Postal Service's Processing Network Optimization and Service Impacts (June 16, 2020), at 13-14 ("According to the Postal Service's 24-Hour Clock Indicators, it did not meet, on average, any of its target goals for completing mail processing operations on time. Of the 11 total indicators, only four were within 5 percentage points of their targets.").

[6] Id. at 5 ("[T]he Postal Service is processing, transporting, and delivering more packages as part of its mail mix, which typically costs more than letters or flats to process, transport, and deliver. This changing mail mix is helpful to understanding the Postal Service's costs.").

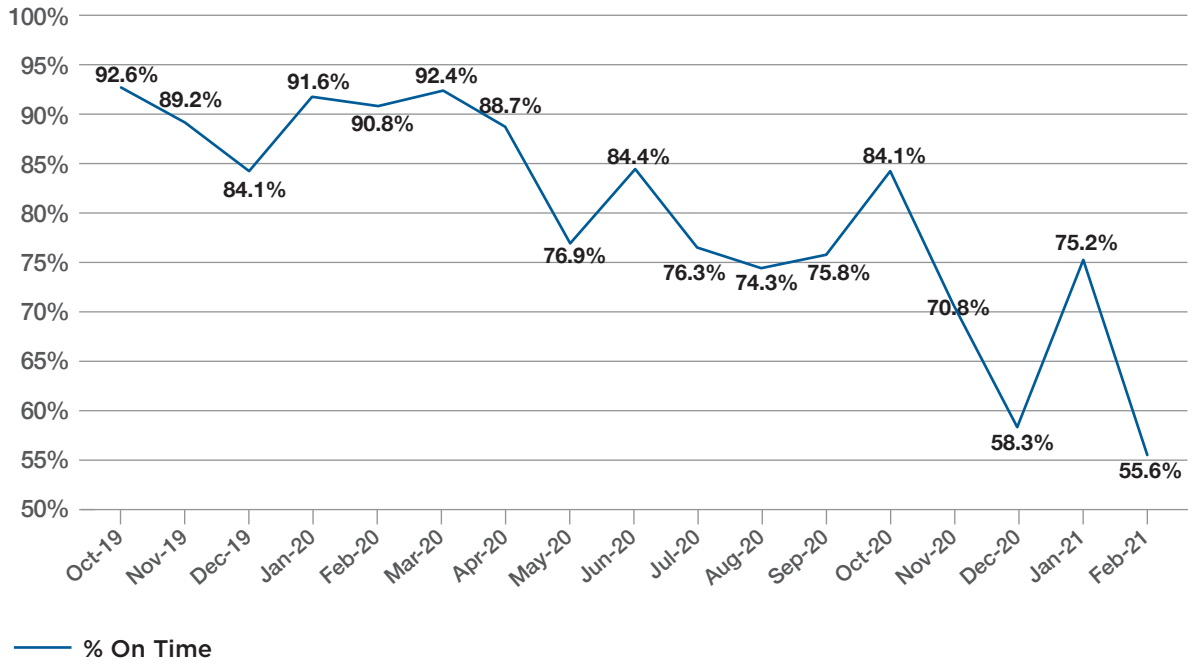
[7] See generally, USPS OIG, No. 20-144-R20, Transportation Network Optimization and Service Performance (June 5, 2020).

FIGURE 5: Air Network Largely Out of Postal Control

*Image is explanatory. It does not capture all mail flows as the USPS middle mile network is extremely complex. The image is representative of the process change that is proposed.

- The Postal Service does not own planes and is forced to rely on third parties for air transport. The complexity and constraints of the air network are contributing factors to the poor performance of First-Class Mail.[8]
- Air transport has major uncertainties and risks (weather, flight delays, etc.) that can drastically impede service performance. Figure 6 below shows that even prior to the pandemic, our air carriers did not provide consistently reliable service. Moreover, the COVID-19 pandemic caused an industry-wide shortage of air cargo capacity, which exacerbated inconsistency in reliability.[9]

FIGURE 6: Recent Air Carrier Performance



[8] See id. at 9 (explaining that the Postal Service relies on contracted air carriers to meet service standards for certain mail).

[9] For example, total flight operations decreased from 7.4 million in 2019 to 4.7 million in 2020. During the same time period, flight cancellation percentages increased from 1.8% to 6.0%. See United States Department of Transportation, Bureau of Transportation Statistics, On-Time Performance - Reporting Operating Carrier Flight Delays at a Glance, https://www.transtats.bts.gov/HomeDrillChart.asp, (last visited March 19, 2021).

- Service through ground transportation has historically outperformed air. In FY2019, First-Class Mail transported via ground transportation met 92.0 percent on-time performance while First-Class Mail transported via air transportation met 89.4 percent on-time performance.

- Mail volume declines, combined with the need for multiple networks to handle different types of mail under existing service standards have led to severely under-utilized surface transportation (less than 40% average load).[10]

- Package growth has increased the amount of cubic footage of transportation required but does not contribute as much as mail to cover costs—letter revenue per cubic foot is more than 80 percent higher than package revenue per cubic foot. These issues will be magnified as the cubic capacity of our package volume grows.

- As processing facilities have consistently failed to meet operating plans, it has resulted in increased reliance on late and extra surface trips.[11]

- We have a limited surface carrier vendor base due to our contracting requirements.

- We currently lack the advanced logistics systems that are critical to managing a fleet as large as ours. We engage in inefficient manual processes for carrier solicitation, onboarding, scheduling, payment, and performance management.

Unattainable Service Standards

A service standard is the stated delivery performance goal for a mail class or product. Current First-Class service standards range from one- to five-days, depending on the distance from origin to destination.[12] First-Class 1-day is a service standard provided for presorted mail entering at the destination facility. First-Class 2-day encompasses a radius of six driving hours from the origin processing facility.

Anything above the 6-hour drive time radius and originating and destinating within the continental United States is considered First-Class 3-day. The transportation mode for First-Class Mail 3-day is chosen based on distance, with surface being used for any origin-destination pair under 28 hours of drive time. First-Class 4- and 5-day is used for volume originating from or destinating to locations outside of the continental United States, such as Alaska, Hawaii, Puerto Rico, and other U.S. territories.

As shown in Figure 7 on the next page, we have not met First-Class Mail service targets since FY2012, and service performance has been on a downward trend since FY2017. This is particularly pronounced for First-Class Mail 3- to 5-day, which is the mail that travels the longest distances. As mail volumes decline further, service performance targets will become increasingly difficult and more costly to meet.

- The First-Class Mail 3-day service standard requires a complex and high-cost transportation network to cover vast geographic areas.

- Current service standards require 3-day delivery for any destination within the continental United States, whether the distance from origin is 300 miles or 3,000 miles.

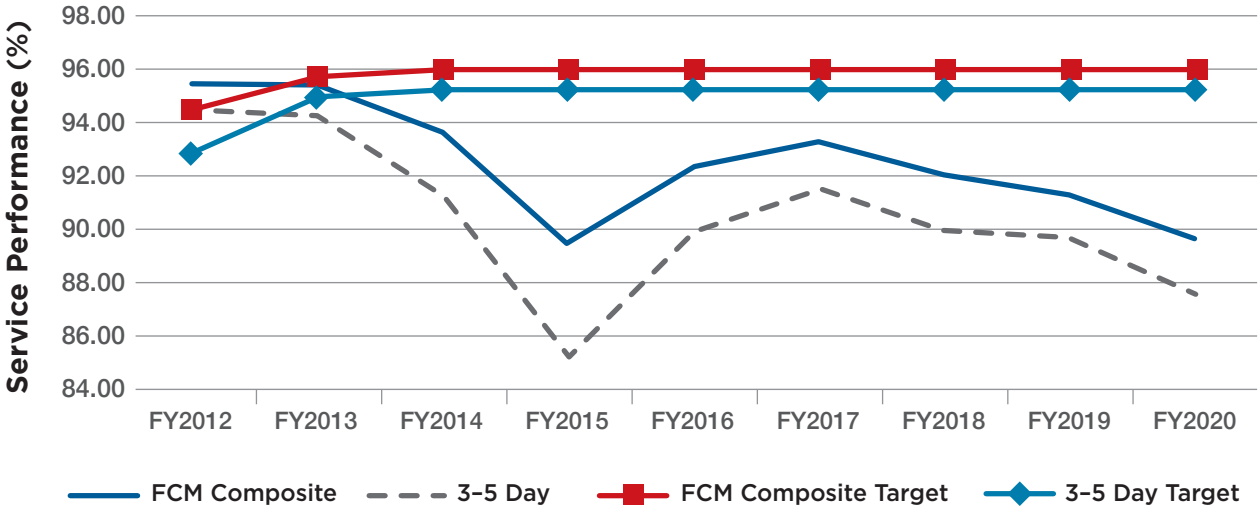
- Mail products traverse differing processing and transportation streams, which creates redundancies, multiple handlings, and under-utilization of surface transportation networks.

[10] See USPS OIG, No. 20-144-R20, at 14 (explaining that as a result of misaligned scheduling, "the Postal Service had low trailer utilization" and that in "FY2019, Postal Service trailer utilization was about 25 percent nationwide").

[11] See id. at 10 (finding that the "Postal Service routinely uses the surface and air networks to mitigate mail processing, delivery, and other delays (such as weather and traffic), resulting in additional transportation costs of over $550 million. Even with transportation's mitigation efforts, the Postal Service did not meet the majority of its service performance targets in FY2019."); id. at 11 ("When operational issues exist, there is a downstream effect that causes management to face difficult and costly decisions. They supplement regularly scheduled transportation with exceptional service.").

[12] See generally, 39 C.F.R. § 121.1.

FIGURE 7: First-Class Mail Composite and 3- to 5-day Service Standard Performance (FY2012 – FY2020)



With every additional handling, we degrade our ability to achieve ideal on-time delivery.

- Increased package volume, a dispersed processing network causing products to travel excess mileage, and an extremely distributed collection process to pick up increasingly smaller mail volume make it impossible to meet our current service standards, or do so at a reasonable cost.

Failure to Meet Service Commitments

We have failed to meet service commitments to our customers for many of our mail and package products. In particular, we have not met First-Class Mail service targets in eight years.[13] This is due to both unattainable service standards and a lack of operational precision. Processing and transportation functions do not currently occur on-schedule, resulting in delayed product to our carriers and to our customers.[14]

- For FY2020, average First-Class Mail service performance was 89.7 percent, more than six points below the target.
- First-Class Mail 3- to 5-day performance was at 87.7 percent, more than seven points below the target for FY2020.
- As First-Class Mail volume continues to diminish, service will continue to erode unless we bend the curve.
- Periodicals performance was 80.9 percent, more than 10 points below target for FY2020.
- Despite directing additional resources in FY2020 towards processing, transportation, and delivery, we were unable to meet our service commitments.[15]

[14] See, e.g., USPS OIG, No. 19XG013NO000-R20, at 14.

[15] The OIG found that, in FY2019, "the Postal Service spent $1.1 billion in mail processing overtime and penalty overtime, $280 million in late and extra transportation, and $2.9 billion in delivery overtime and penalty overtime costs. Even with these significant additional costs, the Postal Service did not meet the majority of its service performance targets." USPS OIG, No. 19XG013NO000-R20, at 2.

Underinvestment in Delivery and Retail Operations

Our universal service delivery obligation—a commitment to deliver mail and packages to every U.S. address in every community—expands each year by more than one million delivery points as the nation's population grows and new businesses and homes are established. We have not made adequate investments to modernize our delivery footprint, vehicles, route structures, and platforms to serve this growing demand.[16]

- Chronic underinvestment has led to sub-par facilities.
- The average vehicle in our fleet is more than 28 years old, unreliable, and unsuitable for accommodating growing package volume.
- Our delivery unit footprint and route structures are not aligned with declining mail volume and growing demand for package deliveries.
- Processing and transportation delays continue to affect letter carrier schedules.
- Our carrier routes and adjustment processes are not optimized for the changing delivery environment.
- Declining mail volume and an increase in e-commerce have led to a reduction in retail traffic and revenue in our post offices. Retail revenue has decreased by nearly 20% over the last decade. While volume and revenue have declined, the Postal Service has not upgraded retail facilities or adequately aligned retail infrastructure to local demand, as operating costs continue to rise.

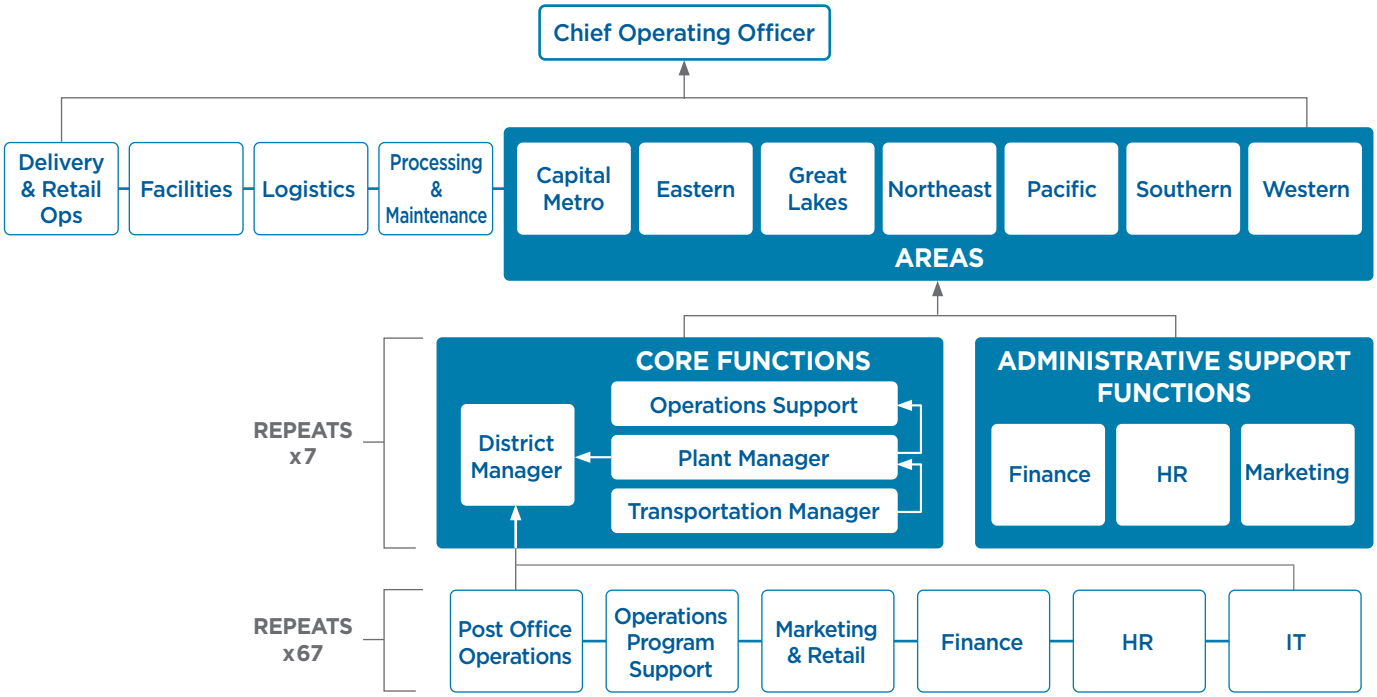
Organizational Design and Employee Turnover

For years, the Postal Service had an organizational structure that hindered our ability to adapt and evolve to changing circumstances.

- Prior to an organizational realignment in August 2020, the Postal Service operated under a structure in which core and supporting functions were managed in a decentralized fashion within each of seven regions, called Areas. Each Area's oversight included Retail, Processing, Logistics and Delivery operations, as well as business functions, such as Human Resources, Marketing, Finance, and Communications. Each Area was managed independently by an Area Vice President (AVP). This resulted in similar, parallel, structures in each of the seven Areas. The AVPs reported to the Chief Operating Officer.
- Each Area had several districts reporting to them for a total of 67 Districts across the nation. Each District leadership likewise managed both operations (Processing, Logistics, Delivery, Retail) and business functions (Human Resources, Finance, Marketing, and Information Technology).

[16] The PRC has recounted the severe cutbacks in capital investment that began in FY2012 and how the resulting delay in replacing capital stock has impacted efficiency and service. Order No. 4258, Notice Of Proposed Rulemaking for the System for Regulating Rates and Classes for Market Dominant Products, PRC Docket No. RM2017-3 (Dec. 1, 2017), at 50-52. The value of the Postal Service's capital stock continued to decline since the 2017 proposed rule. PRC, Financial Analysis of United States Postal Service Financial Results and 10-K Statement, Fiscal Year 2019 (May 7, 2020), at 30 ("Aging capital assets and the continued restriction in capital investment resulted in a decline in net property, plant, and equipment of $0.3 billion [in FY2019 and] a net decrease in fixed assets of $8.3 billion [since FY2009]."). The Postal Service's reduction in capital spending is out of step with other delivery providers. USPS OIG, No. RARC-WP-16-009, Peeling the Onion: The Real Cost of Mail (Apr. 18, 2016), at 14-15 ("On average, the Postal Service has decreased its annual capital expenditures to the tune of almost 16 percent annually the last 8 years. UPS has also decreased its annual capital investments but at a much smaller pace, while FedEx has continually increased its capital spending 2.3 percent annually on average.").

FIGURE 8: Previous Organizational Structure



This structure created leadership roles where the range of responsibilities was simply too broad, making it difficult for one leader to execute strategies across all mission critical functions. This structure also inhibited the Postal Service's ability to effectively pursue integrated, nationwide operating initiatives at a necessary level of consistency and precision.[17]

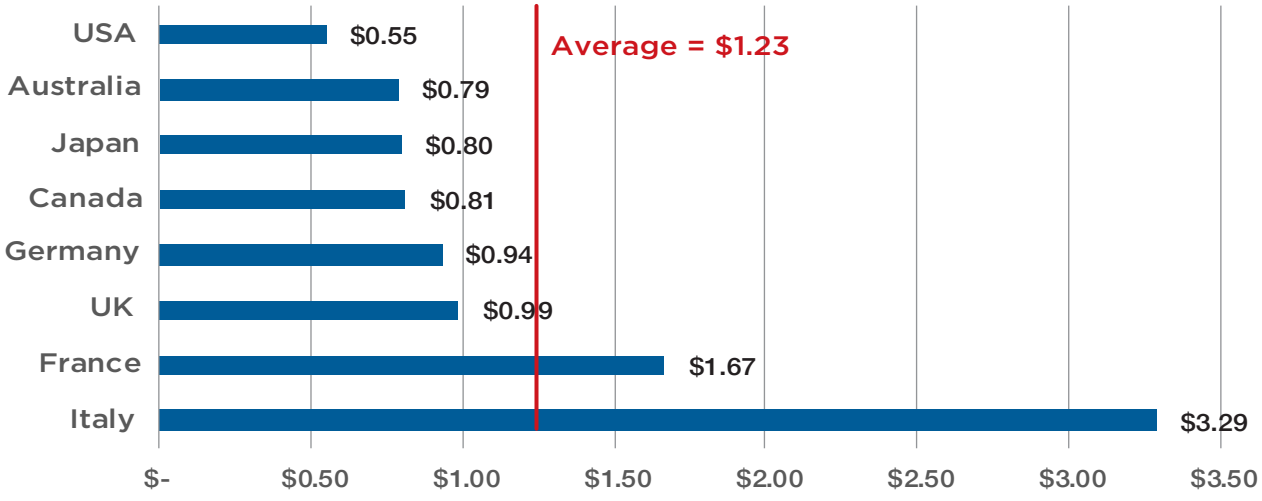
- Years of chronic financial pressures, and under-investments in our workforce have taken a toll on our frontline supervisors and non-career employees. The Postal Service has an extremely high attrition rate among non-career employees.[18]
- In FY2020, despite having hired more than 200,000 employees to fill staffing voids, we still did not meet our service standard targets.
- In 2016, the Postal Service established National Performance Assessment (NPA) targets for non-career employee turnover. Even with a low target of 36 percent, we have not been able to meet our non-career employee turnover reduction target.[19]

[17] See, e.g., USPS OIG, No. 19XG013NO000-R20, at 15 (discussing how inadequate oversight caused decreased operational efficiency in some facilities); USPS OIG, No. 20-292-R21, Operational Changes to Mail Delivery (Oct. 19, 2020), at 13 (explaining that communication issues for certain operational initiatives resulted in "confusion and inconsistent application across the country").

[18] The Postal Service needs a strong non-career workforce to provide flexibility, supplement the regular workforce, and reduce staffing costs. USPS OIG, No. 19POG001SAT000-R20, Effectiveness of the Postal Service's Efforts to Reduce Non-Career Employee Turnover (Feb. 12, 2020), at 1; USPS OIG, No. HR-AR-17-002, Non-Career Employee Turnover (Dec. 20, 2016), at 6. However, for years attrition rates for non-career employees have been unsustainable and have led to unnecessarily high costs to hire and onboard replacements. USPS OIG, No. HR-AR-17-002, at 5. OIG has explained that a comprehensive strategic plan for recruiting and retaining non-career employees is essential to "ensure management consistently focuses on reducing noncareer employee turnover, provides better oversight, and ensures best practices and feedback are shared." USPS OIG, No. 19POG001SAT000-R20, at 7; USPS OIG, No. HR-AR-17-002, at 2.

[19] See USPS OIG, No. 19POG001SAT000-R20, at 1 (finding that the Postal Service did not meet the NPA non-career turnover goal for Fiscal Year 2018 or 2019).

FIGURE 9: Comparison of Price for Domestic First-Class Mail Letter Equivalent Postage Across Foreign Posts (Nominal USD)



Note: Published prices and conversion rates as of 10/14/20

Pricing Authority

The Postal Accountability and Enhancement Act (PAEA) of 2006 capped price increases for mailing services at the Consumer Price Index (CPI). It also required the PRC to evaluate the price cap system 10 years after the date of enactment (i.e., December 2016), and to modify or replace the system if it was not meeting the objectives of the law.

In December 2017, one year after the PRC's review began, the PRC recognized that the price cap was a barrier to financial stability.[20] However, it was not until November 2020 that the PRC announced changes to the price cap system to allow the Postal Service more flexibility in establishing prices for mailing services.[21] For the past 14 years, we have not had any pricing authority to respond to changing market realities.

Had the Postal Service been able to raise prices above CPI, we would not be in such a financial state. Since 2006, based on the density rate authority of the recent PRC ruling, we would have generated $55 billion dollars in cumulative gross revenue.

> **"Since 2006, based on the density rate authority of the recent PRC ruling, we would have generated $55 billion dollars in cumulative gross revenue."**

Retirement Related Expense

We participate in three retirement-related plans: Civil Service Retirement System (CSRS), Federal Employees Retirement System (FERS), and Federal Employees Health Benefits Program (FEHBP). The first two are pension plans, and the third provides retiree health benefits (RHB), which

[20] Order No. 4257, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, PRC Docket No. RM2017-3 (Dec. 1, 2017), at 165-71.

[21] Order No. 5763, Order Adopting Final Rules for the System of Regulating Rates and Classes for Market Dominant Products, PRC Docket No. RM2017-3 (Nov. 30, 2020).

are funded through the Postal Service Retiree Health Benefits Fund (PSRHBF).[22] All three plans are administered by the Office of Personnel Management (OPM), in conjunction with the U.S. Treasury.

Our current mandates result in onerous retirement-related expenses. Since FY2007, these expenses have totaled $153 billion. In FY2020 alone, they were $11.6 billion, or 14 percent of our total expenses. Figures include RHB premiums, normal cost and amortization, FERS normal cost and amortization and CSRS amortization. The remainder of this section provides details of the system that creates these burdensome expenses.

Mandate to Prefund RHB

- Since Congress passed the PAEA in 2006, we have been required to prefund RHB through payments to the PSRHBF, even though other private and public employers are not subject to such a prefunding mandate.[23]
- Currently, 6.4 cents of every revenue dollar we earn is expensed on retiree healthcare.
- In FY2020, the total accrual for normal cost and amortization payments for RHB was $4.7 billion.
- Like a private organization, we are expected to self-fund the program that provides benefits to our retirees. However, almost no other organizations—public or private—are required to pre-fund their RHB, as we are.

Lack of Medicare Integration

- We and our employees pay taxes into Medicare —with $35 billion in combined payments since 1983, we are the second largest contributor into Medicare—yet unlike virtually any other entity that offers and funds RHB, we are not permitted to make Medicare enrollment mandatory for our retirees who receive RHB.[24]
- Despite being the second largest federal contributor to Medicare, we are not realizing the full benefits of the program.
- The FEHBP system is not fully integrated with Medicare. About 24 percent of Postal retirees do not enroll in Medicare Part B, placing the full onus of their retirement health funding on the FEHBP.

CSRS Funding Obligations

- In 1971, when the Post Office Department was converted into the Postal Service, we were required to keep most of our workforce enrolled in CSRS.
- OPM apportions the cost of CSRS benefits for employees that worked at both the Post Office Department and the Postal Service between the Treasury and the Postal Service. The method that OPM current uses for this apportionment is unfair and benefits the rest of the federal government at the expense of the Postal Service.[25]

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[22] FEHBP also provides health benefits for active employees, which are funded by the Postal Service.

[23] GAO and USPS OIG have documented the overwhelming extent to which other employers are not required to and do not provide RHB, let alone prefund it, as well as the strategies that the small and shrinking minority of prefunding employers use to reduce their liabilities. GAO, No. GAO-18-602, Postal Retiree Health Benefits: Unsustainable Finances Need to Be Addressed (Aug. 31, 2018), at 10-15; USPS OIG, No. FT-MA-12-002, Pension and Retiree Health Care Funding Levels (June 18, 2012), at 3-4.

[24] A Kaiser Family Foundation survey found that Medicare integration is "[t]he most common arrangement" for employer-provided RHB, to the point where RHB for Medicare-eligible employees is assumed to be merely supplemental to Medicare as a matter of course. And 47 states integrate their RHB with Medicare, while the remaining states do not cover Medicare-eligible retirees at all. Frank McArdle et al., Retiree Health Benefits at the Crossroads (Kaiser Family Found. 2014), at 3-4. See also Gary Claxton et al., Employer Health Benefits: 2020 Annual Survey (Kaiser Family Found. 2020), at 172 (contrasting public- and private-sector RHB's role as "a crucial source of coverage for people retiring before Medicare eligibility" with its role as "an important supplement to Medicare" for Medicare-eligible retirees, "helping them pay for cost sharing and benefits not otherwise covered by Medicare").

[25] The USPS OIG and actuaries engaged by the PRC have opined that the current approach is unfair. USPS OIG, No. RARC-WP-18-009, Update on the Postal Service's Share of CSRS Pension Responsibility (May 7, 2018), at 7 (the current allocation method is "disproportionate"); Segal Group, Report to the Postal Regulatory Commission on Civil Service Retirement System Cost and Benefit Allocation Principles (June 29, 2010), at 1 (reallocating the CSRS responsibility is a matter of "[f]airness and logic").

- Since 1971, every time those employees received a pay increase, their CSRS pension benefits grew in value, including the benefits they earned while working for the Post Office Department.

- However, Treasury pays only those benefits which were accrued up to 1971. We pay for all increases in pension benefits resulting from pay increases made after 1971, even though the Postal Service was not given direct control over wage increases or pension costs. This methodology is flawed and fails to reflect modern actuarial principles typically employed in the private sector for the allocation of pension liabilities.

- A 2003 law, as well as the PAEA, required the use of generally accepted actuarial practices and principles in determining the CSRS liability of the Postal Service, including the use of dynamic assumptions to account for employees' anticipated future pay increases. However, OPM has applied these assumptions only to the Postal Service share of the costs. Our CSRS funding obligations increase each year, while the federal government's obligations remain unchanged.

Financial Losses

Despite our mandate to be financially self-sufficient, in FY2020, the Postal Service recorded a net loss of $9.2 billion, adding to 14 years of losses totaling $87 billion as shown in Figure 10. Absent substantial changes, our financial losses will continue to grow, and our ability to invest in the future of the organization will continue to be severely curtailed.

- The Postal Service has had to substantially curtail investments to preserve liquidity, leading to prolonged underinvestment in our infrastructure and network and a resultant failure to address changing market needs.

- Our long-term financial sustainability is burdened by more than $152 billion in unfunded liabilities, including unfunded liabilities for our retirement-related accounts, as of September 30, 2020.

- Our existing payment obligations greatly exceed our cash balance; if we were to fulfill these obligations, we would be financially insolvent.

FIGURE 10: Postal Service's Financial Losses Since PAEA Enactment

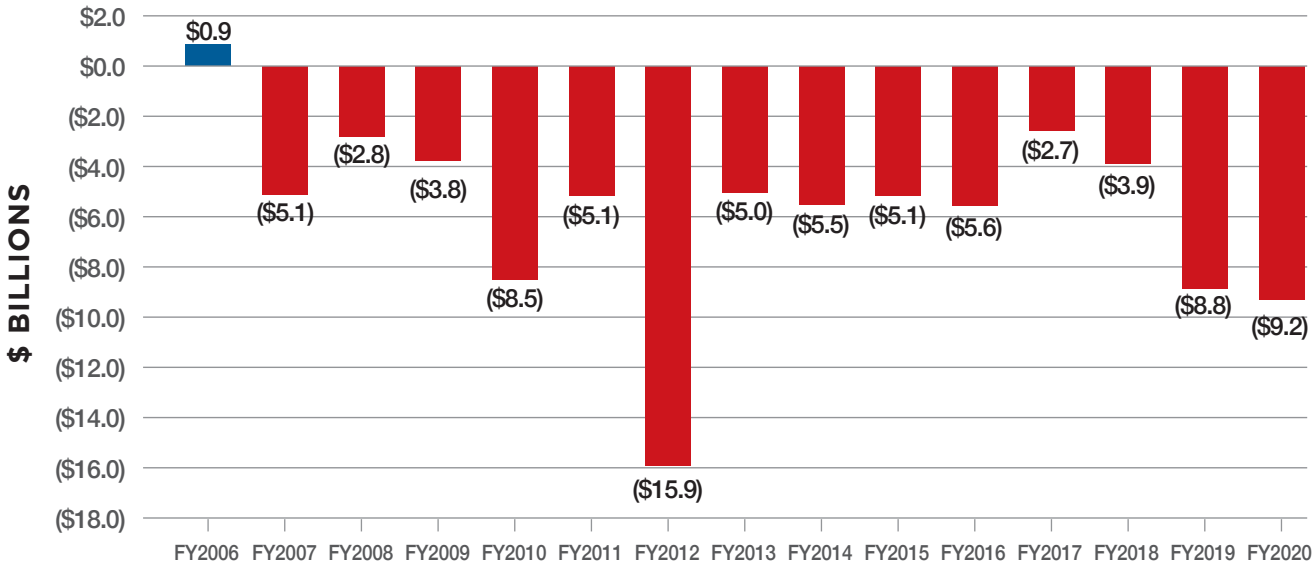
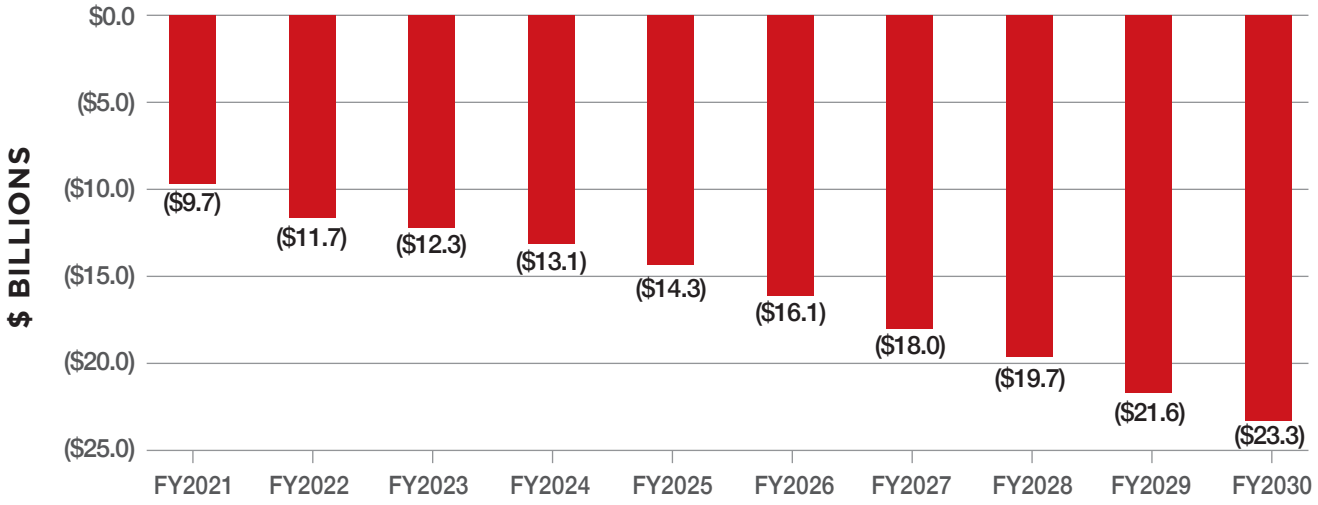


FIGURE 11: Postal Service's Projected Financial Losses With Status Quo Business Model, FY2021 – FY2030



- We forecast a net loss of approximately $160 billion over the next ten years, and a negative cash balance of the same size if we pay our projected retirement-related obligations as shown in Figure 10, under the status quo.

COVID-19 Impacts and Implications

The COVID-19 pandemic significantly exacerbated our long-standing financial, operational, and service performance problems.[26] The dramatic impacts of the global pandemic demonstrated the degraded state of our processing, transportation and delivery network due to underinvestment in package processing machines, logistics systems, and vehicles capable of carrying larger package volumes.

- **Employee Availability:** The cumulative number of employees quarantined reached 122,913 out of 644,000, and our non-career employee turnover rate of 40 percent profoundly impacted our service performance.

- **Transportation:** An economy-wide logistics upheaval—including scarcity of airplane and truck capacity, and the industry competition for both of these transportation modes—directly disrupted our supply chain and transportation resources and impacted our ability to deliver throughout 2020 and the peak holiday season.

- **Hastened shift in mail/package composition:** An existing trend in the decline in First-Class Mail was forced into steeper decline by the pandemic. This had both financial and operational impacts. At the same time, package volume increased due to e-commerce

[26] In its review of mail service during the early months of the pandemic, OIG found that the pandemic caused reduced service performance for most mail products due in large part to the increased package volume and lower employee availability. USPS OIG, No. 20-275-R21, Mail Service During the Early Stages of the COVID-19 Pandemic (Jan. 4, 2021), at 2. Employee availability issues also magnified the impacts of pre-existing staffing shortages due to hiring and retention challenges. Id. at 16. "When employee availability significantly decreases and volume significantly increases as it did during the pandemic, it creates significant mail processing challenges which affects processing and dispatching the mail to delivery units to meet service performance standards." Id. at 11. It also prevents customer service operations from meeting scheduled mail distribution to carrier routes, and ultimately results in extra trips and late mail arrivals. Id. at 17-18.

and social distancing.[27] For a logistics and delivery operation dependent on the correct complement of people, plants, volume-relevant machinery and transportation, this shift has further stressed an already misaligned and outdated mail-focused network.

- **Peak:** Our 2020 peak season saw an unprecedented 40 percent increase in our network package volume, including a 102 percent increase in oversize packages, which had severe impacts on our capacities in processing and transportation.

- **Carriers:** Our carrier network performance remained high, consistently delivering to over 160 million addresses. However, constraints in our processing and transportation networks prevented timely and consistent arrival of our products to our delivery units, impacting our ability to serve our customers.

Many of the profound changes in consumer behavior and American commerce arising from the COVID-19 pandemic in 2020 and 2021 are expected to continue in the coming decade — including growth in the e-commerce marketplace, and greater consumer demand for package deliveries. While this dynamic will create strong opportunities for the Postal Service to be even more relevant and advance the achievement of our public service mission, it also requires substantive changes to our operating model to accommodate the needs of the public. Addressing the breadth and depth of these challenges is the foundation for our Plan to create a high performing Postal Service.

[27] OIG has noted that package volume has substantially increased in response to the COVID-19 pandemic. Specifically, they note that "national package volume from March through May 2020 increased by about 466 million (30 percent) when compared to the same period last year" and that "[t]he nationwide package volume during May surpassed the package volume of the holiday peak season during October – December 2019 by about 21.6 million packages." Id. at 8.

A HIGH PERFORMING FUTURE: KEY STRATEGIES

A Bold Approach to Growth, Innovation, and Continued Relevance

THE MARKET

The package market has experienced unprecedented growth as depicted in Figure 12, and this growth is projected to continue for years to come. We estimate the U.S. parcel market to grow 6 to 11 percent annually from 2020 to 2025. Online sales have surged while shipping durations have been reduced. In FY2020, shipping customers selected 1- or 2-day service for 72 percent of their parcel shipments.[28] We estimate that this could be as high as 90 percent by 2025.

Another notable trend is that shoppers want to buy local. Local small businesses, along with regional and national brands, want access to efficient shipping services in local communities.[29] In FY2020, 3.1 billion of sampled ground volume originated and destinated within 150 miles, with approximately 50 percent staying within the local market.[30] As merchants adapt to e-commerce buying patterns, later acceptance within local markets is also becoming more important.

LAUNCH USPS CONNECT TO IMPROVE ACCESS TO DAILY DELIVERY NETWORK

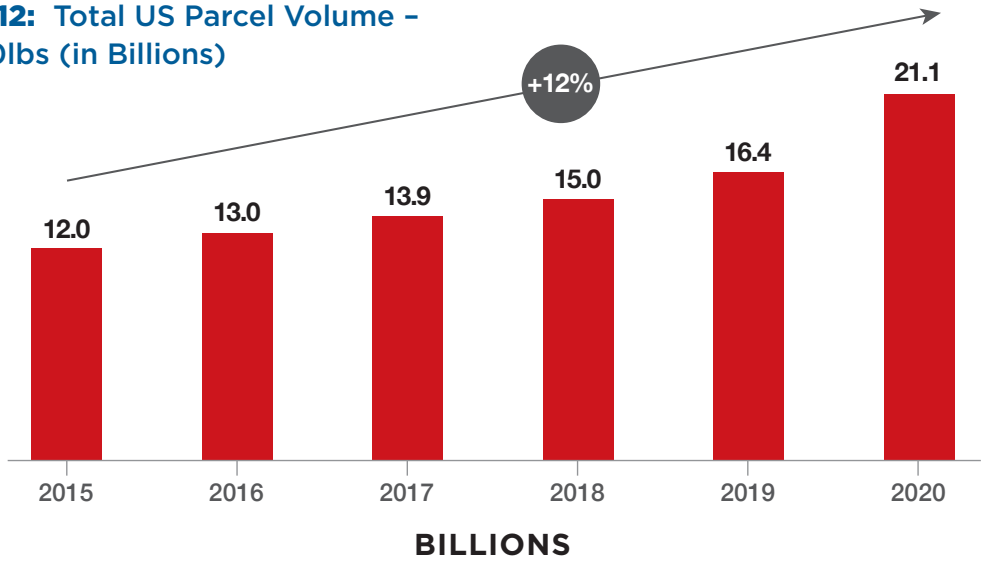
We will fully utilize our unmatched logistics network and infrastructure of 21 Network Distribution Centers (NDCs), more than 250 Processing and Distribution Centers (P&DCs), more than 18,000 Delivery Units (DUs) and more than 30,000 Post Offices to connect every person, business and community across the

[28] Colography origin view of volume FY2020

[29] Microbusinesses, with fewer than 10 employees, are vital to the U.S. economy and the Postal Service is often the carrier of choice for these customers. USPS OIG, No. RISC-WP-19-008, From Home Office to Post Office: Improving Microbusiness Engagement with the U.S. Postal Service (Sept. 4, 2019), at 5. OIG has found that while price is a key driver when these consumers are selecting a carrier, other aspects of reliability are equally critical, including reliable delivery time expectations. Id. at 6. Convenient drop-off locations were also a "top factor" when selecting a carrier and the Postal Service was rated "as better than the competition on the convenience of drop-off locations." Id. at 6-7.

[30] Colography CY2020

FIGURE 12: Total US Parcel Volume – under 70lbs (in Billions)



country. Over the next 10 years, we will enhance the local, 1- to 2-day, and 2- to 5-day package services we provide to improve our relevancy and competitiveness across the e-commerce landscape.

We will do so by employing three key strategies:

1. Expand access across our delivery units for local entry of packages for same day and next day delivery.

2. Extend access across NDCs and P&DCs to grow our 1- to 2-day package delivery with improved, reliable, and competitive ground products.

3. Shift First-Class Package Service to an expanded ground network to improve on-time reliability and cost to serve.

These strategies will help us continue to serve as America's critical delivery infrastructure, shipping everything from essential medicines and other consumables and shoring up the resilience of our nation.

These service offerings will be bundled through USPS Connect, a diverse suite of scalable and customizable solutions to connect businesses, large and small, to urban and rural communities across the nation. Through the USPS Connect suite of solutions, we will offer innovative value-added services, a cadre of expert resources, and a shared postal retail footprint for cobranding opportunities that can be leveraged to promote our customers' brands and the solutions they provide.

We will expand our core package products, namely Priority Mail, Priority Mail Express, First-Class Package Service, and Parcel Select to offer a wide diversity of business solutions for micro to large businesses with same-day, next-day and 2- to 3-day options.

- USPS Connect Local: Provide neighborhood businesses access to local drop points and local services for same day or next day delivery.

- USPS Connect Regional: Provide high volume shippers access to our unparalleled network of distribution centers for 1- to 2-day delivery.

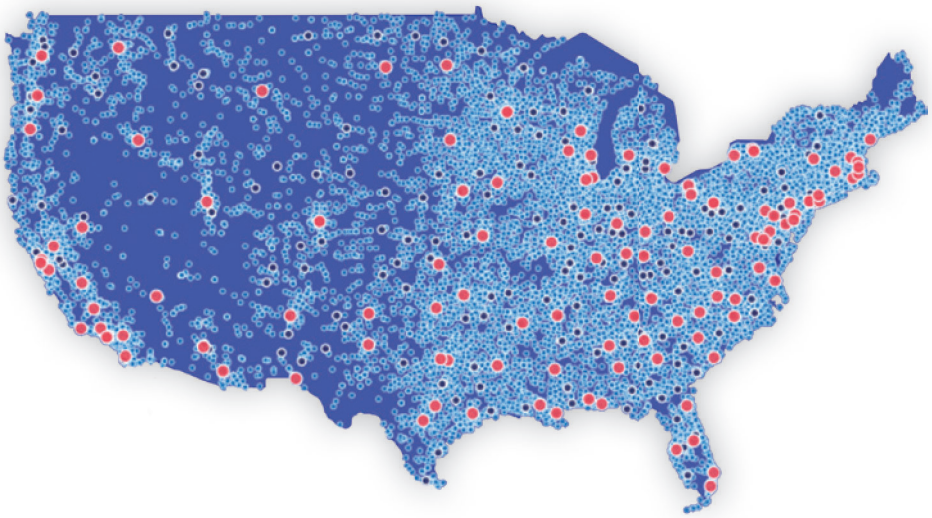
- USPS Connect National: Provide national shippers access to our extensive network of distribution centers to offer a diverse suite of same day, next day, and 2- to 5-day delivery services.

FIGURE 13: Powerhouse Network and Logistics Infrastructure – Distribution centers, cross-dock facilities, Delivery Units, and retail locations capable of same day to 1- to 2-day service

Future State of the Network:

Through strategically placed distribution centers, businesses can reach up to 90 percent of the population in one day and more than 95 percent of the contiguous U.S. population in two days.

Through our retail and delivery networks, businesses can reach over 160 million addresses every day, six to seven days per week.



Distribution Centers · Processing Facilities · Delivery Units and Retail Locations

- USPS Connect Returns: Provide an effortless returns experience with convenient label printing, pickup and packaging options.
- USPS E-Commerce Marketplace: Provide a branded online storefront for businesses to gain access to the billions of visitors on usps.com with streamlined product management, payment and checkout capabilities.
- Provide Innovative Value-Added Services and Toolkits to simplify and complete the shipping experience: enhanced returns, co-branded packaging, Informed Delivery package campaigns, Every Door Direct Mail, and carrier pickup.
- Provide Shared Footprint to boost brand presence: digital signage at Post Office, interactive retail kiosks, Main Street microsites, and virtual main street hubs.
- Provide expert support to guide businesses to success: Postmaster Partnerships, Marketing and Sales Support, and Strategic Services Support.

WHAT OUR BUSINESS CUSTOMERS SHOULD EXPECT:

- **A strengthened postal infrastructure that delivers at least 95 percent of all mail and packages on-time, at all times of the year**
- **A faster pace of innovation to drive growth and opportunity across the mailing and shipping markets**
- **E-commerce solutions that broaden access to the postal network, with more options to provide same-day, next-day, and two-day service to consumers**
- **Greater total value for the mailing and shipping investment**

STRENGTHENING THE VALUE OF MAIL

We intend to drive greater value for the sender by developing new tools that leverage mail data and enable better integration with digital media channels, and by providing new programs, resources, and offerings designed to enable greater use of the mail by businesses of all sizes.

This includes the continued enhancement of our Informed Delivery platform, which currently has 37 million subscribers covering 28.5 million households, where customers can preview mail and packages to be delivered that day.

Additionally, mail is a uniquely powerful tool for reaching consumers, especially in combination with other media channels—with direct mail accounting for nearly ten percent[31] of the nation's total marketing spend—we will continue to invest in our Informed Visibility data platform and other programs to drive value for the sender and receiver of mail.

Initiatives include:

- **Mail promotions and incentives** to encourage new technologies and effective integrated mail and marketing campaigns.
- **Learning modules and content on usps.com** that communicates to marketers, businesses, and individuals the value and effectiveness of mail and highlights how mail fits in an omni-channel campaign, the integration of the physical and digital, best practices, and facts on the power of mail.
- **Integration of data** to better target and retarget consumers and trigger other aspects of marketing campaigns.
- **Education of the next generation of marketers** on the value of mail and omni-channel campaigns through outreach to and collaboration with colleges and educational organizations.

As we continue to invest in the mail channel, we will work closely with the supply chain and America's marketing and business owners to promote and enhance their ability to use the mail to support their business needs and communicate with customers.

Service Standard Changes to Improve Reliability

The Postal Service sets standards for mail delivery so that customers and mailers can expect consistent and predictable delivery. However, as noted above, we have not met current targets for First-Class Mail composite or First-Class Mail 3- to 5-day service standards over the past eight years. The current standards do not reflect dramatically declining mail volumes, and require the Postal Service to use complex, high cost and unreliable transportation networks. They are simply unsuitable for setting realistic expectations for timely and reliable mail delivery in today's environment.

Informed Delivery gives customers a daily preview of their mail.

[31] Winterberry 2020 Forecast.

FIGURE 15: Impact of Proposed FCM Service Standard Change – Days

VOLUME: % of Total FCM (letters & flats)
Current Service Standards vs. Proposed with 5-Day

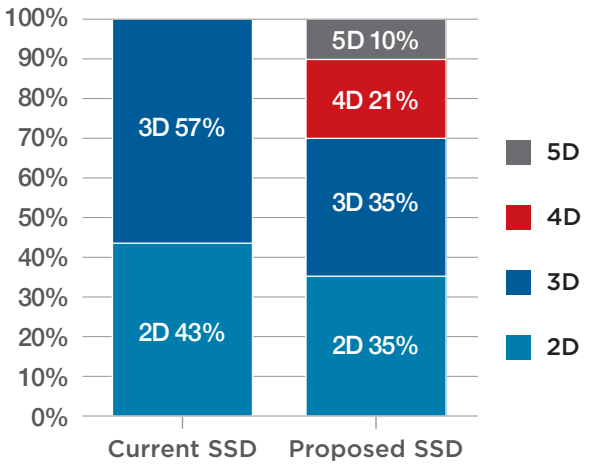
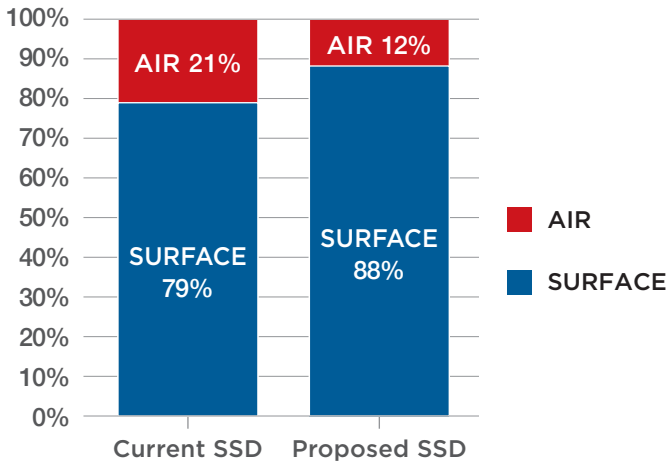


FIGURE 16: Impact of Proposed FCM Service Standard Change – Network

MODE IMPACT: % of Total FCM Volume (letters & flats)
Current Service Standards vs. Proposed with 5-Day



Note: Figures in the charts above are rounded and therefore may not add up to 100%.

Furthermore, the cost to maintain the current, unattained service standards will continue to increase as mail volume continues to decrease. The need to ensure reliable service, while improving operational efficiency and precision, requires that these standards be updated.

Our Plan is to modify existing service standards for First-Class Mail Letters and Flats from a current 1- to 3-day service standard within the continental United States to a one-to-five-day service standard. The principal impact of the proposal would be to enable 43 percent of that portion First-Class Mail which is currently transported through the air to shift to surface transportation. This will also require adjustments to the service standards for full network Periodicals (which travel with First-Class Mail). The Postal Service will seek public comment through the formal rulemaking process and will request an advisory opinion from the PRC concerning this proposed change before it is implemented.

The following is a summary of the impacts of the new service standards:

- Service standards for Commercial First-Class Mail entered at a local facility will not change.
- First-Class Mail traveling within a local area (up to a three-hour drive time) will not experience a service standard change and would still be delivered within two days.
- 61 percent of current First-Class Mail volume and 93 percent of current Periodicals volume will stay at its current standard.
- 81 percent of current First-Class 2-day volume will retain its two-day standard. Overall, 70 percent of First-Class Mail volume would receive a standard of one to three days.
- Current First-Class 3-day volume will be subject to a 3-, 4-, or 5-day service standard, depending on the distance between origin processing facility and destination processing facility.
- Of the current First-Class 3-day volume, 47 percent will remain three-day, 36 percent will move to 4-day, and 17 percent will move to 5-day.

Aligning service standards and adopting best practices from across the logistics industry will dramatically improve the reliability of service we provide to our customers and will similarly drive greater efficiencies.

In addition, we will also propose to adjust the service standards for First-Class Packages to enable a greater percentage of that volume to be moved by surface transportation. The Postal Service will also request an advisory opinion from the PRC concerning this proposed change before it is implemented.

Service standards changes will allow us to move First-Class Mail and First-Class Packages to a more predictable and reliable surface network. Moving First-Class Mail and First-Class Package volume from air to surface will:

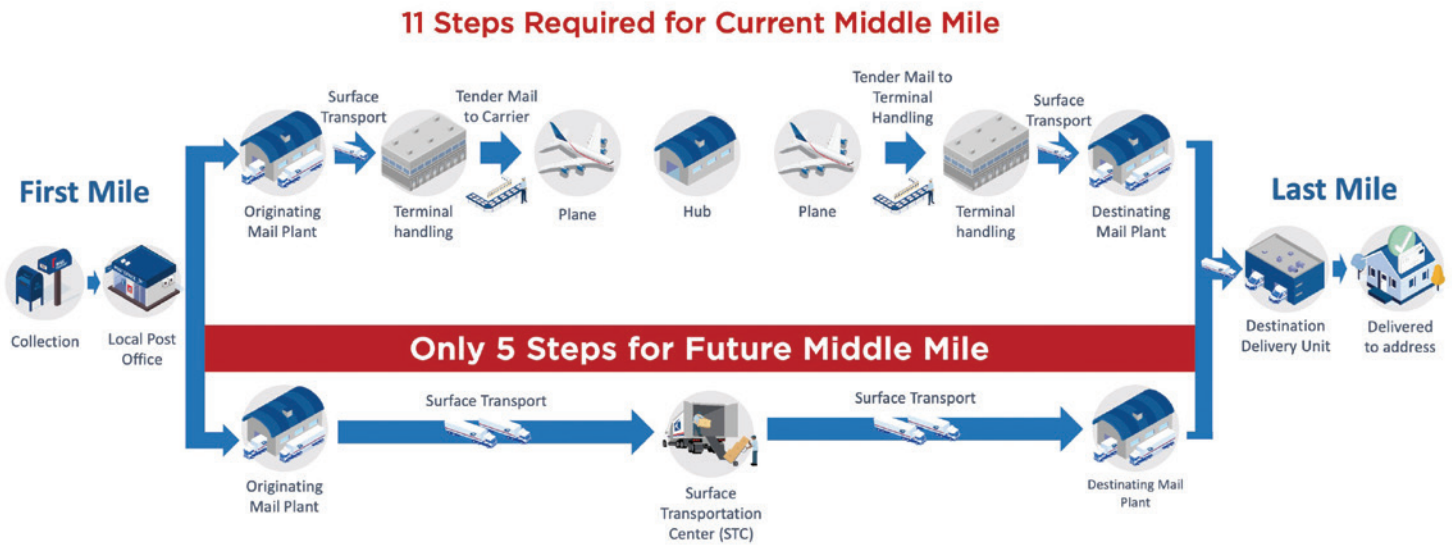
- Reduce the total number of touches for each mail piece and package to improve service reliability and reduce cost, as shown in Figure 17.
- Improve the utilization of trailers transported by surface.
- Eliminate redundant transportation networks.

Service standard changes will enhance the reliability and predictability of the service we provide, while providing a platform to improve operational efficiencies—which is especially important given the significant reduction in the amount of First-Class Mail that enters the postal system. Becoming more efficient allows us to keep our costs at reasonable levels and ensure affordable postage rates. These changes will also enable further optimization of our network and product offerings. **Overall, updated service standards will position us to achieve significant cost savings and provide service that meets or exceeds 95 percent on-time reliability.**

Best-in-Class Mail and Package Processing

To fully embrace the opportunities of today's economy and strengthen the service we provide to our mail and package customers, we will transform our processing and logistics network to become scalable, reliable, visible, efficient, automated, and digitally integrated.

FIGURE 17: Simplified Transportation Network for Increased Reliability



ADOPT DISCIPLINED OPERATING PRINCIPLES

We will stabilize and recalibrate the operating plans at our facilities to be achievable, predictable and efficient by adopting best practices. Our operating plans will be optimized to match around equipment sets and actual volumes of mail and packages, fostering more efficient, predictable, and precise performance.

PROVIDE THE RIGHT WORKFORCE COMPLEMENT TO PROCESSING FACILITIES

We will update our processing complement modeling procedures to ensure optimal employee allocation. This will align our workforce with our operating plans, reduce the overtime demand on employees, achieve predictability and precision, and improve employee engagement and retention.[32] This initiative has already started with the conversion of more than 10,000 non-career employees to career status initiated in January 2021.

ACCELERATE INVESTMENT IN PACKAGE SORTING AND MATERIAL HANDLING EQUIPMENT

As we expand our role in the e-commerce marketplace, package volume will continue to grow. We will deploy and maintain a diverse suite of package sorters and material handling equipment to optimize processing throughputs. We are in the process of procuring and deploying more than 185 new package sorters as we continue to adjust to the growing package demand.

EXPAND & ALIGN FACILITY FOOTPRINT AND SIZE TO MARKET DEMAND

We will realign our facility footprint and processing capacity to match the changing mix of mail and packages we process for our customers. As part of this realignment, we will procure new facilities, expand space-constrained facilities, and consolidate those that are underutilized.

FIGURE 18: Modernizing Our Operating Plans

LEGACY OPERATING PLAN	OPTIMIZED OPERATING PLAN
Standardized on-size fits all	Standardized framework — locally optimized
Rigid constraints	Optimized for variable inputs, machine sets, product mix
Sub-optimized mail flow and equipment utilization	Optimal alignment to Delivery, Network ,and Market requirements
Unachievable Production Planning and Control	Fully leverage analytic tools and dashboards
Analytic tools and dashboards ineffective	Efficient, predictable, precise performance

Data-driven analytics will inform the optimal configuration of sorting equipment, facility consolidations, and adjustments of processing operations. We will evaluate the remaining facility consolidations that were deferred in 2015 and will strategically implement some of those consolidations where facilities remain underutilized. We will follow regulatory requirements as we realign our processing facilities. To supplement our customers' growing package volume, we are currently evaluating the addition of approximately 45 annex facilities to be placed near processing centers in key locations.

Due to the dramatic decline of flat mail, we will replace flat sorting equipment as appropriate with much needed package processing machines. We will continue to adjust our letter-sorting infrastructure and invest in package sorting equipment in accordance with market needs while continuing to ensure that we will provide timely and consistent service for our customers across all of our product lines.

[32] Recent studies show that prolonged high overtime levels adversely affected employee health and increased the risk of occupational injuries and error. USPS OIG, No. 20-209-R20, Assessment of Overtime Activity (Aug. 25, 2020), at 19. Employees also become dependent on the additional income as a source of their regular pay when overtime levels are constantly high. Id. Moreover, OIG has stressed that the Postal Service must manage its controllable expenses, such as employee overtime, in order to effectively reduce its total operating expenses. Id. at 6. "Given the Postal Service's current financial situation, there is a heightened importance for management to manage and control overtime costs, which ultimately impacts their overall operating expenses." Id. at 9. "If the Postal Service does not adequately staff their operations, management will continue to incur increased operating expenses." Id.

TRANSFORM NETWORK DISTRIBUTION CENTERS TO HANDLE INCREASED PACKAGE DEMAND

Service standard changes will enable us to streamline mail processing to be more efficient and consolidate surface transportation to improve utilization and reach. We will transition our Network Distribution Centers (NDCs) into new Regional Distribution Centers (RDC) focused on regional package acceptance and processing. All 21 NDCs will be transformed into RDCs. Currently, these facilities process Marketing Mail, Periodicals, and packages. We will dedicate these facilities to package processing, enabling us to expand each center's processing windows and reach.

Letter and flat products will be merged into streamlined, shape-based mail flows within our Processing and Distribution Centers (P&DCs). This effort will allow us to increase density in our containers and trucks and facilitate greater use of our ground transportation assets. We will transform 15-20 additional package processing P&DCs to RDCs to ensure that we have national coverage and extended reach. All RDCs will be equipped with additional package processing capability to increase capacity, reliability and reach.

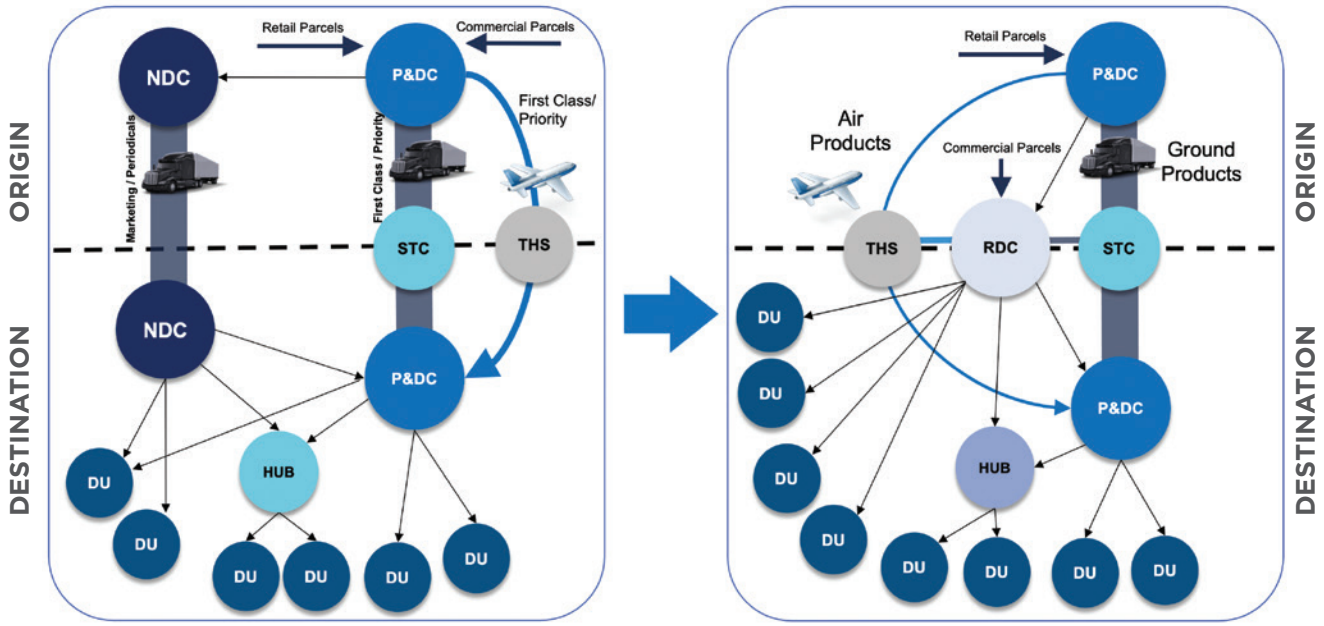
LEVERAGE EMERGING TECHNOLOGIES TO DRIVE PREDICTABLE, PRECISE PERFORMANCE

We will provide new and emerging technologies to our managers and employees to help improve daily and long-term decision making. We will utilize intelligent workload planning, real-time management visibility, sensor technology, and predictive modeling, among other tools to enhance operational performance.

ENHANCED PRODUCT TRACKING

We will leverage technology to provide world-class visibility and tracking of mail and packages in near real-time as they move through our integrated system. We will make significant improvements in the quality of our tracking data to dramatically improve precision and efficiency in our core functions. We will additionally be able to provide our business senders with improved insights into their mail and shipping movement to the consumer. Better tracking data will also power products such as Informed Delivery and other digital engagement with residential receivers of mail and packages.

FIGURE 19: Redesigned Network Distribution Center Network



Fully Optimized Surface and Air Transportation Network

Disciplined management of our updated operating plans, coupled with the service standard adjustments, will allow us to fully optimize our surface and air transportation network.[33] We will leverage real-time, actionable, and predictive insights to prevent underutilized transportation. As the processing network evolves, we will consolidate our network and eliminate redundant trips. We will also shift volume from an unreliable and costly air network to a better managed surface network.

FIGURE 20: Our Vision for the Network

CURRENT NETWORK	FUTURE NETWORK
Late dispatch due to misalignment with Processing Operations	Timely dispatch and alignment with Processing Operations
Redundant surface network and trips	Consolidated surface network
Under-utilized surface trips	Surface trips fully utilized
Over-burdened air network	Reduced reliance on air network

A REDESIGNED SURFACE TRANSPORTATION NETWORK

We will capitalize on the strength of our surface network and design high performing, lower cost, efficient, and reliable surface transportation capable of moving more volume by doing the following:

- Optimize our long-haul and two-day surface transportation to increase service reach, enable efficient surface routes, increase capacity utilization, and achieve our operating plans.
- Eliminate the need to rely on extra and late trips.
- Optimize local truck routes.
- Adopt performance-based highway contracting.

REDUCE AIR TRANSPORT AND IMPROVE CARRIER MANAGEMENT

We will methodically shift a proportion of First-Class Mail and First-Class Package Service volume from air transport volume to surface transportation. Although air transport will carry a lower percentage of our volume, there are also significant opportunities to improve our use of third-party carriers that currently transport mail and package volume by air. We will do this by diversifying the mix of air carriers and enhancing carrier contract management.

DEPLOY STATE-OF-THE-ART LOGISTICS PLATFORM

We will deploy a state-of-the-art platform for end-to-end execution of a unified logistics operation. Using this platform, we will transform our transportation operations by managing both inbound and outbound trips, integrating supplier and carrier collaboration tools, and driving high performance across our carrier base with near real-time visibility. We will also implement an advanced tool for carrier solicitation and contract management to promote a seamless process to solicit and engage carriers.

Best-in-Class Delivery Operations

The Postal Service is first and foremost a delivery organization, and the leader of the "last mile." Our delivery network is unparalleled, given that we

[33] USPS OIG, No. 20-144-R20, at 1 (finding that the "Postal Service has opportunities to optimize its transportation network and improve service performance.").

are the only delivery service provider that reaches every home and business in the nation. In FY2020, we delivered to 160 million delivery points six days a week (and sometimes seven), travelled 1.34 billion miles, over 238 thousand routes using 255 thousand delivery vehicles. To become the preferred delivery service provider—while building our brand and customer loyalty—we will improve our professionalism, efficiency, visibility and earn trust in every community we serve.

DRIVE OPERATIONAL PRECISION, OPTIMIZE DELIVERY UNITS AND MODERNIZE ROUTE STRUCTURE

We will increase operational precision at the unit, route, and delivery point level to provide the most efficient, consistent, and affordable last mile delivery services. We will improve our delivery unit footprint to align with emerging market demand. We will optimize delivery units to create capacity for additional revenue growth and provide the businesses we serve with greater access for local entry of their shipments. We will also streamline carrier functions to maximize the time carriers can directly serve our customers delivering their mail and packages.

INVEST TO BEST EQUIP OUR CARRIERS

We will make investments in people, technology, and systems to renew our delivery presence and best equip our carriers to perform their duties in all conditions. Delivery platforms and technology will be modernized to better use data and analytics to drive precision in operations. We will equip our carriers with state-of-the-art mobile devices to promote efficient and safe carrier operations and to provide enhanced digital services to our customers.

ACCELERATE DEPLOYMENT OF NEW SMALL PACKAGE SORTING SYSTEMS TO DELIVERY UNITS

As e-commerce grows, so does the package volume entered directly at last-mile delivery units. To help improve delivery efficiencies, we will deploy more automated package sorting equipment to our delivery units to support the growth in destination entry packages for businesses to connect to local communities.

FIGURE 21: Size and Scope of Postal Service Delivery Network (Annual)

160 Million
DELIVERY POINTS SERVED

1.34 Billion
MILES TRAVELED
to deliver mail

231,579
ROUTES TRAVELED
to deliver mail

207,945
DELIVERY VEHICLES
used to deliver mail

136.5 Billion
TOTAL MAIL VOLUME

141,900
COLLECTION BOXES
in use by the Postal Service

Invest in New Delivery Vehicles

As part of the most dramatic modernization of our vehicle fleet in three decades, we will invest in 50,000 to 165,000 Next Generation Delivery Vehicles (NGDV) over the next 10 years. These vehicles will include advanced safety and comfort features and can be equipped with modern drivetrain technology, contributing to our organization's commitment to environmental sustainability. The new vehicle fleet will increase delivery efficiency by providing additional loading and cargo space, and provide a safer, more reliable environment for our carriers. Additionally, to ensure flexibility in our fleet and to meet ongoing needs, we will continue to make use of commercial-off-the-shelf (COTS) vehicle acquisitions.

$40 Billion

OUR PLANNED 10-YEAR INVESTMENT in people, tools, training, and infrastructure. This includes an immediate investment in modernizing the Postal Service fleet of vehicles.

Importantly, with the right level of Congressional support, we can commit to a majority of the Postal Service's delivery fleet being electric within ten years and a fully electric fleet by 2035. We welcome support from Congress that advances the goal of a Postal Service vehicle fleet with zero emissions and the necessary infrastructure that will be required to support it. An additional investment of approximately $8 billion is needed to electrify our delivery vehicle fleet to the maximum extent that is operationally feasible. We will be communicating our estimate of vehicle mix for our first order to the supplier in July 2021 to be followed by the delivery order in February 2022. This historic investment is a key part of our broader strategy to transform our financial performance and customer service over the next ten years through significant investments in people, technology, and infrastructure.

NGDV DESIGN AND VALUE PROPOSITION

The NGDV is a purpose-built platform that provides the latest safety systems to protect our carriers, a flexible powertrain to demonstrate our commitment to sustainability, increased cargo capacity for more efficient delivery of packages, and telematics for predictive maintenance and operational benefits.

Based on lessons learned from testing and continued feedback, key features for NGDV design were formulated with carrier safety and ergonomics in mind, including:

- Large cargo capacity designed to meet future package growth.
- Walk-in cargo design.
- Right-hand drive configuration to allow for curb-line deliveries.
- Ergonomic design for ease of delivery.
- Improved delivery efficiency.
- Air conditioning.
- Latest safety features.
- Latest in telematics data & information.

The Postal Service awarded Oshkosh Defense a 10-year contract in February 2021 to launch the multi-billion-dollar modernization of the delivery vehicle fleet aligning with our priority to improve customer service by enhancing the efficiency of our operations. Oshkosh Defense, based in Oshkosh, WI, will finalize the production design of the NGDV—a purpose built, right-hand-drive vehicle for mail and package delivery—and will assemble between 50,000 and 165,000 vehicles over the 10-year contract. Our NGDVs are expected to begin appearing on carrier routes in 2023.

FIGURE 22: NGDV Feature Highlights

GREEN COMMITMENT

We have selected a vehicle platform that can support two drivetrain alternatives. Our contract with Oshkosh allows the vehicles to be ordered with a modern and efficient internal combustion engine (ICE) or an environmentally friendly battery electric vehicle (BEV) drivetrain. The Postal Service is firmly committed to electric vehicles and elected to fund the production design, assembly tooling, and factory start-up costs to support the production of both vehicle types in parallel. We are committed to a minimum quantity of ten percent BEV and are positioned to increase this quantity. The first order of production quantity vehicles will be placed in February 2022. With appropriate funding to offset the higher vehicle costs and provide the charging infrastructure, we can deliver on a vision to electrify our fleet. The immediate imperative is to our carriers—to provide a safe and ergonomically designed delivery vehicle. In order to achieve this and infuse new vehicles as quickly and efficiently as possible, a phased approach is recommended.

Sustainability is a core commitment of the Postal Service. As we invest in new vehicles and technology, we will champion sustainable and environmentally-focused solutions.

A Modernized Post Office Network

We operate the nation's largest retail network, with more than 31,000 Post Offices and approximately 58,000 retail business partners, in all communities large and small. More than 95 percent of the American population have a Post Office within five miles of where they live, and 99 percent of the population is covered within a 10-mile radius.

WHAT OUR RESIDENTIAL CUSTOMERS SHOULD EXPECT:

- **Six days of mail delivery to over 160 million addresses and seven days of package delivery in many parts of the country**
- **95 percent or higher of all mail and packages delivered on-time, at all times of the year**
- **More digital and mobile tools and better tracking**
- **More convenient services and offerings at Post Offices and online**

TRANSFORM RETAIL LOCATIONS INTO GO-TO DESTINATION CENTERS

Our Plan is to invest approximately $4 billion in our retail units to provide a world-class customer experience with improved retail training, modernized uniforms, refreshed lobbies, and expanded self-service and digital options. As part of this modernization effort, we will provide local businesses with access to expert shipping and mailing solutions consultants, and enable them to quickly move and market their products through our ubiquitous network of retail locations.

ALIGN RETAIL NETWORK TO MEET EVOLVING CUSTOMER NEEDS

We will align retail footprint, hours, and services to meet evolving customer demands. We will continually evaluate operations at our retail facilities to ensure that services are cost-effective while also providing adequate community access. We will continue to bind the local community and the nation together with affordable and convenient access to the products and services that serve the communities best. Building on the success of our past efforts to evolve our retail network while continuing to fulfil the needs of our customers, we will further align Post Office hours of operation to local use. We will also:

- Evaluate and consolidate low-traffic stations and branches of city Post Offices into nearby full-service retail Post Offices.

- Expand access and services based on market demand.

The Postal Service will request advisory opinions from the PRC concerning our retail network realignments.

"Our Plan is to invest approximately $4 billion in our retail units to provide a world-class customer experience with improved retail training, modernized uniforms, refreshed lobbies, and expanded self-service and digital options."

EXPAND PUBLIC TRUST SERVICES

We will partner with all levels of government to engage and provide services for citizens. We will leverage our trusted brand to expand identity services such as passport services, fingerprint capture, biometric data capture, in-person proofing and notary services. We will become the storefront for government services and generate new revenue and additional foot traffic into our retail facilities. We will become a one-stop shop for a wide range of government services.

RETAIL HUBS FOR LOCAL BUSINESS GROWTH

Through our Post Office network, we will connect local businesses to their community and beyond with shipping and mailing solutions. We will provide small businesses a second storefront to elevate their brand and services in the local community such as pop-up kiosks. We will offer our unparalleled retail network for package returns with convenient features such as printing, packing, pick up, and package-less returns. We will improve parcel locker services to meet increased e-commerce customer needs.

An Organization Structured for Success

To successfully fulfill our universal service mission, we designed a high-performing organization with greater line of sight from strategy to business outcomes. The Postal Service has implemented two phases of a structured approach to redesigning our organization—in August 2020 and in November 2020. The Postal Service initiated the third and final phase in March 2021; and is on track to complete this last phase of the organizational realignment by the summer of 2021.

The Postal Service created three core operating units: Retail and Delivery Operations, Logistics and Processing Operations, and Commerce and Business Solutions.

- **Logistics and Processing** - Process and move mail and packages efficiently to the delivery units, meeting determined standards.

- **Retail and Delivery** – Accept and deliver mail and packages efficiently with high level of customer satisfaction.

- **Commerce and Business** – Fully utilize our infrastructure to enable growth.

It also centralized the administrative support functions into Headquarters, which enabled the core operating units to focus on driving

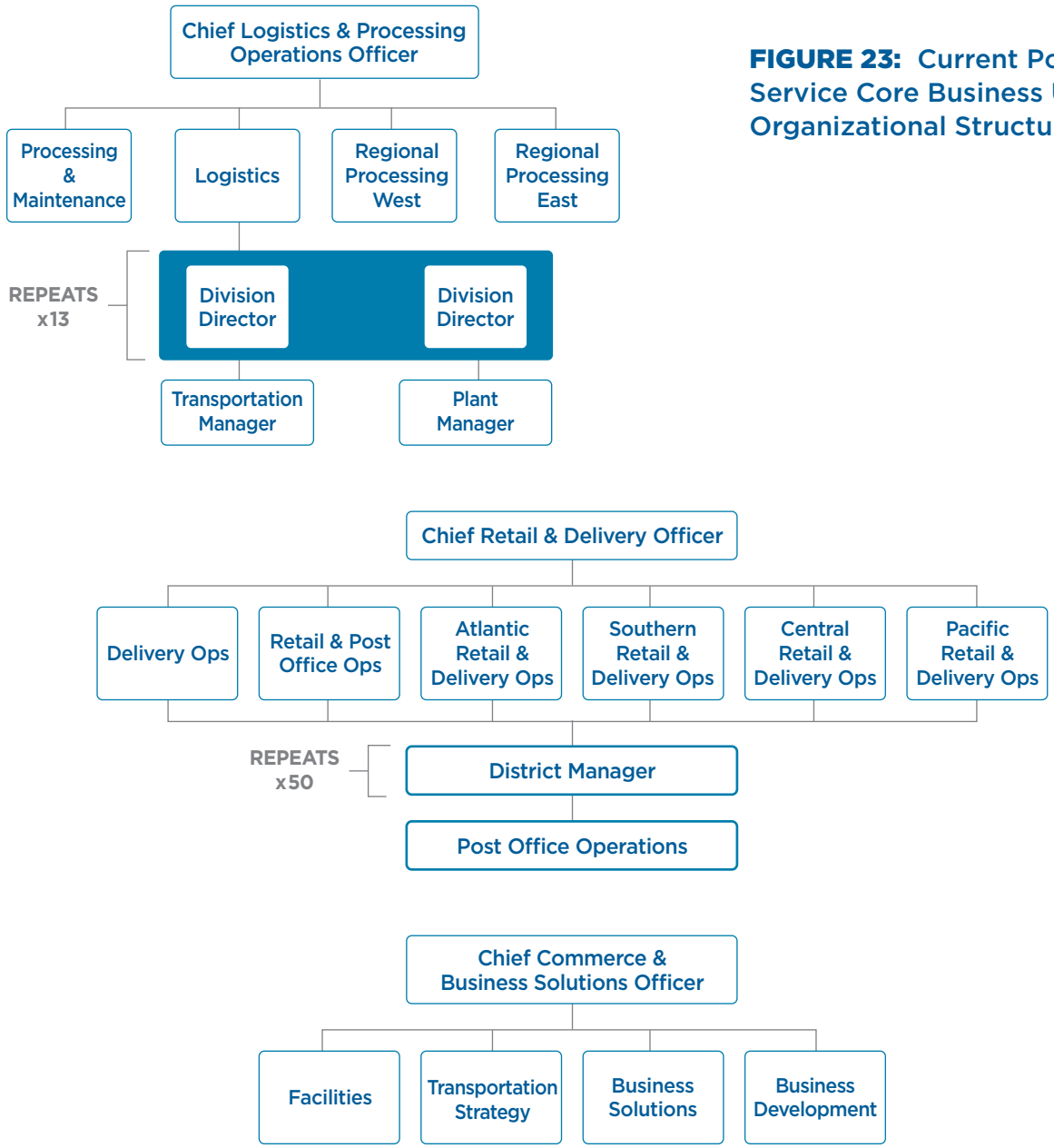
WHAT OUR EMPLOYEES SHOULD EXPECT:

- **Significant investment in training, tools and technology**

- **A more stable career path and an organizational structure that provides greater opportunity**

- **An improved workplace that advances a culture of diversity, inclusion, and acceptance throughout our organization**

FIGURE 23: Current Postal Service Core Business Units' Organizational Structures

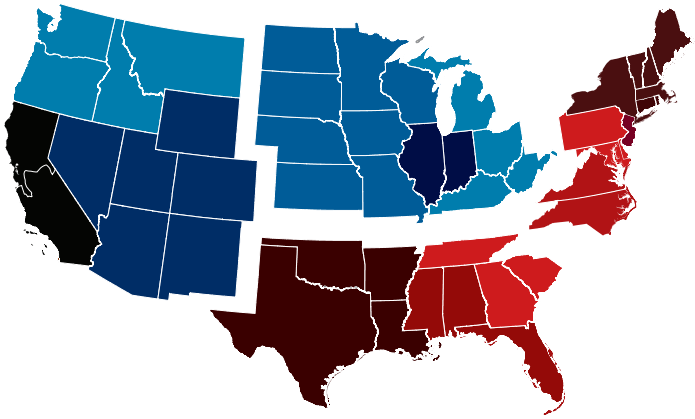


operational precision doing what the Postal Service does best: collect, process, and transport mail and packages. This organization design drives greater line-of-sight accountability and streamlined decision making for administrative functions and provides greater focus on supporting core business operations.

As a part of the ongoing structural changes, additional realignments were made within the three core business operations to provide economies of scale and administrative cost savings.

- **Retail and Delivery Operations:** Two headquarters organizations—Delivery Operations and Retail & Post Office Operations—will oversee four operational areas (Atlantic, Southern, Central and Pacific). Within the four Retail & Delivery Areas, 67 Postal Districts have been consolidated to 50 Districts. New District territories closely align to state boundaries. Districts align with the communities the Postal Service serves and provide familiar boundaries for employees, customers, and stakeholders.

FIGURE 24: New Field Operations Structure



- **Logistics and Processing:** Two headquarters organizations—Logistics and Processing & Maintenance. The operations are divided into two processing regions with 13 divisions and four logistics divisions, each geographically aligned with Retail & Delivery areas, with a total of 13 divisions shared across the regions. No divisions or regions span across more than one area.

- **The Commerce and Business Solutions** organization has been aligned around four key functions. **Business Solutions** fully utilizes our digital, physical, and logistics infrastructure to develop innovative solutions for customers' evolving shipping needs. **Business Development** cultivates strong operational relationships with shipping customers to drive long-term growth. **Transportation Strategy** drives an efficient and reliable transportation network, with a focus on improving contract systems, processes, and performance to drive an operationally precise network. The **Facilities** group maintains and leverages our real estate infrastructure to maximize opportunities.

The administrative support functions were aligned to their respective Headquarters organizations and will be redesigned enabling the three core business functions to better fulfill our essential mission of delivering for the American people.

A Stable and Empowered Workforce

Our people are our greatest asset, and our success depends on investing in their future. We want to be an "employer of choice" that hires, develops, and retains the most capable and diverse employees. Our plan focuses heavily on improving our collaboration and engagement within the workplace and strengthening the employee experience through the following measures.

PROMOTE CAREER DEVELOPMENT AND EMPLOYEE RETENTION

We will provide an engaging workplace that supports employee development and retention through the following strategies:

- Cut non-career employee turnover by half.
- Expand programs that support career planning, expanded training and self-development, and opportunities for growth, advancement, and promotion.
- Improve and expedite the hiring process.
- Build and retain a diverse pipeline of candidates through enhanced employee development, strengthening succession planning and improved retention strategies.
- Implement programs that improve the non-career employee experience.
- Elevate front-line leadership capabilities.

PROMOTE DIVERSITY AND EQUITY

Diversity has been a long-standing value and tradition of the Postal Service. We have grown alongside this country and within our communities, and our workforce is representative of the diverse communities we serve. At the direction and under the guidance of the Postmaster General, the Postal Service has established an Executive Diversity Council (EDC). The EDC consists of a diverse

group of C-suite leaders, supported by a National Diversity Steering Committee.

- The EDC will advise, assist and recommend on diversity and equity matters and champion initiatives to build Postal Service leadership and organizational capabilities.
- An area of focus for the EDC will be increased diversity in leadership positions through development programs.
- Other key areas of focus include recruitment and hiring, strengthening succession planning and increasing cultural awareness. The EDC launched in FY2021 and will lead the promotion of increased diversity and inclusion of culture, thought and action.

Diversity and equity are core commitments of the Postal Service—we will advance a culture of diversity, inclusion, and acceptance throughout our organization.

ENHANCE EMPLOYEE SAFETY AND WELLBEING

Throughout these organizational changes, the Postal Service will continue to work collaboratively with our unions and management associations to support managers and bargaining unit employees as we continue to foster safety as a core value throughout the organization.

We will continue to implement and enhance effective safety programs to foster an environment in which safety is prioritized in all aspects of completing our essential mission. We will build upon current high-performing safety programs to create the safest and healthiest environment possible for our employees. This includes:

- Updating our Safety Intervention and Recognition Program to reflect the new structure and provide insight into best practices and areas of opportunity to address risks and hazards at all levels. We will work collaboratively to ensure that safety features and concerns are addressed in every business decision to include new equipment, new vehicles or changes in work practices.
- Enhancing the safety Counseling at Risk Employees (CARE) Program and integrating it into our automated HR system in order to provide actionable data for enhancing facility level safety concerns and the employee experience.
- Continuing to empower employees to identify, record and report safety concerns in real time with the goal of reducing all accidents (motor vehicle and industrial).
- Communicating safety and health information to the workforce.

By providing these tools and resources, we will continue to encourage employees to play a more active role in creating a safer work environment for themselves and their peers. These efforts to create a safer and healthier workplace will improve employee engagement and availability, enhance customer service, and reduce total operating expenses.

Pricing Strategies Aligned with Organization and Marketplace Needs

IMPLEMENT NEW PRICING AUTHORITIES

The PRC's new rules on market-dominant prices allow above-CPI price increases on the basis of certain factors, including declining density (pieces per delivery point) and retirement-related amortization costs. We will apply judicious and prudent strategies to optimize revenues and contribution within applicable regulatory constraints.

BETTER UTILIZE COMPETITIVE MARKET PRICING

We will conduct a review across the breadth of our postal products and services to determine opportunities to drive higher revenues based on organizational and market needs. As one example, sales of Post Office Boxes (PO Boxes) generate approximately $1 billion in annual revenues. We maintain two pricing tiers for PO Box services: competitive market prices and market dominant prices.

Because our ability to utilize competitive market pricing is based on the PRC's determination of the availability of competitive alternatives in the defined geographic markets, we will petition the PRC to expand the number of PO Boxes that are defined as competitive. In areas where we are authorized to implement competitive PO Box pricing, we also will add new features, such as street-style addressing. We will also holistically review our pricing strategy with regard to our package products, and more appropriately optimize our prices.

Legislative and Administrative Framework Aligned to Organizational Needs

We will continue to seek legislative and administrative actions to address unwarranted retiree health benefit and pension funding obligations. These actions will eliminate an estimated $57 billion in liabilities over the next 10 years, without reducing the benefits received by our employees or retirees under existing law.

WE REQUEST CONGRESS REQUIRE THE INTEGRATION OF MEDICARE WITH POSTAL SERVICE-SPECIFIC HEALTH PLANS AND ELIMINATE PRE-FUNDING OBLIGATIONS IMPOSED BY PAEA

- Under our proposal, health plans specific to the Postal Service would be established within FEHBP. These plans would be fully integrated with Medicare. Postal retirees would then have Medicare as their primary payer and FEHBP as their secondary payer. This strategy aligns with the practice of nearly every state and local government and private-sector entity that still offers RHB to Medicare-eligible retirees.

- To protect the financial interests and health care relationships of current retirees who may not have enrolled in Medicare, only current employees would be required to enroll in Medicare Parts A and B when they retire and become eligible for Medicare.

- Medicare Part D would be implemented through an Employer Group Waiver Plan (EGWP) so that our retirees and employees can benefit from subsidies for prescription drug benefits.

- The existing requirement to prefund RHB would be eliminated. This requirement is not imposed on private or public entities.

- OPM would be directed to calculate RHB liability only for those employees and retirees currently eligible to receive RHB (vested liability).

- These legislative changes would drastically reduce or eliminate our unfunded RHB liabilities. They would also significantly reduce our expenses and improve our net income.

WE WILL REQUEST THAT THE ADMINISTRATION CORRECT THE LONGSTANDING, UNFAIR ALLOCATION OF CSRS BENEFITS FOR LEGACY POST OFFICE DEPARTMENT EMPLOYEES

- The Administration should require OPM to use a simple and fair method to apportion government contributions to CSRS annuities for employees who transitioned to the Postal Service with prior creditable service at the pre-1971 Post Office Department.

"By implementing the full breadth of this plan, within three years we can begin to operate on a financially self-sustaining basis and improve service performance dramatically by reliably delivering 95 percent of all mail and packages on time pursuant to achievable delivery standards."

— **Louis DeJoy**, Postmaster General and Chief Executive Officer

CONCLUSION

With benefits coming from strong growth in new revenue and cost improvement initiatives, judicious implementation of the new regulatory price cap authorities, better optimization of our pricing strategy for our competitive products, and rational legislative and administrative changes to retiree benefit funding rules, our Plan provides a comprehensive, balanced approach to revitalize the Postal Service. However, we will only be able to achieve our financial stability and service excellence goals if we successfully implement the full breadth and totality of the plan elements.

Among the many aspects of our future transformation, pricing flexibility and a reset of service standards provide the foundation to rebuilding our operating model and enabling the organization to achieve service reliability and excellence, reduce costs, and grow our revenues and relevance. These interdependencies occur throughout our Plan, in which the many smaller parts lead to larger, beneficial outcomes. These include improvement in on-time delivery and precise, efficient operations, and a modern organization that supports its employees and provides affordable products, services and solutions attuned to the needs our residential and business customers, and America's communities.

Our plan is foundationally based on preserving our universal service mission—which includes reaching every delivery point and providing the nation with six days of mail and seven days of package delivery —and playing a larger and more valued role for our customers and the nation.

In the near term, we recognize that the continuing impacts of the COVID-19 pandemic and years of underinvestment severely impacted our performance during the 2020 holiday season. Therefore, this plan commits to quickly improving service performance and earning back the trust and support of our stakeholders as we move forward.

Additionally, we never forget for a moment that the Postal Service is a public institution, and that we have responsibilities to a wide range of internal and external stakeholders. We look forward to discussing this Plan and its many strategies to create a future for the organization that exceeds the needs of the public, our residential and business customers, America's communities, and our employees. As we move forward, we will work closely with our stakeholders through sustained dialogue and partnership.

We will also adhere to legal, statutory, and regulatory requirements as we implement the initiatives within this Plan. These processes will provide opportunities for stakeholder input and engagement. In particular, the Postal Service will:

- File a request for an advisory opinion from the PRC prior to implementing any initiative that constitutes a "change in the nature of postal services on a nationwide or substantially nationwide basis," as required by statute (39 U.S.C. 3661).
- Adhere to all applicable regulations governing the implementation of any initiative, including those enacted by the PRC as well as internal regulations enacted by the Postal Service.
- Adhere to all applicable collective bargaining and consultation requirements.

In addition, as the Postal Service implements the initiatives in this Plan, we will remain in full compliance with any court orders that may be in effect, and we will keep the Administration and Congress fully informed of our progress.

Most importantly, in the years to come, we will continue to have a meaningful impact in the daily lives of the American public—more valued and

used more often at every home and business. We envision our carriers delivering more packages, collecting more returns, and providing more solutions on the ground to drive commerce and connect our communities. We will strengthen the mail channel, providing greater value for senders and receivers. At every touchpoint with our brand—in our Post Offices, at our entry units, on our digital platforms, and at the point of delivery—we intend to create excellent experiences that build value and deepen the loyalty of those we serve.

We hope you will agree that our Plan provides an important path forward for an organization in crisis—and positions the Postal Service to successfully meet the evolving mailing and shipping needs of the nation. We look forward to working with you to achieve this worthy goal.

APPENDIX

Appendix A. 10-Year Base and Plan Financial Projection Scenarios and Assumptions[34]

USPS 10-Year Base Case Outlook: $160 Billion Net Loss

We began with a base case 10-year financial projection to illustrate our financial condition if we do not: (i) increase operational efficiencies; (ii) use the PRC new price cap on market dominant products; (iii) grow revenue from our competitive products; and (iv) restructure retiree liability funding requirements. This base case forecast was developed using our institutional economic methods to project volumes and revenues and our standard cost forecasting model to project expenses. Figure 25 contains some of the key input assumptions. This methodology is consistent with that used for previous forecasts for our annual Integrated Financial Plan, 5-year strategic plan and other publicly released forecast documents.

In this base case, we project that in FY2030 total mail volume (excluding packages) will be approximately 75 billion pieces, a decrease of 37 percent (approximately 45 billion pieces) from FY2020. This decrease is attributed to continued adoption of digital alternatives to business transactions, advertisement and communications and is consistent with the trend we have experienced over the last decade.

We project that in FY2030, total package volume will be approximately 6.6 billion pieces, an increase of seven percent (approximately 424 million pieces) from FY2019 pre-COVID-19 levels, but below the volume achieved in FY2020 due to COVID-19. The flat growth rate from FY2019 to FY2030 is attributed to 1) a reduction of the increased package volumes in FY2020 and FY2021 as the impact of the COVID-19 pandemic

[34] Our results of operations may be impacted by risks and uncertainties, many of which we cannot control or influence, and may cause actual results to differ materially from those currently contemplated in this plan. These risks include, but are not limited to, the effects of COVID-19 on our business, financial condition and results of operations. Forward-looking statements contained in this plan represent our best estimates of known and anticipated trends believed relevant to future operations. However, actual results may differ significantly from current estimates. Certain forward-looking statements are included in this report and use such words as "may," "will," "could," "expect," "believe," "plan," "estimate," "project" or other similar terminology. These forward-looking statements, which involve a number of risks and uncertainties, reflect current expectations regarding future events and operating performance as of the date of this report.

FIGURE 25: FY2021 revenue and expenses and FY2021 Integrated Financial Plan (IFP) targets, FY2021 – FY2030

PRICE ASSUMPTIONS	• FY2021 prices at base plan levels prior to PRC ruling • FY2022 – FY2030 Market Dominant prices increase at CPI based on PRC regulations in effect in FY2020 • FY2022 – FY2030 Competitive prices increase at CPI+1 percent
WORK HOUR ASSUMPTIONS	• 100 percent capture of earned work hour declines due to volume decline • Mix of Tier 1 / Tier 2 / non-career workers assumes that non-careers are hired up to work hour cap, then Tier 2 hired to replace Tier 1 workers lost to attrition up to the amount needed to fulfill workload requirements • Overtime rates assumed to be the same as FY2019 levels
INFLATION ASSUMPTIONS	• General and COLA increases taken from contracts and Global Insight inflation projections • General increase of 1.25 percent (career) and 2.25 percent (non-career) assumed when contracts expired • Non-personnel costs (transportation, supplies and services and other) based on Global Insight inflation projection, generally ranging from 2 percent to 5 percent per year

begins to diminish, 2) the loss of market share due to our inability to make the investments necessary to compete with other package delivery companies as they increase delivery densities across more geography due to the post COVID-19 volume growth, and 3) the ongoing insourcing of delivery operations from competitors and major e-commerce retailers. This trend is consistent with the period prior to the start of the COVID-19 pandemic when we experienced flat or declining volumes.

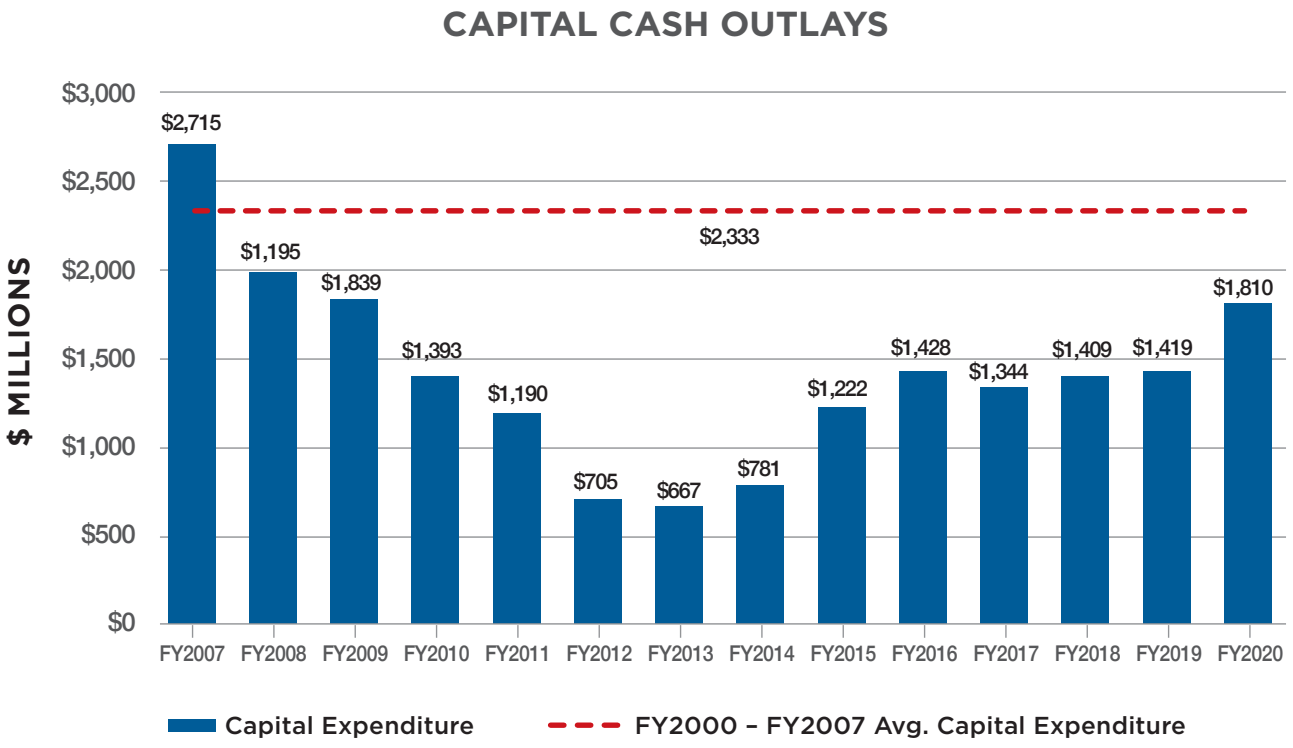
We project prices over the forecast period to increase on market dominant products at CPI and competitive products at CPI+1 percent. Taken together these inputs produce flat revenue over the forecast period.

Unfortunately, total expenses are expected to grow at 1.8 percent per year. This growth in expenses is the result of wage growth consistent with the terms in existing union contracts, cost inflation for federally mandated benefits and non-personnel costs as per inflation projections provided by Global Insight, and the additional cost of serving approximately one million additional delivery points per year.

It is important to note that the base case expense projections assumes that we will capture 100 percent of the work hours associated with projected volume declines, which equates to a reduction in annual hours of 162.7 million by 2030 or $48.7 billion in cumulative cost savings. Achieving this will require extensive management efforts to capture these work hour savings and will have to rely primarily on process improvements that capture reductions in overtime and absorb attrition, since the base case does not enable optimum investments to modernize and maintain efficient infrastructure and equipment. Failure to achieve these reductions would make our financial results worse than those shown here.

Our cash projection assumes we will repay existing debt as it matures with no additional borrowing.

FIGURE 26: Capital Expenditures from FY2007 to FY2020



By statute, we can borrow $3 billion incremental debt per year up to a maximum statutory level of $15 billion. The projection also assumes that we will defer social security tax payments of $0.6 billion for the first quarter of FY2021 and make repayments on FY2020 and FY2021 deferred social security taxes of $0.9 billion annually in FY2022 and FY2023.

Capital investments are an essential part of maintaining and improving our retail, processing, transportation, and delivery networks. From FY2000 to FY2007, we averaged $2.3 billion per year in capital cash outlays. However, since FY2008, we have been forced to substantially curtail our investments because of our financial challenges and have averaged $1.3 billion per year, as shown in Figure 26. This has led to significant underinvestment in our equipment and facilities, leading to a significant deterioration of, in particular, our vehicle fleet and retail facilities.

The level of capital expenditures in the base plan is projected to the pre-FY2007 average of around $2.5 billion per year over the next decade. However, given the deteriorated state of our facilities, equipment, and vehicles, this will not be sufficient to make the necessary modernizations in delivery vehicles, package processing equipment and facility renovations that are needed to move our business forward. It is particularly important, given shifts in our product volume, that we can make necessary adaptations and improvements to our infrastructure.

Our network was largely designed at a time when the volume of packages was much smaller than it is today, while the volume of mailing services was much higher. As package volumes grow, we must adjust our operations to ensure we have the facility and machine capacity to process and deliver that volume in an efficient, effective, and timely manner. This is critical if we are to be a viable participant in the highly dynamic package delivery marketplace.

As shown in Figure 27, the result of maintaining the status quo is a financially unsustainable organization. Net losses are projected to increase throughout the 10-year period, yielding a cumulative loss of $160 billion and a cash deficit of the same size.

FIGURE 27: USPS 10-Year Net Income Outlook for the Base Case Scenario

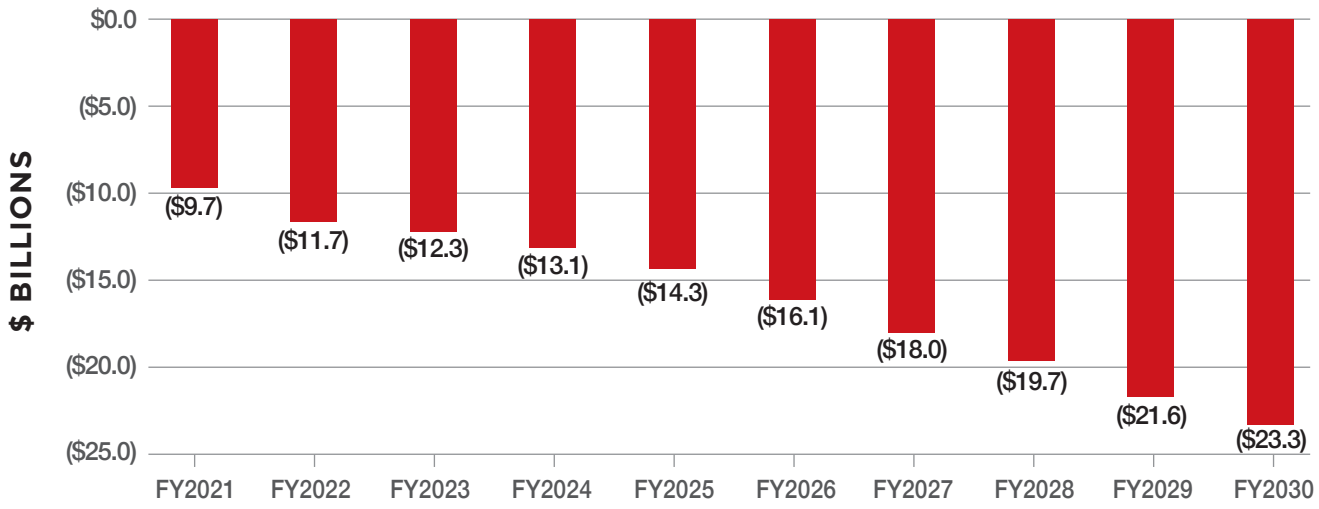


Figure 28 provides additional detail for our projected financial results for FY2021–FY2030 absent additional efficiency initiatives or changes to legislation and regulations that were in place at the end of FY2020. As shown, we estimate that by FY2022 we will have inadequate cash flow to meet all financial obligations, including year-end, lump-sum retiree health benefit (RHB), Federal Employee Retirement System (FERS) and Civil Service Retirement System (CSRS) payments.

Under this status-quo forecast by FY2024, we would not have cash to operate even if we were to continue to default on RHB normal cost and RHB, FERS and CSRS amortization payments and fully exhaust our borrowing authority. If we receive and use the full $10 billion in funding from the CARES Act, this would delay our operational insolvency by just over one year.

Estimates of future net income and liquidity in the base plan are of course subject to considerable uncertainty. We will work to reduce work hours and restrain wage growth within the confines of collective bargaining agreements. Reductions in non-personnel expenses, particularly transportation, depend on our ability to negotiate with a large number of suppliers and contractors while such resources are in high demand. Future business environments may or may not favor negotiations for competitive rates. Furthermore, our business, like any other, is subject to adverse economic shocks. Unlike most businesses, however, we are expected by both the government and citizens to operate as usual even in the event of severe adverse shocks, which limits our ability to temporarily scale down or shutdown operations, as many private sector companies can choose to do.

While reasonable people may disagree on particular assumptions, the overall conclusion is inescapable: the status quo is not sustainable and unless we undertake a comprehensive plan to address our challenges, the Postal Service as we know it cannot survive.

10-year Financial Projection for the Postal Service Delivering for America Plan

The strategies and initiatives outlined in this plan represent our commitment to achieve service excellence, realize cost savings and revenue growth, modernize postal infrastructure, and enhance our employees' wellbeing.

FIGURE 28: The Postal Service Base Case 10 Year Financial Projection

(Billions)	Actual	Actual	Forecast										
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025	FY2026	FY2027	FY2028	FY2029	FY2030	10 Yr Total
Total Mail and Package Volume	**142.6**	**129.2**	**116.0**	**113.5**	**111.5**	**107.6**	**103.7**	**98.5**	**95.1**	**90.6**	**87.2**	**82.6**	**1,006.4**
Market Dominant Revenue	46.9	42.5	39.4	38.9	38.6	37.9	36.9	35.7	34.9	34.0	33.1	32.2	361.6
Competitive Revenue	24.4	30.8	31.5	29.9	31.1	32.5	33.6	34.7	35.9	37.3	38.4	39.4	344.2
Total Revenue	**$ 71.3**	**$ 73.2**	**$ 70.9**	**$ 68.8**	**$ 69.7**	**$ 70.4**	**$ 70.5**	**$ 70.4**	**$ 70.7**	**$ 71.2**	**$ 71.5**	**$ 71.6**	**$ 705.8**
Controllable Expenses [1]	**74.7**	**77.0**	**76.5**	**76.3**	**77.8**	**79.2**	**80.4**	**82.0**	**84.0**	**86.1**	**88.2**	**89.9**	**820.6**
Controllable Income (loss)	**(3.4)**	**(3.8)**	**(5.6)**	**(7.5)**	**(8.1)**	**(8.8)**	**(9.9)**	**(11.6)**	**(13.3)**	**(14.9)**	**(16.8)**	**(18.3)**	**(114.8)**
RHB Normal Cost Actuarial Revaluation	*(0.2)*	*(0.2)*											
RHB Amortization	*0.8*	*0.8*	*0.9*	*1.0*	*1.1*	*1.2*	*1.3*	*1.4*	*1.5*	*1.6*	*1.7*	*1.8*	*13.5*
Workers' Comp. Fair Value Adj. and Other Non-Cash Adj.	*2.2*	*1.6*											
FERS Amortization	*1.1*	*1.3*	*1.3*	*1.3*	*1.3*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*1.2*	*12.3*
CSRS Amortization	*1.6*	*1.8*	*1.8*	*1.9*	*1.9*	*1.9*	*1.9*	*1.9*	*2.0*	*2.0*	*2.0*	*2.0*	*19.2*
Net Income (Loss)	**$ (8.8)**	**$ (9.2)**	**$ (9.7)**	**$ (11.7)**	**$ (12.3)**	**$ (13.1)**	**$ (14.3)**	**$ (16.1)**	**$ (18.0)**	**$ (19.7)**	**$ (21.6)**	**$ (23.3)**	**$ (159.8)**
Debt [2]	**$ 11.0**	**$ 14.0**	**$ 11.0**	**$ 10.0**	**$ 10.0**	**$ 9.0**	**$ 9.0**	**$ 8.3**	**$ 8.3**	**$ 8.3**	**$ 7.0**	**$ 7.0**	
Year-End Cash (no default) (Unrestricted and Restricted)	**$ 9.2**	**$ 14.7**	**$ 2.0**	**$ (14.3)**	**$ (27.1)**	**$ (41.9)**	**$ (56.2)**	**$ (72.9)**	**$ (90.9)**	**$ (110.5)**	**$ (133.1)**	**$ (156.9)**	
Liquidty			**$ 6.0**	**$ (9.3)**	**$ (22.1)**	**$ (35.9)**	**$ (50.2)**	**$ (66.2)**	**$ (84.2)**	**$ (103.8)**	**$ (125.1)**	**$ (148.9)**	
Cash Flow - GAAP:													
Net Cash Used in Operating Activities	**$ 2.5**	**$ 4.4**	**$ (7.7)**	**$ (12.3)**	**$ (10.4)**	**$ (11.3)**	**$ (12.0)**	**$ (13.6)**	**$ (15.3)**	**$ (17.2)**	**$ (19.1)**	**$ (20.8)**	
Net Cash Used in Investing Activities	**$ (1.4)**	**$ (1.8)**	**$ (2.0)**	**$ (3.0)**	**$ (2.4)**	**$ (2.5)**	**$ (2.3)**	**$ (2.4)**	**$ (2.7)**	**$ (2.4)**	**$ (2.2)**	**$ (2.9)**	
Net Cash Used in Financing Activities	**$ (2.2)**	**$ 3.0**	**$ (3.0)**	**$ (1.0)**	**$ -**	**$ (1.0)**	**$ -**	**$ (0.7)**	**$ -**	**$ -**	**$ (1.3)**	**$ -**	
Net (decrease) increase in Cash, Cash Equivalents and Restricted Cash	**$ (1.2)**	**$ 5.5**	**$ (12.7)**	**$ (16.3)**	**$ (12.8)**	**$ (14.8)**	**$ (14.3)**	**$ (16.7)**	**$ (18.0)**	**$ (19.6)**	**$ (22.6)**	**$ (23.7)**	
Year-End Cash (Unrestricted and Restricted)	**$ 9.2**	**$ 14.7**	**$ 2.0**	**$ (14.3)**	**$ (27.1)**	**$ (41.9)**	**$ (56.2)**	**$ (72.9)**	**$ (90.9)**	**$ (110.5)**	**$ (133.1)**	**$ (156.9)**	

1) Includes $48.7B savings commensurate with workload decline.
2) Assumes we repay existing debt as it matures with no additional borrowing. By statute, we can borrow $3B incremental debt per year up to a maximum statutory level of $15B.

The incremental impact of each initiative is layered on top of the base plan taking into account any dis-synergies that result from combining various initiatives. The initiatives to improve financial performance fall into three categories: Revenue growth, management cost improvements, and legislative and administrative cost improvements.

REVENUE GROWTH

Through the initiatives described in this Plan, we will actively work to improve both market-dominant and competitive revenues above baseline projections. For market-dominant products, our initiatives are aimed at optimizing revenues and contribution within the constraints of the regulatory system. This will include judicious and appropriate use of the rate authorities provided by the PRC in their recent ruling on market-dominant prices that enables above-CPI price increases related to RHB and pension amortization expenses, increases in unit costs due to mail density loss, and mail classes that do not currently cover their costs.

Initiatives to improve competitive products revenues above the baseline projections include generating additional package volumes through new commercial offerings, leveraging our retail and other assets to expand digital and government services, launching sales and marketing initiatives, and improving service reliability and value. This Plan also includes targeting price increases in market sectors where our current prices are below-market.

The combined impact of additional commercial offerings, pricing and customer-demand initiatives are projected to increase net revenue by $54 billion to $81 billion above the base case projection, as shown in Figure 29. These estimates incorporate volume losses, due to increased prices based on estimated price elasticities.

FIGURE 29: Summary of Revenue Improvement Initiatives

INITIATIVE	KEY ELEMENTS	FY2021 – FY2030 FINANCIAL IMPACT RANGE (LOW TO HIGH $B)[1]
COMPETITIVE REVENUE GROWTH	• Offer innovative commercial services to grow package volumes • Leverage assets to expand digital and government services • Identify opportunities for margin improvement • Align pricing zones to distance traveled	$19 – $29
MARKET DOMINANT PRICE INCREASE	• Implement authority under PRC price regulations allowing above CPI increases for market dominant and underwater products	$35 – $52
	TOTAL FINANCIAL IMPACT	$54 – $81

Notes: 1) The initiative financial impacts shown include a proportional allocation of interest savings achieved from these initiatives. 2) These estimates do not include the reduction of the retirement rate authority from the PRC 10-year review ruling due to the reduction of amortization payments. This has been factored in the legislative and administrative action initiative estimates.

COST IMPROVEMENTS – MANAGEMENT INITIATIVES

As described in this Plan, our infrastructure is both outdated and not properly configured to meet current and projected customer demands. In addition, we have underinvested in facility modernization and have lagged in implementing operational best practices. The initiatives in this Plan will rationalize and modernize mail and package processing, transportation, and retail and delivery networks and improve service reliability and cost efficiency. In addition, these initiatives will result in a rationalized organizational structure that will improve accountability and reduce both personnel and non-personnel expenses. Combined, these initiatives are expected to reduce our projected operational expenses by an estimated $28 billion to $40 billion, as shown in Figure 30.

COST IMPROVEMENTS – LEGISLATION AND ADMINISTRATIVE ACTION REQUIRED

For this Plan to achieve financial sustainability, we need Congress to allow us to integrate our health benefits plans with Medicare on a prospective basis. Virtually all private and public-sector entities that offer RHB require that all eligible retirees enroll in Medicare at age 65 as a precondition for receiving employer-sponsored benefits. In addition, we propose that our RHB liability be estimated based on employees and retirees who are fully vested and eligible to receive RHB immediately upon their retirement. The anticipated savings from this prospective Medicare integration proposal based on vested participants, combined with an elimination of the requirement to prefund, will increase our cash flow while reducing the amount of RHB costs.

We are also asking the Administration to direct OPM to use a fair and simple method of allocating responsibility for government contributions to CSRS annuities for employees who transitioned to the Postal Service with prior creditable service at the pre-1971 Post Office Department. This will lead to a fully funded CSRS pension system and elimination of CSRS amortization payments over the 10-year projection period.

Combined, these initiatives are expected to reduce projected operational expenses by approximately $58B as shown in Figure 31.

FIGURE 30: Summary of Management Cost Savings Initiatives

INITIATIVE	KEY ELEMENTS	FY2021 – FY2030 FINANCIAL IMPACT RANGE (LOW TO HIGH $B)[1]
DELIVERY INITIATIVES	• Maintain six-day mail and seven-day package delivery • Replace NGDV fleet and replace rural POVs • Optimize office and street efficiencies	**$10 – $14**
TRANSPORTATION INITIATIVES	• Align service standards to maximize surface network capabilities • Optimize long and short haul surface network • Minimize redundant lanes and unplanned late and extra trips • Modernize logistics management systems	**$7 – $10**
MAIL PROCESSING INITIATIVES	• Reset 24-hour clock to improve service performance • Consolidate mail processing operations • Modernize package equipment and other plant automation	**$5 – $7**
ADMINISTRATIVE FUNCTIONS INITIATIVES	• Realign HQ, Area, and Districts into 3 national business units • Reduce non-transportation contractor spend	**$3 – $5**
RETAIL INITIATIVES	• Align hours of operation to customer demands at low traffic Post Offices • Rationalize stations and branches • Modernize retail lobbies to enable expanded digital, small- and medium-sized business and government services	**$3 – $4**
	TOTAL FINANCIAL IMPACT	**$28 – $40**

Notes: 1) The initiative financial impacts shown include a proportional allocation of interest savings achieved from these initiatives.

REQUIRED CAPITAL INVESTMENTS

This Plan recognizes that our technological and physical infrastructures require extensive upgrades and includes over $40 billion in capital investments over the next 10 years, which is over $16 billion more than in our base plan. These investments will enable us to modernize the Postal Service, ensure that we can adapt to the changing needs of our customers, provide excellent service for both our mail and package products, upgrade our retail outlets and achieve our universal service mission today and for generations to come.

Figure 32 shows the initial focus of investments that we intend to make. To modernize our delivery operations, the Plan includes investments in modernizing the delivery vehicle fleet and other delivery support technologies to include new delivery unit small parcel sorting systems, carrier delivery scanners, route optimization software and uniform upgrades.

To improve operating efficiency and service quality of the mail and package processing and transportation networks, the Plan includes

FIGURE 31: Summary of Requested Legislative and Administration Actions

REQUESTED ACTIONS	KEY ELEMENTS	FY2021 – FY2030 FINANCIAL IMPACT (LOW TO HIGH $B)[1]
MEDICARE INTEGRATION	• Integrate USPS FEHBP plans with Medicare, calculate the liability based on vested employees and require future retirees enroll[2] • Eliminate RHB prefunding	**$44**
CSRS ADJUSTMENT	• Correct the longstanding, unfair allocation of CSRS benefits for legacy "Post Office Department" employees[2]	**$14**
	TOTAL FINANCIAL IMPACT	**$58**

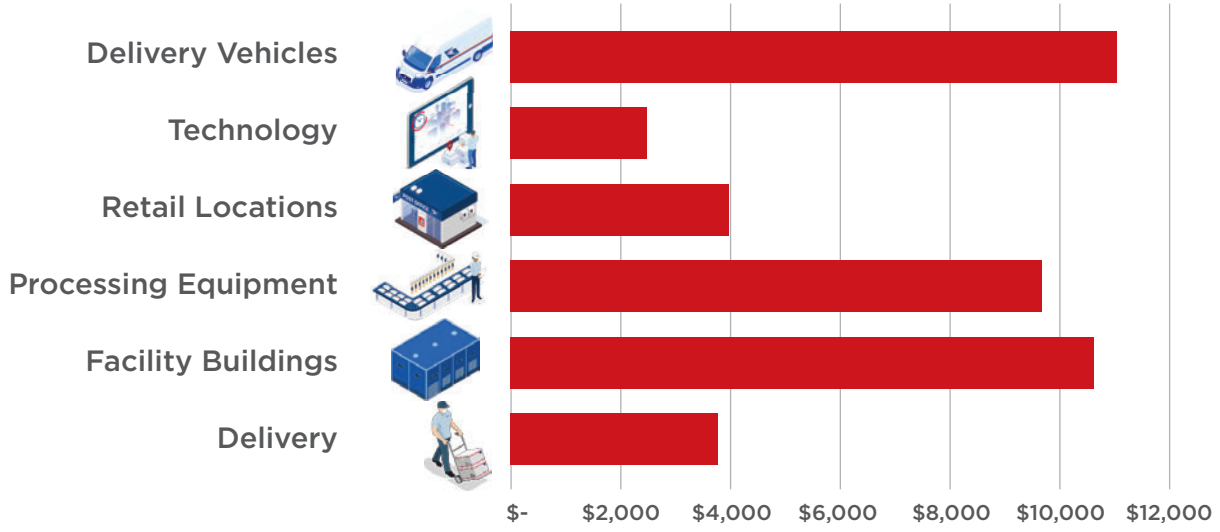
Notes: 1) The estimated financial impacts shown include a proportional allocation of interest savings achieved from these initiatives. Actual savings will depend on final legislative language and OPM implementation. 2) These estimates include the reduction of the Retirement Rate Authority from the PRC 10-year review ruling due to the reduction of amortization payments.

significant investments in creating modern automated processing facilities and transportation networks by accelerating the deployment of parcel automation, autonomous material handling technologies, and advanced transportation management systems.

To transform our Post Offices and retail facilities into convenient and modernized retail destinations, the plan includes significant investments in order to offer expanded government and digital services, enhance our services for small- and medium-sized businesses and expand deployment of contactless retail and locker technologies for mail and package pickup and drop-off.

Our Plan includes investments to improve commercial parcel fulfillment businesses access to our processing facilities and upgrade our Informed Delivery mobile application to enhance its value to commercial mailers and shippers.

FIGURE 32: Critical Strategic Investments in Plan ($ Millions)



This Plan also includes investments in training and development, modernized human resources and financial systems, enhanced cyber security and physical security technologies, and greater energy efficiency and environmental sustainability across our operations. These investments are critical if we are to transform the Postal Service into an organization that can deliver excellent, secure, and cost-efficient services in a financially sustainable manner for generations to come.

ALL ELEMENTS OF THE PLAN ARE REQUIRED TO ACHIEVE BREAK-EVEN NET INCOME, GENERATE SUFFICIENT CASH TO INVEST IN OUR BUSINESS, AND MAINTAIN MODEST POSITIVE LIQUIDITY OVER THE 10-YEAR PERIOD

The financial challenges we face require a multi-pronged approach to achieve financial stability. Only through the successful implementation of all the revenue generation, operational efficiency and legislative and Administrative initiatives in this Plan will we be able to achieve a break-even cumulative net income over the next ten years.

Total mail volumes will be slightly lower in this scenario relative to the base case, due to the impact of higher prices on volumes. Package volumes are projected to grow above the base plan due to improved service reliability and processing efficiencies. Overall, this will result in the higher revenues and net income relative to the base plan.

Expenses will be reduced, due to the combination of operational efficiency improvements, infrastructure repurposing and rationalization, returns on infrastructure investment and legislative reforms that eliminate retiree costs. Although the Plan is projected to enable us to achieve a small positive cumulative net income over the ten years, due to the time necessary to implement these changes, we project net losses for FY2021 and FY2022, with positive net income beginning in FY2023 or FY2024 and every year thereafter, as shown in Figure 33. This figure shows a range of results to reflect the uncertainty of the future business environment.

The successful implementation of all the Plan elements also enables us to maintain positive liquidity over the 10-year period as shown in Figure 34. This figure shows a range of results to reflect the uncertainty of the future business environment.

Finally, Figure 35 presents our financial projections for FY2021 – FY2030 if all initiatives in the Plan are implemented based on the assumed timeline.

FIGURE 33: Net Income Before and After Impact of the Plan ($Billions)

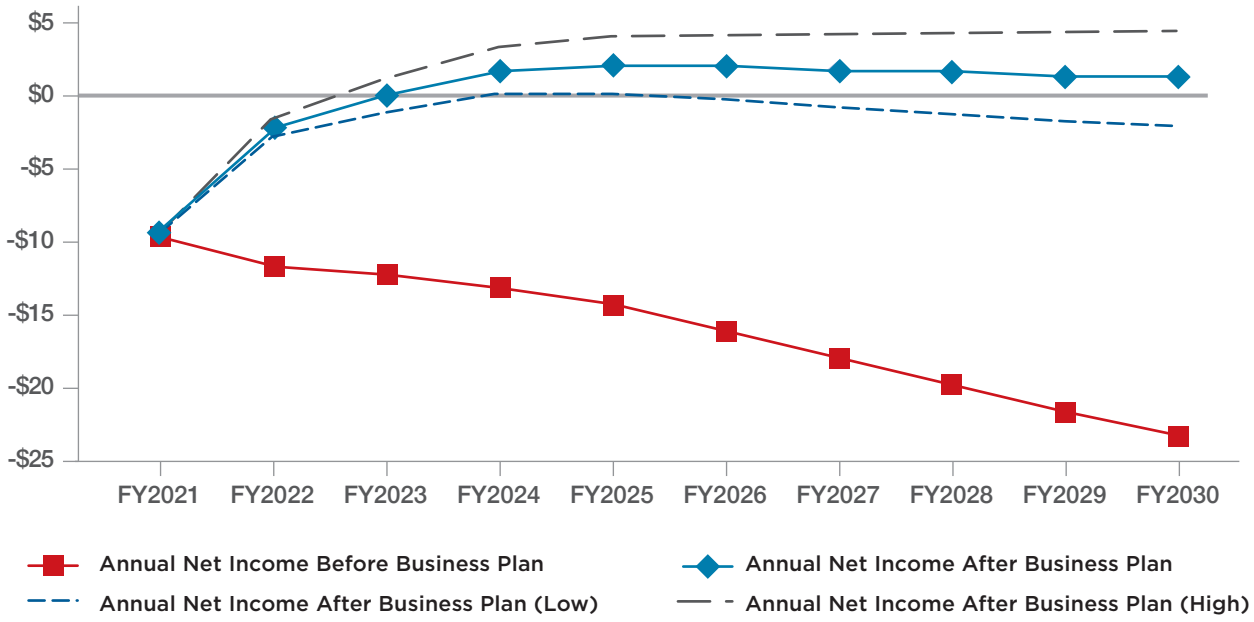


FIGURE 34: Total Liquidity Before and After Impact of the Plan ($Billions)

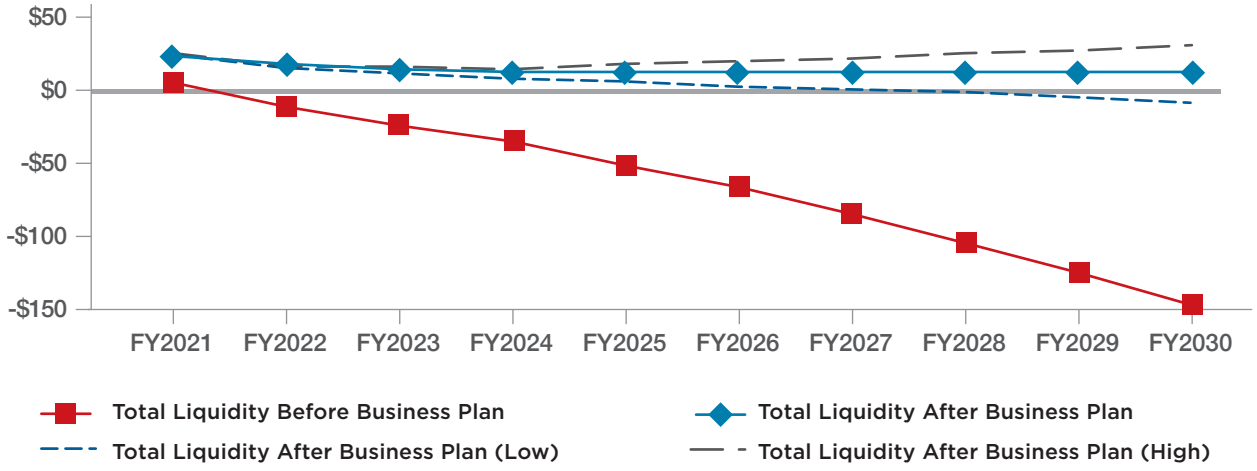


FIGURE 35: 10-Year Delivering for America Projected Profit and Loss Statement – With USPS Initiatives

($ in Billions)	Projected										Total
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2021-2030
Market Dominant Revenue	39.6	40.5	40.9	40.8	40.0	39.2	38.5	38.1	37.7	37.2	392.5
Competitive Revenue	31.5	30.9	32.8	34.8	36.4	38.0	39.8	41.8	43.5	45.2	374.6
Total Revenue	$ 71.1	$ 71.3	$ 73.7	$ 75.5	$ 76.4	$ 77.2	$ 78.3	$ 79.9	$ 81.2	$ 82.5	$ 767.2
Salary & benefits	49.5	48.9	48.9	48.9	49.0	49.4	50.2	51.2	52.1	53.0	501.1
FERS normal cost	4.1	4.2	4.3	4.3	4.3	4.3	4.4	4.4	4.5	4.5	43.2
RHB normal cost (Controllable) / Top up payments	3.9	0.8	0.8	0.9	0.9	1.0	1.1	1.2	1.3	1.4	13.3
Transportation	8.7	8.3	8.3	8.3	8.6	8.9	9.2	9.5	9.7	10.0	89.6
Depreciation	1.7	1.7	1.8	2.0	2.1	2.3	2.4	2.5	2.5	2.5	21.5
Supplies & services	3.1	2.9	2.8	2.9	2.9	2.9	3.0	3.0	3.0	3.0	29.6
Rent, utilities & other	5.5	5.5	5.5	5.3	5.1	5.1	5.1	5.3	5.6	5.6	53.5
Controllable expenses[1]	76.5	72.2	72.4	72.6	73.0	73.9	75.3	77.1	78.7	80.0	751.9
Controllable income (loss)	(5.3)	(0.9)	1.3	2.9	3.3	3.3	2.9	2.8	2.5	2.4	15.2
Non-Controllable expenses	(4.1)	(1.3)	(1.3)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(1.2)	(15.1)
RHB Amortization	0.9	-	-	-	-	-	-	-	-	-	0.9
FERS Amortization	1.3	1.3	1.3	1.2	1.2	1.2	1.2	1.2	1.2	1.2	12.3
CSRS Amortization	1.8	-	-	-	-	-	-	-	-	-	1.8
Net income (loss)	$ (9.4)	$ (2.2)	$ 0.0	$ 1.7	$ 2.1	$ 2.0	$ 1.7	$ 1.6	$ 1.3	$ 1.3	$ 0.2
Debt[2]	$ 11.0	$ 10.0	$ 10.0	$ 9.0	$ 9.0	$ 8.3	$ 8.3	$ 8.3	$ 7.0	$ 7.0	
Year-End Cash (no default) (Unrestricted and Restricted)	$ 20.2	$ 12.5	$ 9.4	$ 6.8	$ 6.4	$ 5.1	$ 5.3	$ 5.6	$ 4.6	$ 4.2	
Liquidity	$ 24.2	$ 17.5	$ 14.4	$ 12.8	$ 12.4	$ 11.8	$ 12.0	$ 12.3	$ 12.6	$ 12.2	
Cash Flow - GAAP:											
Net Cash Used in Operating Activities	$ 0.5	$ (2.8)	$ 1.9	$ 3.5	$ 4.5	$ 4.5	$ 4.4	$ 4.1	$ 3.9	$ 3.8	
Net Cash Used in Investing Activities	$ (2.0)	$ (3.9)	$ (5.0)	$ (5.1)	$ (4.9)	$ (5.1)	$ (4.1)	$ (3.8)	$ (3.6)	$ (4.2)	
Net Cash Used in Financing Activities[3]	$ 7.0	$ (1.0)	$ -	$ (1.0)	$ -	$ (0.7)	$ -	$ -	$ (1.3)	$ -	
Net (decrease) increase in Cash, Cash Equivalents and Restricted Cash	$ 5.5	$ (7.7)	$ (3.1)	$ (2.6)	$ (0.4)	$ (1.3)	$ 0.3	$ 0.3	$ (1.0)	$ (0.4)	
Year-End Cash (Unrestricted and Restricted)	$ 20.2	$ 12.5	$ 9.4	$ 6.8	$ 6.4	$ 5.1	$ 5.3	$ 5.6	$ 4.6	$ 4.2	

1) Includes $48.7B savings commensurate with workload decline.
2) Assumes we repay existing debt as it matures with no additional borrowing. By statute, we can borrow $3B incremental debt per year up to a maximum statutory level of $15B.
3) FY21 includes $10B CARES Act funding

Appendix B: Service Standard Changes for Service Excellence

The Postal Service sets service standards to specify to customers and mailers how long to expect that it will take for a particular piece of mail to be delivered. However, we have not met the current service standards for First-Class Mail in eight years, meaning that we have not been providing our customers with reliable and predictable delivery. The service we have provided for First-Class Mail with a 3- to 5-day delivery standard has fallen particularly short of the mark during that period. The Postal Service proposes to establish service standards that meet customer needs while better reflecting operational realities in an environment characterized by declining mail volumes. By setting attainable standards, we will then hold ourselves to actually meeting those standards on a consistent, sustained basis, thereby ensuring that they establish meaningful customer service expectations.

The current service standards make it difficult for us to provide consistent service, and require us to maintain an inefficient, unreliable, and high-cost transportation network. The end result is an unsustainable situation—failure to provide reliable service, and costs that are higher than they should be.

The specific service standard adjustments we propose address factors that are a consequence of trying to meet the current standards, and that contribute to unreliable service and high costs, by:

- Allowing a higher percentage of volume to be transported by surface transportation rather than less reliable and more costly air transportation.
- Enabling the Postal Service to create an optimized, efficient surface transportation network, with fewer surface trips and better utilization.

To improve reliability and enhance efficiency, the Postal Service proposes to modify existing service standards for First-Class Mail Letters and Flats from a current one-to-three-day service standard (for mail being delivered within the continental United States) to a one-to-five-day service standard. This will also require adjustments to the standards for end-to-end Periodicals (which travels with First-Class Mail). The Postal Service will seek public comment through a formal rulemaking process and will also request an advisory opinion from the Postal Regulatory Commission concerning this proposed change before it is implemented.

FIGURE 36: First-Class Mail (All) Service Standard Performance, FY2012 – FY2020

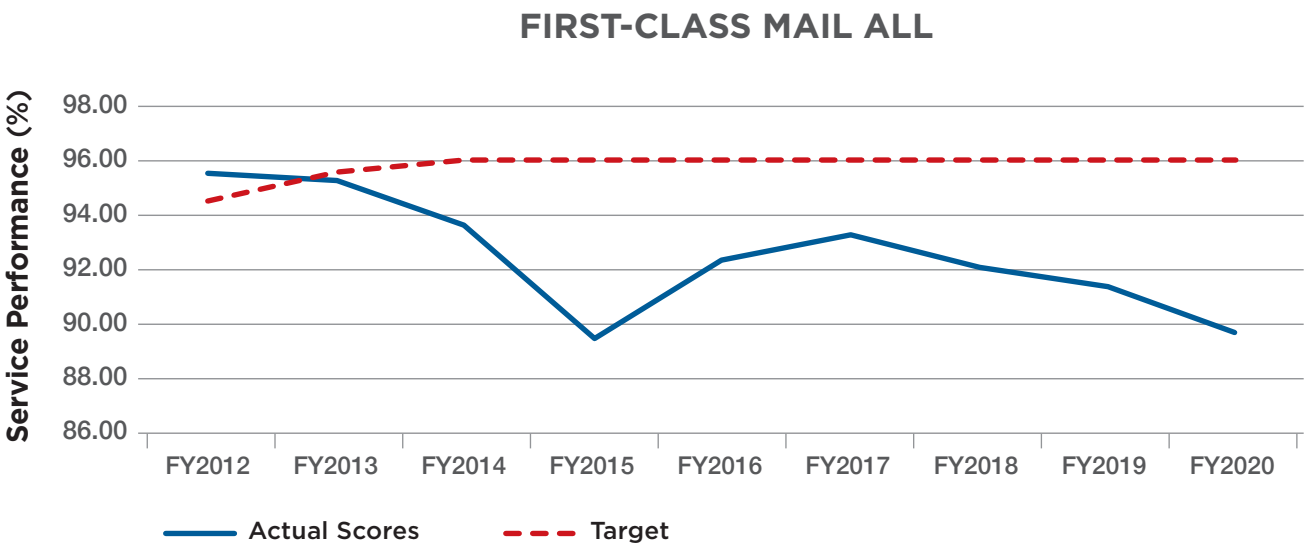
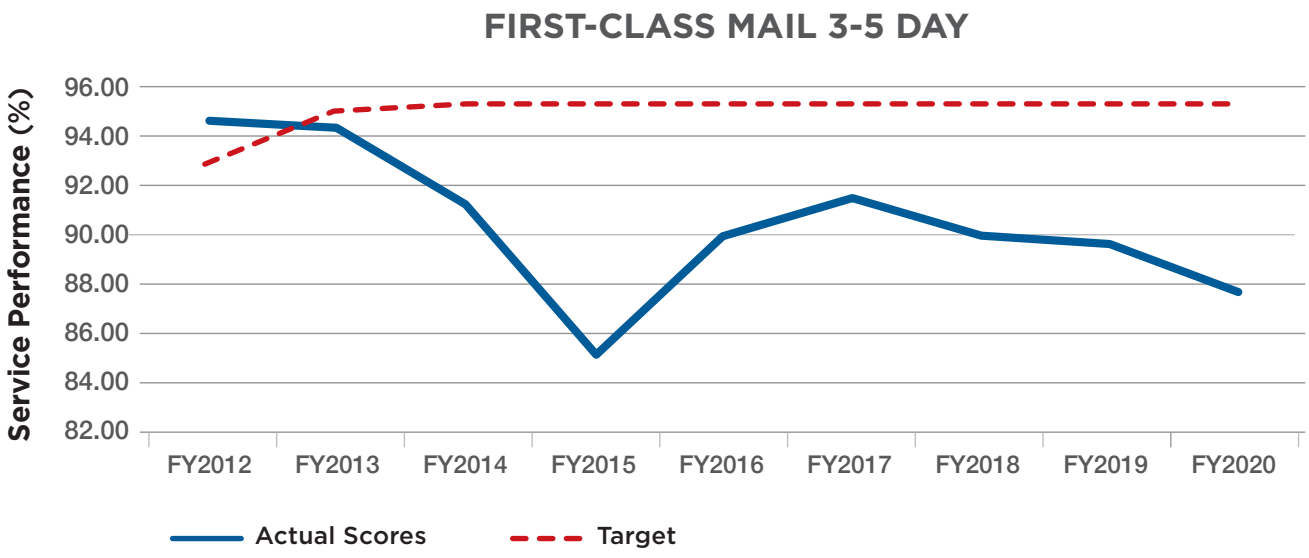


FIGURE 37: First-Class Mail (3-5 Day) Service Standard Performance, FY2012 – FY2020



The following is a summary of the impacts of the new service standard:

- 61 percent of current First-Class Mail volume and 93 percent of current Periodicals volume will stay at its current standard.
- 81 percent of current 2-day First-Class Mail volume will retain its 2-day standard.
- 70 percent of First-Class Mail volume would receive a standard of 1- to 3-days.
- Current First-Class Mail 3-day volume will be subject to 3-, 4-, or 5-day service standard, depending on the distance between origin processing facility and destination processing facility.
- Of the current 3-day volume, 47 percent will remain 3-day, 36 percent moves to 4-day, and 17 percent moves to 5-day.
- First-Class Mail traveling within a local area (with up to a three-hour drive time) would still be delivered within two days. The change will not impact destination entry, overnight mail volume or other local service standards, which will continue to be delivered the next day.
- 43 percent of First-Class Mail volume that is transported through the air will shift to surface transportation.
- For the offshore states and territories, we propose to add a day to mail currently subject to a 3- or 4-day standard, while keeping 5-days as the outer bound. This will align service expectations with operational capabilities in those areas and enable the Postal Service to utilize lower cost air transportation.

In addition, the Postal Service will also propose to adjust the service standards for First-Class Package Service to enable more packages to be moved via the surface transportation network rather than on air transportation. The Postal Service will also request an advisory opinion from the PRC concerning this proposed change before it is implemented.

Changing service standards will facilitate the move of First-Class Mail and First-Class Package Service to a more predictable and reliable network allowing us to achieve a consistent service level of 95 percent on-time delivery against the revised standards. For instance, by moving volume to an optimized surface network, we will reduce the total number of touches for each mail piece and package—improving service reliability and reducing cost.

In addition to achieving greater service reliability, these changes will also enable significant cost savings and improve operational efficiency in our transportation network. For instance, the changes to the standards for Letters and Flats will result in a positive net financial impact of $1.7 billion over 10 years, a number that only takes into account transportation savings.

These changes in putting more mail and packages onto an optimized ground network will also enable us to significantly enhance our mail processing

FIGURE 38: Current vs. Adjusted FCM Service Standard Breakdowns

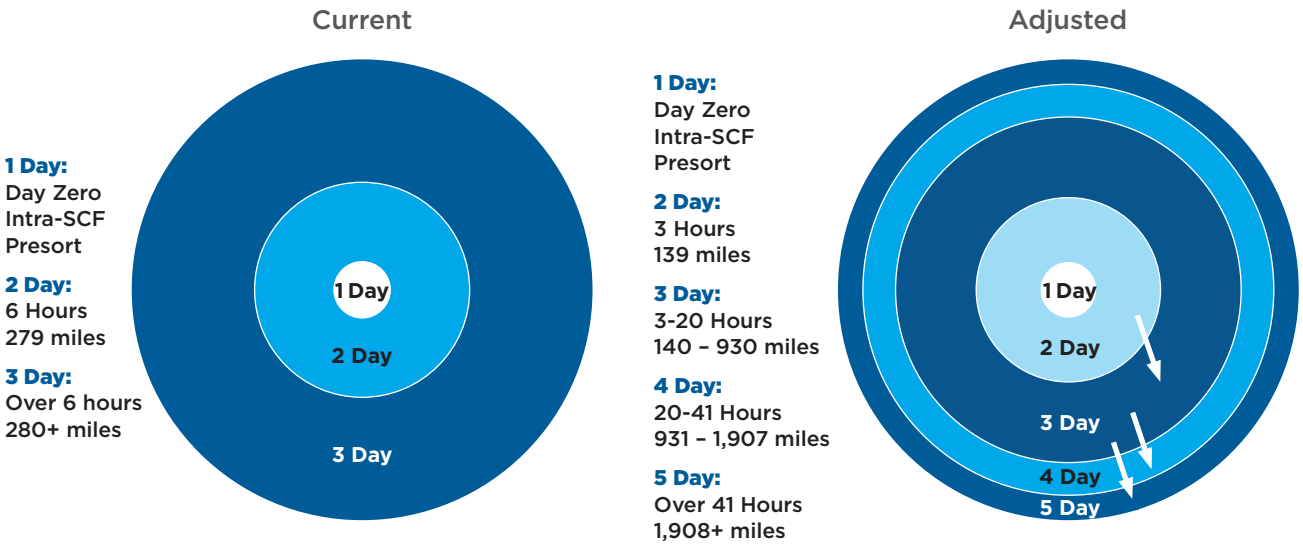


FIGURE 15: Impact of Proposed FCM Service Standard Change – Days

VOLUME: % of Total FCM (letters & flats)
Current Service Standards vs. Proposed with 5-Day

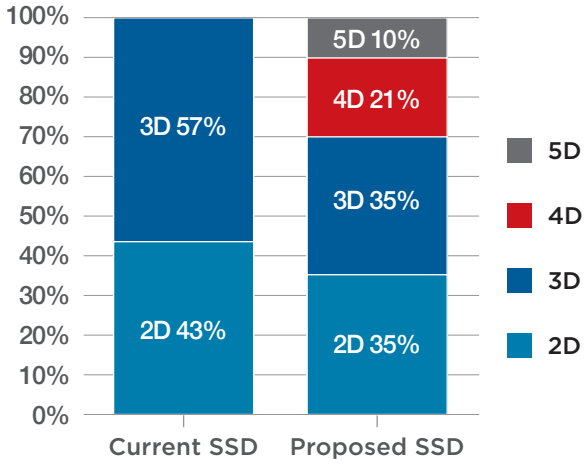
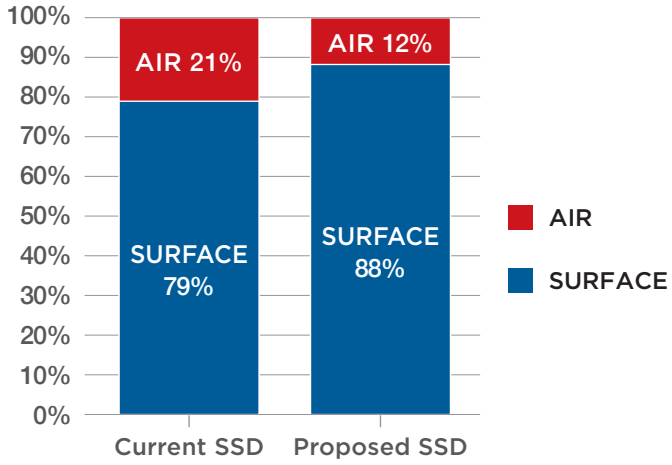


FIGURE 16: Impact of Proposed FCM Service Standard Change – Network

MODE IMPACT: % of Total FCM Volume (letters & flats)
Current Service Standards vs. Proposed with 5-Day



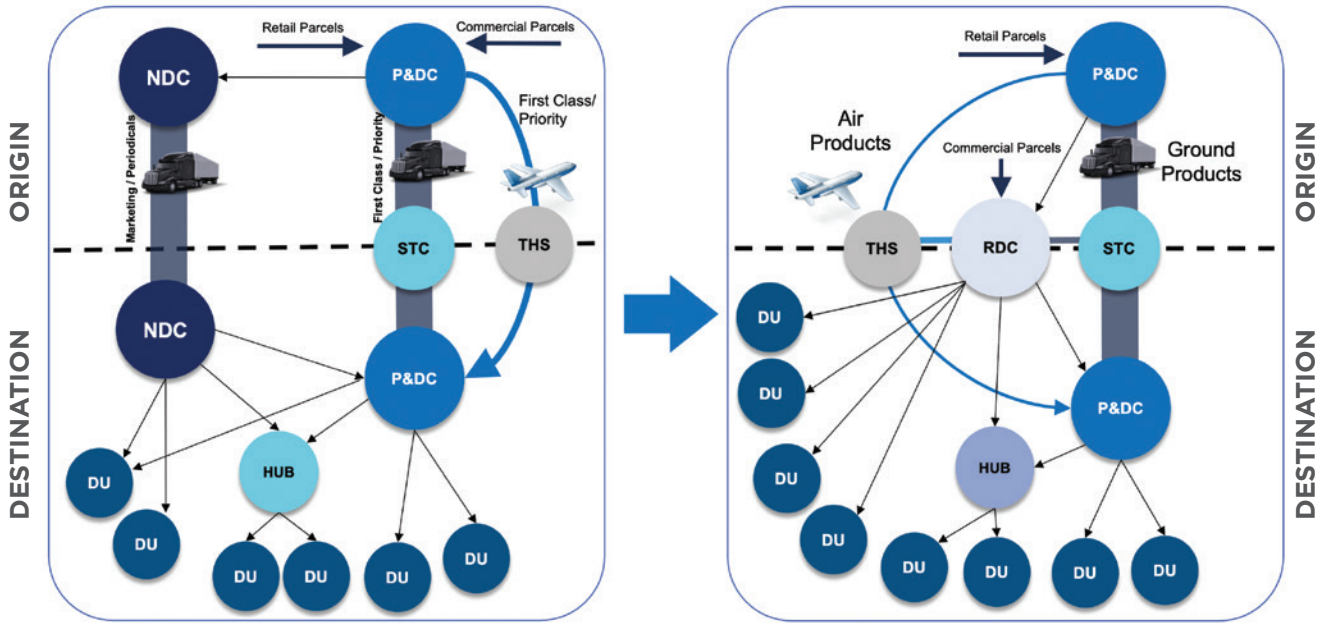
Note: Figures in the charts above are rounded and therefore may not add up to 100%.

network, achieving additional savings. We will be able to create streamlined, simplified shape-based processes, improving efficiency and enabling us to meet our operating plans. For letters and flats, an expanded First-Class Mail network will enable the Postal Service to merge letter and flats processing into a consolidated network, centered on Processing & Distribution Centers (P&DCs). Network Distribution Centers (NDCs), which will be transformed into Regional Distribution Centers (RDCs) to expand reach, will focus on handling parcels. This concept is expected to reduce handlings, improve efficiencies in the processing centers and network, and optimize letter, flat, and package processing for predictable, reliable operations.

FIGURE 39: Simplified Transportation Network Promoting Increased Reliability

	NDC — RDC	PDC
CURRENT	• Marketing Mail letters and flats • Package Services • Periodical sacks and containers • FC Parcels • Priority Parcels	• FC Mail letters and flats • Periodical sacks and containers • Marketing Letters, Flats, Bundles • FC Parcels • Priority Parcels • Priority Mail Express
PROPOSED	• Parcels	• Letters and Flats • Trays, Tubs, Bundles, and Sacks • Parcels

FIGURE 19: Redesigned Network Distribution Center Network



“By implementing the full breadth of this plan, within three years we can begin to operate on a financially self-sustaining basis and improve service performance dramatically by reliably delivering 95 percent of all mail and packages on time pursuant to achievable delivery standards.”

— **Louis DeJoy**, Postmaster General and Chief Executive Officer

UNITED STATES
POSTAL SERVICE®

EXHIBIT 2

Postal Regulatory Commission
Submitted 7/20/2021 12:55:28 PM
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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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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

(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 percent[1] of First-Class Mail and 7 percent[2] 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.[3] 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."[4] 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.[5] 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

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[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.

[4] Notice of Pre-Filing Conference, March 23, 2021, at 1 (quoting 39 U.S.C. § 3661(b)) (Notice).

[5] Notice and Order Concerning the Postal Service's Pre-Filing Conference, March 24, 2021, at 1-2, 4 (Order No. 5848).

states "[c]oncurrent with this proceeding, [it is] conducting a notice-and-comment rulemaking to revise 39 C.F.R. Part 121."[6] 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).[7] 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.[8]

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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[6] *Id.* at 1. The Postal Service filed its proposed rule in the *Federal Register* on April 23, 2021. *See* Service Standards for Market-Dominant Mail Products, 86 FR 21675 (April 23, 2021).

[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).

[8] Library Reference USPS-LR-N2021-1/1, April 21, 2021; Library Reference USPS-LR-N2021-1/2, April 21, 2021; Library Reference USPS-LR-N2021-1/3, April 21, 2021; Library Reference USPS-LR-N2021-1/4, April 21, 2021; Library Reference USPS-LR-N2021-1/5, April 21, 2021; Library Reference USPS-LR-N2021-1/6, April 21, 2021; Library Reference USPS-LR-N2021-1/NP1, April 21, 2021; Library Reference USPS-LR-N2021-1/NP2, April 21, 2021.

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);

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[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).[13]

Christopher Laver was designated as Presiding Officer on May 7, 2021.[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.[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.[16]

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[13] Douglas F. Carlson Notice of Intervention, April 30, 2021; National Postal Policy Council Notice of Intervention, May 4, 2021; Steve Hutkins Notice of Intervention, May 4, 2021; Notice of Intervention of the National Association of Letter Carriers, AFL-CIO, May 5, 2021; Notice of Intervention National Newspaper Association, Inc., May 5, 2021; Notice of Intervention, May 5, 2021; National Association of Postal Supervisors Notice of Intervention, May 5, 2021; Notice of Intervention of the Association for Postal Commerce, May 5, 2021; National Association of Presort Mailers Notice of Intervention, May 6, 2021; Notice of Intervention Mailers Hub, May 6, 2021; Notice of Intervention of the American Postal Workers Union, AFL-CIO, May 6, 2021.

[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.[17]

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

The record in this docket closed on July 1, 2021.[21]

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[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)).

[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).

[19] The 481 statements of position can be found on the Commission's website at *https://www.prc.gov/dockets/doclist/N2021-1/Statement-of-Position.* Comments of Enid Braun, April 26, 2021 (Braun Comments); Comments of Meredeth Turshen, April 26, 2021 (Turshen Comments).

[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).

[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]

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[22] *See* Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014, at 7.

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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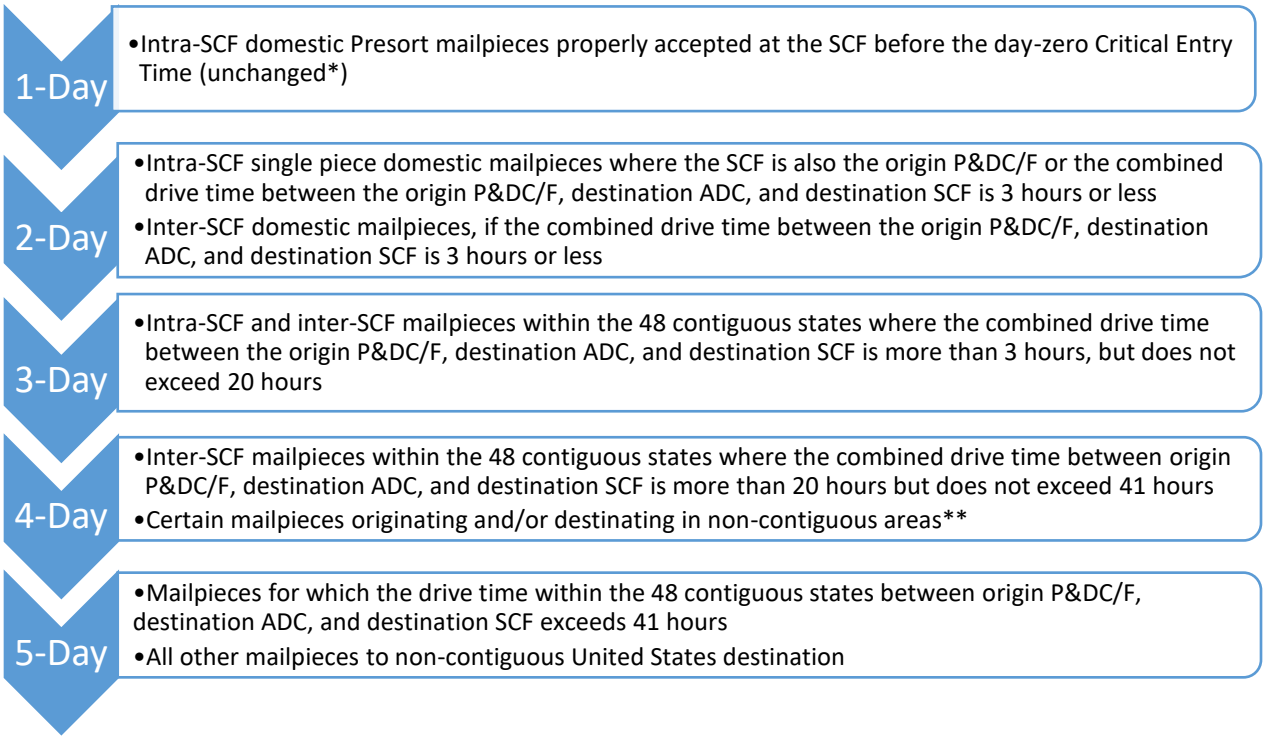
[23] *See id*. at 4. These figures total 101 percent due to rounding.

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



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.

"SCF" refers to "Sectional Center Facility." *Id.* at 3. With respect to a particular SCF, "Intra-SCF" refers to mailpieces that originate and destinate within the 3-Digit ZIP Code areas assigned to that SCF in the Domestic Mail Manual and "Inter-SCF" refers to mailpieces that originate outside those 3-Digit ZIP Code areas. Revised Service Standards for Market-Dominant Mail Products, 77 Fed. Reg. 31,190, 31,194, n.12 (May 25, 2012) (codified at 39 C.F.R. part 121). "P&DC/F" refers to Processing & Distribution Center or Facility. Notice at 2. "ADC" refers to Area Distribution Center. *Id*.

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]eek[ing] 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.[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. *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. *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. *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.[26] 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. *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

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[25] *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. *Id*. at 3.

[26] *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. *Id*.

Modeler (TMOD), was used to model network scenarios.[27] He explains that the TMOD software was instructed to create optimal routings to move modeled volumes in the network while minimizing transportation miles. *Id*. at 10. He adds that in order to ensure comparative analysis of results, the modeling was an iterative process. *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.[28] 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. *Id.* at. 8-19.

Based on the modeling, witness Hagenstein projects that the "percentage of 3-digit [ZIP Code] OD Pairs[29] subject to one-to-two-day and three-day service standards decreases from 8 and 92 percent to 3 and 41 percent, respectively." *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." *Id*. He explains that the:

> [P]ercentage 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.

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[27] *Id*. at 6-7. *See* Section VII.D. for a more detailed discussion and analysis of the modeled network scenarios.

[28] *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. *Id*. at 7-8.

[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. *Id*. at 20.

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;

(3) 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),[30] 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;[31] 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.

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[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 disproportionally 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.

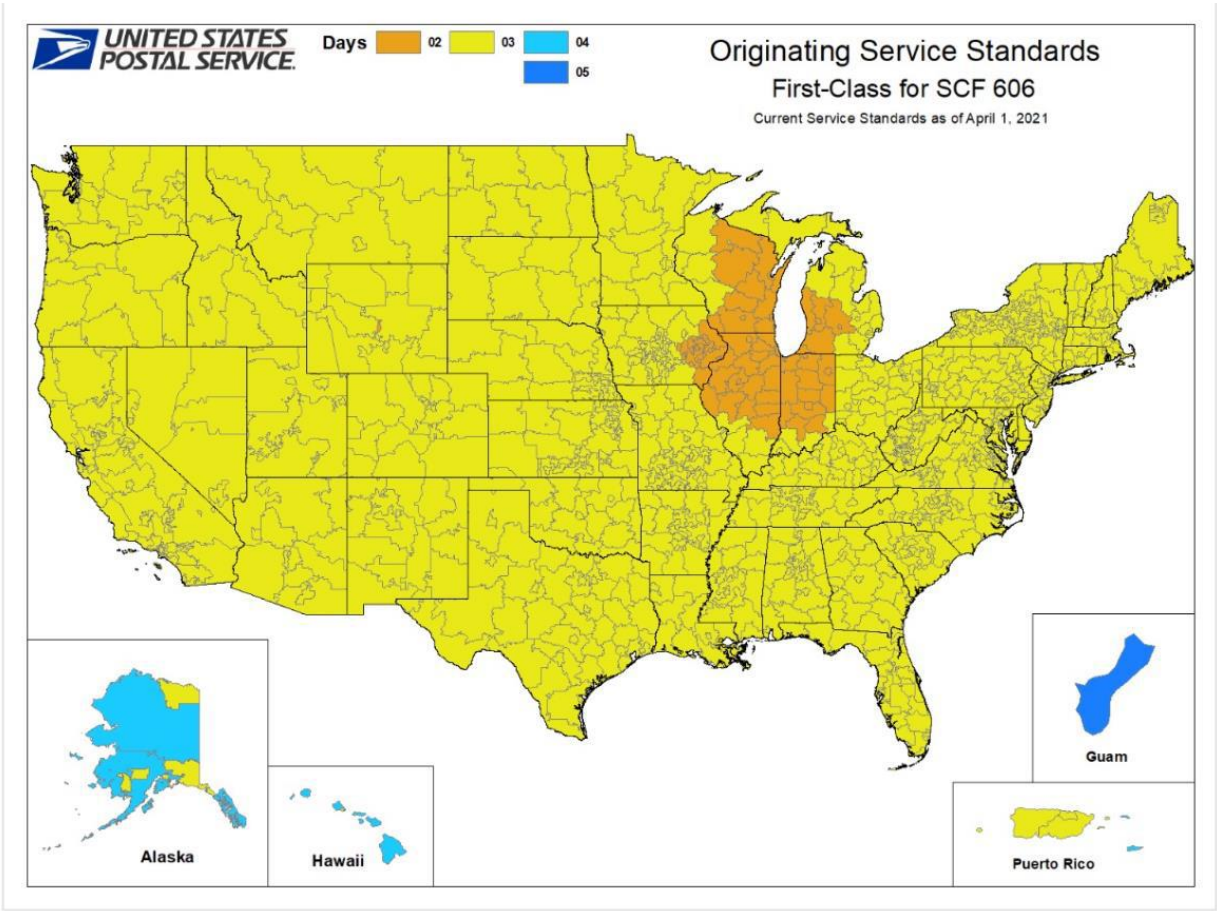
Additionally, Carlson states that the Postal Service's proposal to slow service, combined with its proposal in a separate docket to raise prices, is inconsistent with the requirement of 39 U.S.C. § 403(a) to promote adequate and efficient postal services. *Id*. at 11. He also states that, without having 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. *Id*. at 14-19. He also provides a map showing the percentage of OD Pairs using air pairs for each destinating SCF. *Id*. at 19-20.

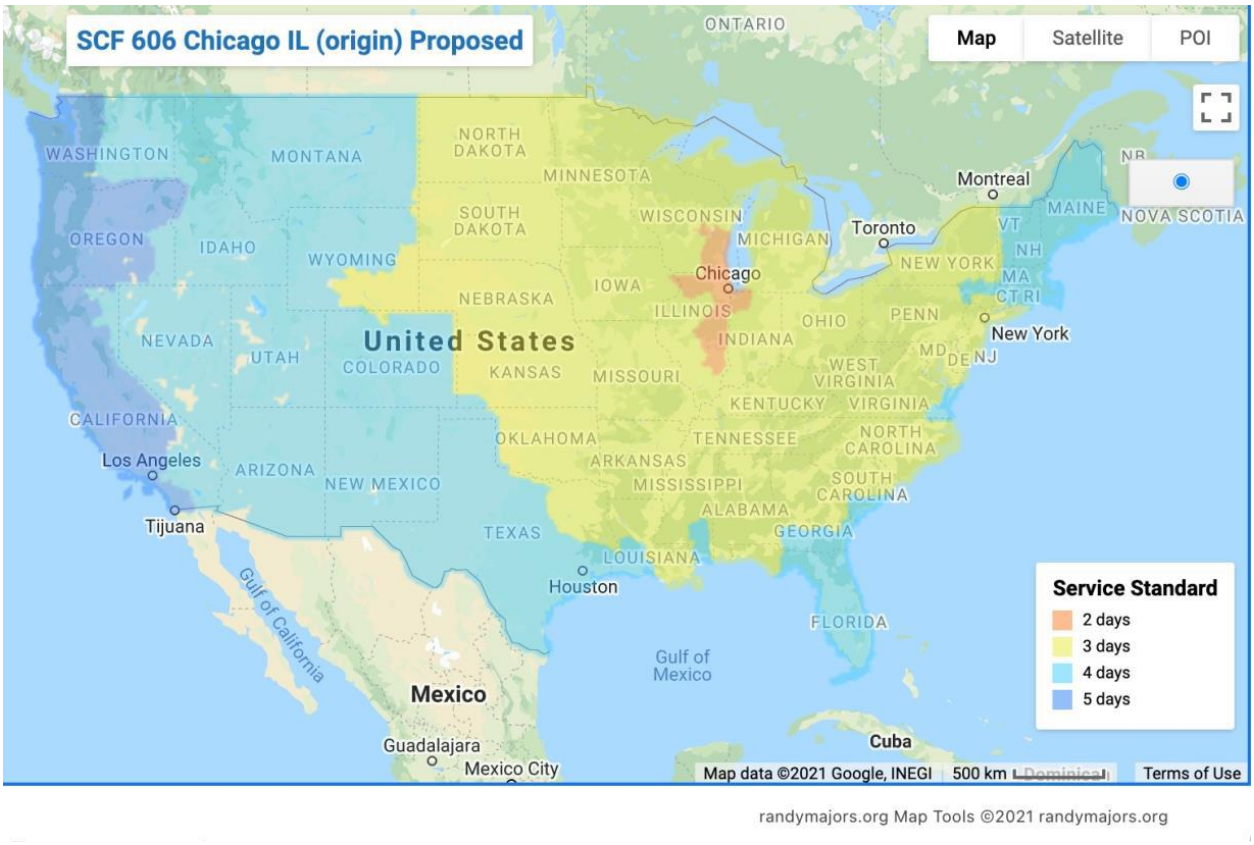
[34] Hutkins's rebuttal testimony refers to the corrected version submitted on June 10, 2021. SH-RT-1 (Corrected) at 6, 7-13.

Figure V-1
Service Standards SCF Chicago, IL 606 (originating)



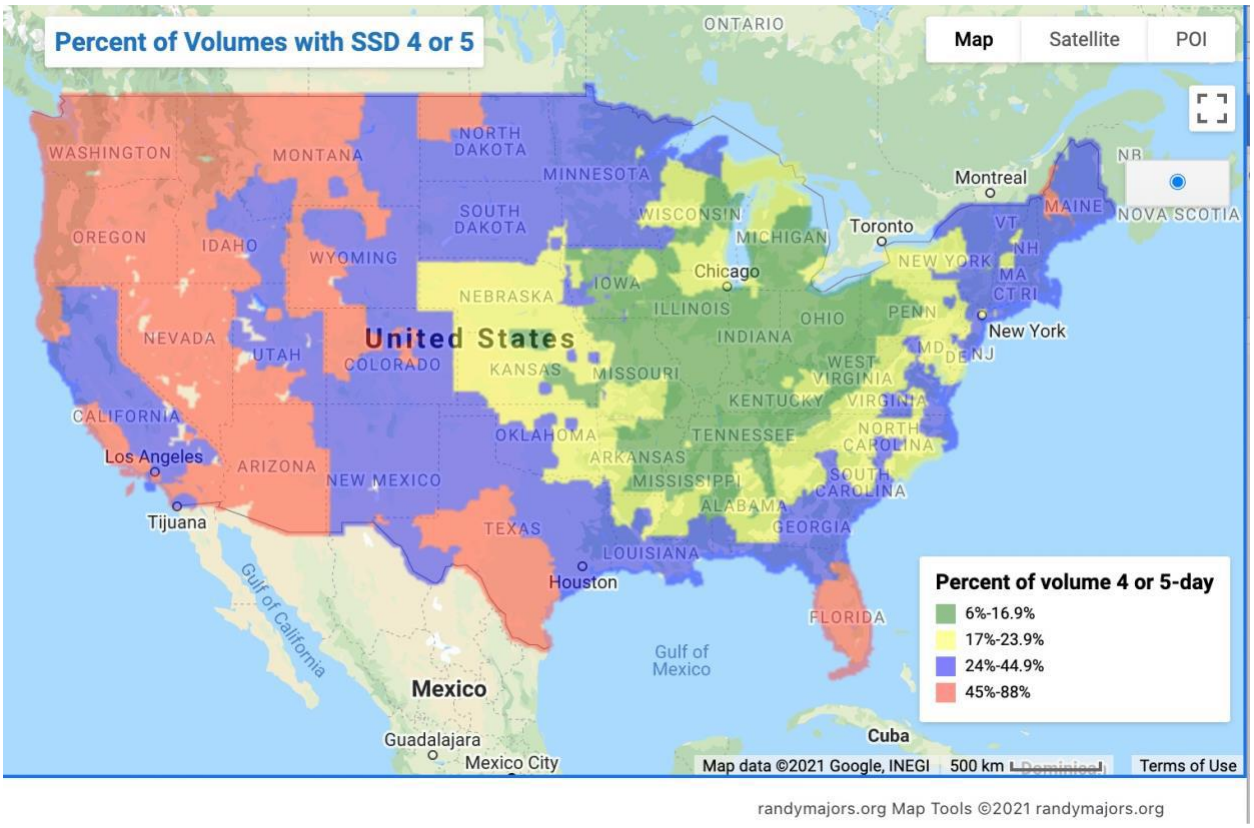
Source: SH-RT-1 (Corrected) at 7.

Figure V-2
Origin SCF Chicago, IL 606 Proposed Service Standards



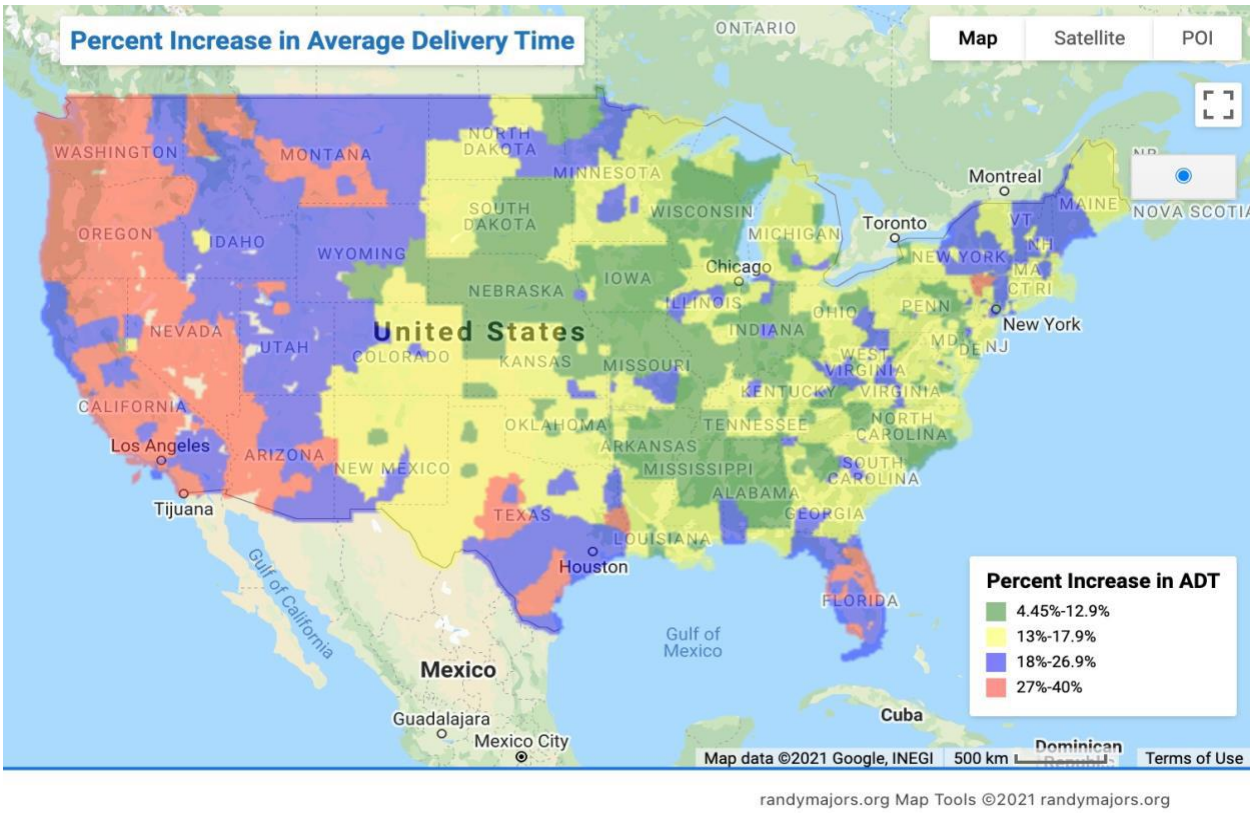
Source: SH-RT-1 (Corrected) at 8.

Figure V-3
Percent of Destination Volume per SCF Shifting to SSD 4- or 5-Day



Source: SH-RT-1 (Corrected) at 14.

Figure V-4
Percent Increase in Average Delivery Time



Source: SH-RT-1 (Corrected) at 18.

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 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.[35] Douglas F. Carlson, Steve Hutkins, the Postal Service, and the Public Representative filed reply briefs.[36]

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. *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. *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." *Id*. at 17. It "urges the Commission to consider [its] views in preparing its Advisory Opinion." *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. *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. *Id*. at 3. He states that the Postal Service relies on preexisting market research that does not examine the specific issues in this proceeding. *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. *Id*. at 5-8.

Carlson contends that the proposed service standards would unduly and unreasonably discriminate against customers in remote locations because the proposal disproportionally affects certain regions and does not consider the needs of customers in these regions. *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)." *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.[37] 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

[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.[38] 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. *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." *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. *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. *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." *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." *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. *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. *Id*. at 34-36.

The Postal Service states that its proposal is in accordance with and conforms to statutory policies. *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." *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. *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). *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."[39] PostCom asserts that the proposed changes do not comply with 39 U.S.C. § 3691. PostCom Statement at 2.

[39] Statement of Position of the Association for Postal Commerce, June 21, 2021, at 1 (PostCom Statement).

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?

Id. at 7-8 (emphasis in original).

GCA notes that its focus is on the Postal Service's communication with consumers and small businesses. *Id*. 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." *Id*. 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." *Id*.

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. *Id*. 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. *Id*. 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. *Id*. at 10, Attachment I.

GCA also recommends that the Commission should consider how the proposed change might be reflected in the rate schedule. *Id*. 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?" *Id*. 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.

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[40] Statement of Position of the Lexington Institute, June 11, 2021, at 1 (LI Statement).

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

[41] Mailers Hub Statement of Position, June 22, 2021, at 2 (Mailers Hub Statement).

[42] Statement of Position of MPA – The Association of Magazine Media, June 21, 2021, at 1 (MPA Statement).

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

[43] Statement of Position from the NAACP, Public Citizen, and NAACP Legal Defense Fund, June 11, 2021, at 1 (NAACP Statement).

"[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

[44] Position Statement of National Newspaper Association, June 15, 2021, at 1 (NNA Statement).

sees little newspaper delivery data, and upon the Postal Service providing a better mail processing operation for Mixed ADC newspaper bundles. *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." *Id*. at 5.

8. Prison Policy Initiative, Inc.

Prison Policy Initiative, Inc. (PPI) states that the proposed changes "would be devastating for incarcerated people, a group that lacks access to electronic alternatives."[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. *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]." *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). *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. *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. *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*.

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[45] Statement of Position of the Prison Policy Initiative, Inc., June 16, 2021, at 1 (PPI Statement).

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'

[46] Statement of Position of 21 Attorneys General and Two Cities, June 21, 2021, at 1 (States and Cities Statement).

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.[48] 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.[49]

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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[48] *See, e.g.,* Statement of Position from Sandra O'Boyle, June 1, 2021; Statement of Position from GloJean B. Todacheene, June 22, 2021; Statement of Position from Eric Cross, May 25, 2021.

[49] *See, e.g.,* Statement of Position from Carmen Reid, May 27, 2021; Statement of Position from Diana K. Douglas, June 22, 2021; Statement of Position from Heather L. Seggel, May 27, 2021; Statement of Position from Professors Andrea DiMartini, Annette DeVito Dabbs, and Donna Posluszny, University of Pittsburgh School of Medicine, June 21, 2021; Statement of Position from Mark Borden, May 28, 2021; Statement of Position from Joanne Weatherly, June 9, 2021; Statement of Position from James Gorecki, May 25, 2021; Statement of Position from Dr. Becky L. Steltzner, May 25, 2021.

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[50] of contiguous First-Class Mail and 7 percent[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

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[50] Request at 5.

[51] USPS-T-1 at 12 n.9.

optimization.[52] 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.[53]

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[54] 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.

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[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.*

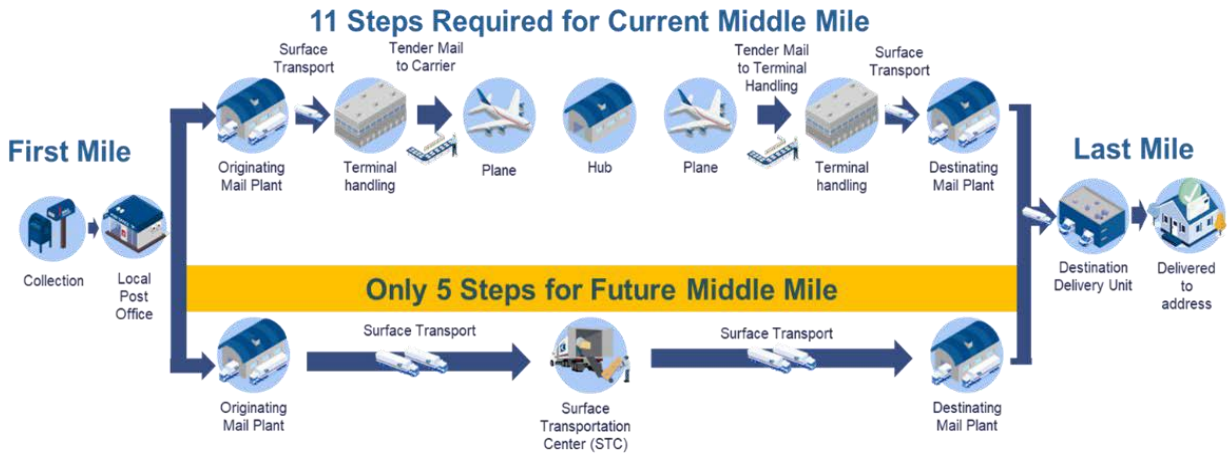
Table VII-1
Air vs. Surface Service Performance, FY 2019–FY 2021 3QTD

	FY 2019			FY 2020			FY 2021 3QTD		
	Air	**Surface**	**Diff**	**Air**	**Surface**	**Diff**	**Air**	**Surface**	**Diff**
First-Class Mail	89.40%	92.02%	2.62	87.72%	90.85%	3.13	81.17%	88.81%	7.64

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.

Figure VII-1
Difference in Processing for the Air and Surface Networks



Source: USPS-T-1 at 11.

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

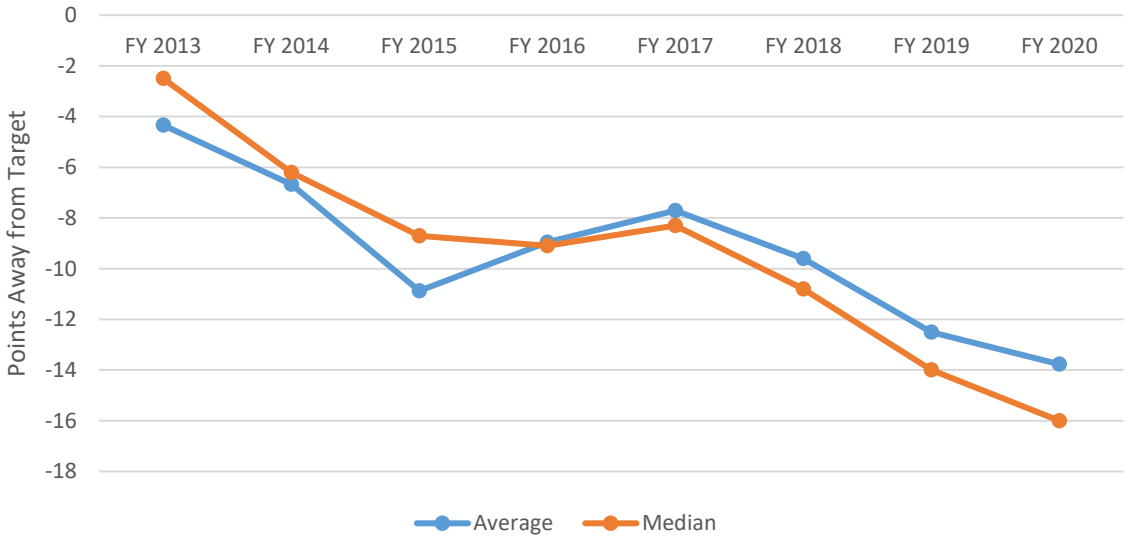
First-Class Mail	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Single-Piece Letters/Postcards								
Overnight	96.8	96.7	95.8	N/A	N/A	N/A	N/A	N/A
2-Day	96	95.7	94	95.5	95.5	94.5	92.5	92
3-5-Day	92.5	88.6	77.3	84.8	86.6	83.5	81.4	79.7
Presorted Letters/Postcards								
Overnight	97.3	97.2	96	96.3	96.6	96.2	95.7	94.9
2-Day	97.2	96.6	93.8	95.2	95.8	95.1	94.3	93
3-5-Day	95.4	92.5	88	91.9	93.4	92.2	92.1	90.2
Flats								
Overnight	86.6	84.9	83.2	84.5	84.6	82.2	81.5	80.3
2-Day	84.4	82.5	79.8	80.6	82	79.7	81.5	77.5
3-5-Day	77.6	72.6	65.3	70.9	73.9	71	76.6	73.4
Outbound Single-Piece International								
Combined	88.9	87.8	85.3	86.2	85.9	83	79.7	72
Inbound Single-Piece International								
Combined	88	85.2	75.6	81.4	85.5	83.5	64.8	66.2

Scores in red did not meet the target.

Source: Docket No. ACR2019, *Annual Compliance Determination*, March 25, 2020, at 116 (FY 2019 ACD); Docket No. ACR2017, *Annual Compliance Determination*, March 29, 2018, at 144 (FY 2017 ACD); Docket No. ACR2020, Library Reference USPS-FY20-29, December 29, 2020, PDF file "FY20-29 Service Performance Report.pdf," at 4 (FY 2020 Service Performance Report). *See also* Docket No. ACR2015, *Annual Compliance Determination*, March 28, 2016, at 132 (FY 2015 ACD); Docket No. ACR2014, *Annual Compliance Determination*, March 27, 2015, at 96 (FY 2014 ACD); Docket No. ACR2013, *Annual Compliance Determination*, March 27, 2014, at 104 (FY 2013 ACD).

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
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 VII-3
Periodicals Service Performance

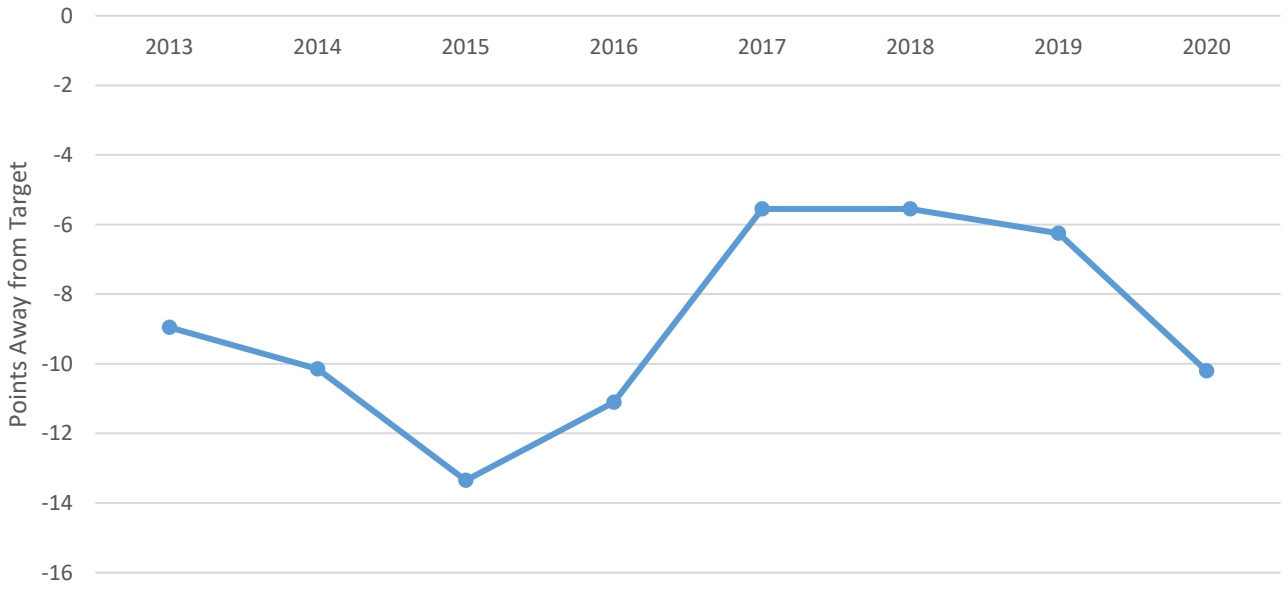
Periodicals	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
In-County	82.0	80.9	77.7	80.1	85.6	85.6	85.7	80.9
Outside County	81.1	80.8	77.6	79.7	85.3	85.3	85.4	80.7

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

[56] Docket No. ACR2018, *Annual Compliance Determination*, April 12, 2019, at 174 (FY 2018 ACD); FY 2019 ACD at 102.

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.[57]

Figure VII-3
Periodicals Points Away from Target



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

[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.[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.[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.

[58] May 17 Response to POIR No. 1, question 29.a.

[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 VII-4
Air vs. Surface Service Performance for First-Class Mail with a 3-5-Day Service Standard, by Product

3-5-Day	Mode	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	2018 Q1	2018 Q2	2018 Q3	2018 Q4	FY 2019**	FY 2020**
Presort	Air	86.22	87.58	93.50	93.39	90.57	90.93	92.73	91.98	88.96	87.77	92.51	92.22	91.14	89.34
	Surface	91.24	92.00	95.65	95.82	92.53	93.91	95.70	94.88	91.77	90.96	94.95	94.90	92.72	90.37
	Diff	**-5.02**	**-4.42**	**-2.15**	**-2.43**	**-1.96**	**-2.98**	**-2.97**	**-2.9**	**-2.81**	**-3.19**	**-2.44**	**-2.68**	**-1.58**	**-1.03**
SPLC	Air	72.45	75.19	84.55	85.39	79.21	80.64	84.9	83.86	74.94	73.88	84.22	82.93	79.5	78.11
	Surface	91.24	83.23	90.01	90.68	84.08	86.47	90.17	89.13	81.01	79.97	88.2	88.46	81.02	80.04
	Diff	**-18.79**	**-8.04**	**-5.46**	**-5.29**	**-4.87**	**-5.83**	**-5.27**	**-5.27**	**-6.07**	**-6.09**	**-3.98**	**-5.53**	**-1.52**	**-1.93**

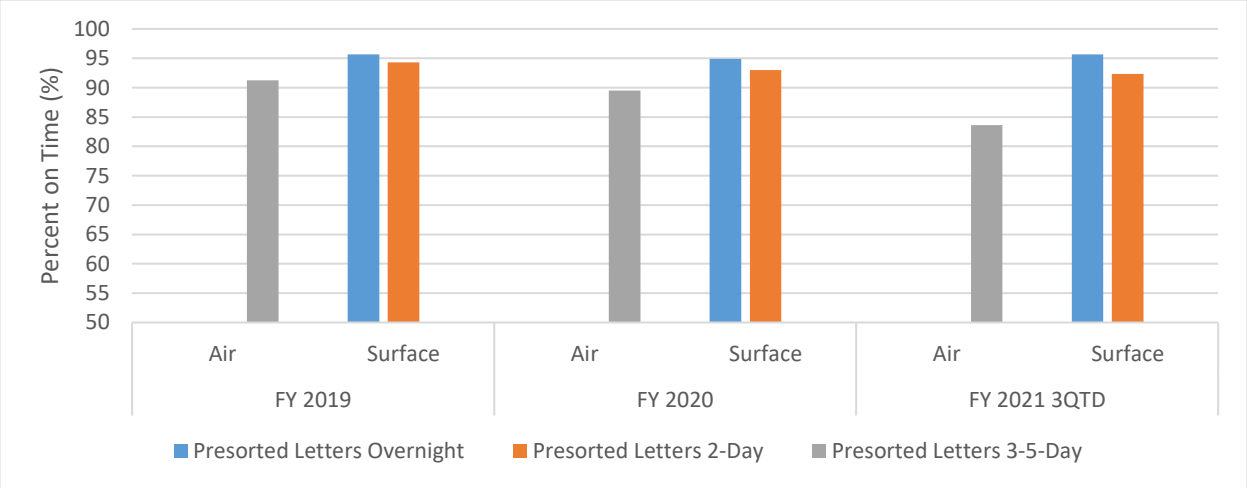
Source: Tr. 1/288; Response to POIR No. 4, question 3.

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

[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."

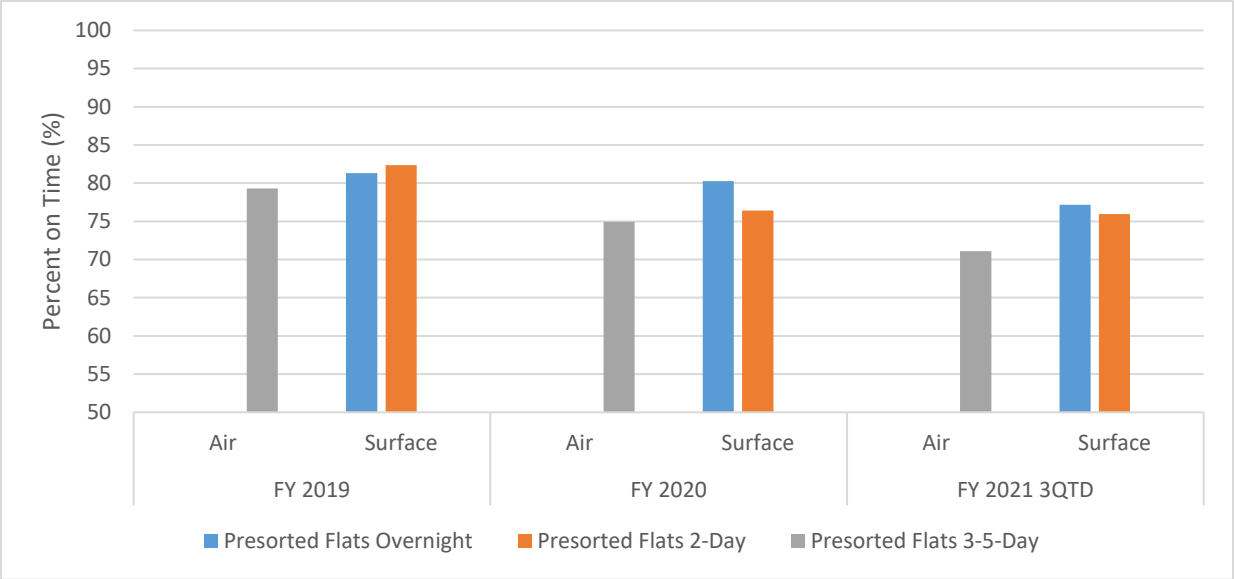
The Commission also compares the difference between on-time surface transportation performance for Overnight and 2-day service standards with on-time air transportation performance for First-Class Mail products with a 3-5-day service standard. The comparison is made to directly evaluate the performance 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



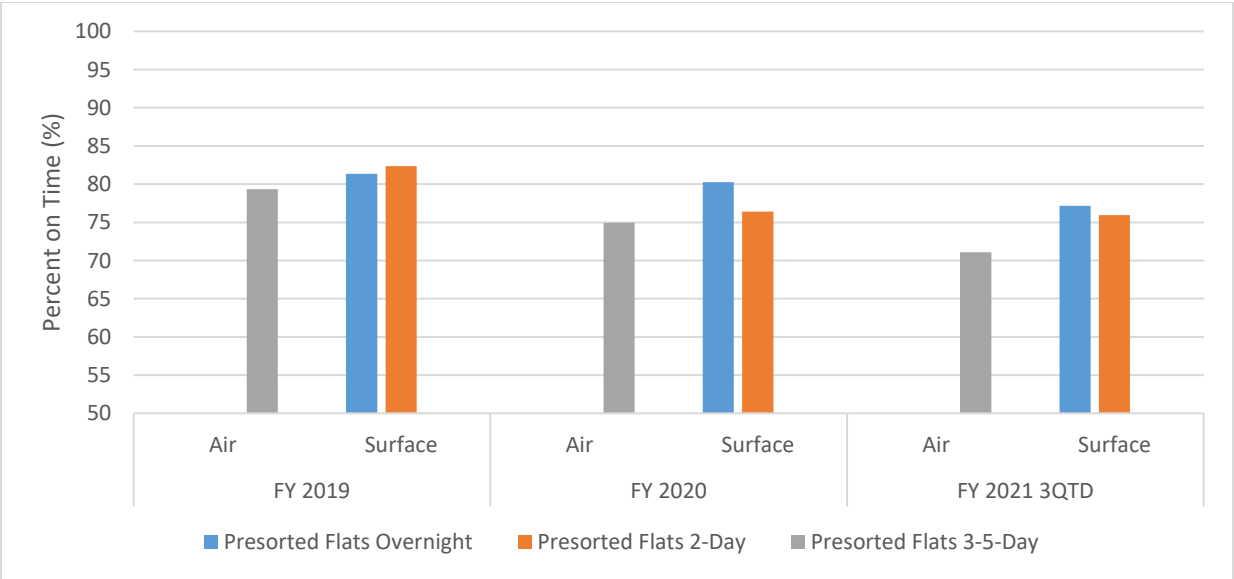
Source: Library Reference USPS-LR-N2021-1/6, Excel file "Air Vs Surface To FY21Q3TD.xlsx."

Figure VII-5
Presorted Flats Air vs. Surface



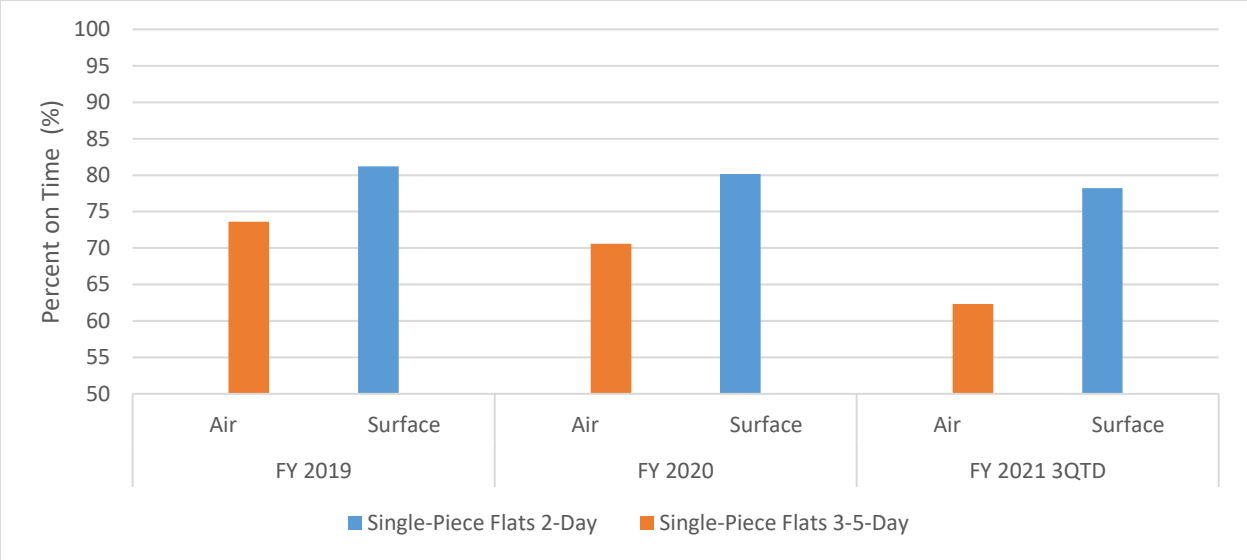
Source: Library Reference USPS-LR-N2021-1/6, Excel file "Air Vs Surface To FY21Q3TD.xlsx."

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."

Figure VII-7
Single-Piece Flats Air vs. Flats



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

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

* 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

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

Source: Response to POIR No. 3, question 2; Tr. 1/369; United States Postal Service, FY 2020 Quarter 4 Service Performance Measurement Data, November 9, 2020, ZIP folder "FY20 Q4 SPM Reports.zip," folder "FY20 Q4 SPM Reports," ZIP folder "Periodicals.zip;" Excel file "Periodicals 204 Scores Report.xlsx," tab "PER YTD," cell R17C12.

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]

$$(1 - EXFC\ Weighted\ Score)\ x\ Root\ Cause\ Category\ Failure\ Percentage = Root\ Cause\ Category\ Point\ Impact$$

[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

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

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:[64]

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

[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.

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[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

Fiscal Year	Total CLTs
FY 2015	42,126
FY 2016	39,945
FY 2017	16,319
FY 2018	9,872
FY 2019	17,034
FY 2020	8,955

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

[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
Nationwide Impact of AADC/ADC Processing Delays for First-Class Mail with a 3-5-Day Service Standard

Nationwide Impact of AADC/ADC Processing Delays for 3-5-Day	Q1	Q2	Q3	Q4
FY 2015	8.79	19.99	11.00	10.04
FY 2016	11.05	10.04	5.22	4.81
FY 2017	7.62	7.18	4.88	5.41
FY 2018	9.08	10.79	5.62	5.24

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.

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

Nationwide Impact of Transit Late Destination Primary Scans for 3-5-Day	Q1	Q2	Q3	Q4
FY 2019	6.75	5.06	2.72	2.33
FY 2020	5.38	5.01	6.22	10.29

Source: FY 2020 ACD 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.[68]

[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.

Table VII-11
Nationwide Impact of AADC/ADC (Ground) Processing on First-Class Mail SPLC with a 3-5-Day Service Standard

AADC/ADC Ground	Q1	Q2	Q3	Q4
FY 2015	6.36	17.37	8.75	7.36
FY 2016	8.88	7.83	3.74	3.41
FY 2017	6.17	5.70	3.43	3.86
FY 2018	7.44	8.77	4.48	3.76

Source: FY 2018 ACD at 153.

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.[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.

[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

AADC/ADC Air	Q1	Q2	Q3	Q4
FY 2015	14.33	26.13	14.87	14.53
FY 2016	14.67	13.73	7.63	7.07
FY 2017	9.77	9.65	7.11	7.74
FY 2018	11.76	14.14	7.42	7.59

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:[70]

- is processed in an outgoing processing operation at an unexpected origin facility; and
- is not miscoded.

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.[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.

[70] Docket No. ACR2017, Response to CHIR No. 2, question 8.a.; *see* Docket No. ACR2018, Response to CHIR No. 1, question 24.b.

[71] Docket No. ACR2017, Response to CHIR No. 2, question 8.a.

Table VII-13
Nationwide Impact of Origin Missent on
First-Class Mail with a 3-5-Day Service Standard

Fiscal Year	Q1	Q2	Q3	Q4
FY 2015	.66	1.05	.92	.86
FY 2016	1.03	.94	.92	.85
FY 2017	1.03	.88	.90	.92
FY 2018	1.04	1.06	.94	1.34
FY 2019	3.12	2.46	1.70	1.67
FY 2020	2.74	2.39	2.46	3.30

Source: FY 2018 ACD at 146; Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Nation.xlsx," tab "SPFC;" Response to CHIR No. 3, question 16, Excel file "ChIR No. 3 Q16 - FY20 Q1-Q2-Q3-Q4 SPFC PFCM Root Cause Point Impact Ranking by Quarter for Area.xlsx;" Docket No. ACR2019, Responses of the United States Postal Service to Questions 1-2 of Chairman's Information Request 13, February 19, 2020, question 1.

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

Drive Time (Hours)	Current Service Standard	Percent of Measured Volume Transported Within This Drive Time	Percent Delivered Within Service Standard	Percent Delivered 1 Day Late	Percent Delivered 2 Days Late	Percent Delivered 3 Days Late
	1	18.0%	95.2%	3.2%	0.8%	0.3%
3	2	79.8%	93.0%	4.5%	1.2%	0.5%
	3					
	1					
6	2	92.8%	90.7%	6.3%	1.6%	0.6%
	3	6.2%	61.6%	3.9%	1.3%	1.5%
	1					
20	2					
	3	98.0%	90.0%	6.6%	1.8%	1.6%
	1					
41	2					
	3	99.9%	86.9%	9.0%	2.3%	1.8%
	1					
> 41	2					
	3	99.0%	87.9%	8.1%	2.1%	1.9%

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.[72] 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

[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,

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[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. *Id.* 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.[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.[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.[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.[80] The Postal Service notes that a Highway Contract Route driver shortage[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

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[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.

[78] Annual gross cost-savings of $196.1 million (air) and $83.5 million (surface). USPS-T-2 at 13.

[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.

[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).

[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%2011-13%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;[82] 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

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[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.[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.[85] FY 2020 air transportation conditions and costs were similar to FY 2018 with increased package volume and increased costs for charters.[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…." *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.

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[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." *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.*

[85] Comparison of service performance results from FY 2018 and FY 2019 ACD.

[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

Year	UPS	Commercial Air	UPS + Commercial Air	FedEx Day Turn	Total Air Transportation Costs
2017	$159,904,315	$211,325,403	$371,229,718	$1,717,493,579	$2,088,723,297
2018	$193,813,233	$214,494,006	$408,307,239	$2,059,857,467	$2,468,164,707
2019	$204,015,067	$192,571,967	$396,587,034	$2,084,562,680	$2,481,149,714
2020	$192,755,567	$175,166,862	$367,922,429	$2,394,378,214	$2,762,300,643
Total Annual Cost Changes By Mode					
Year	**UPS**	**Commercial Air**	**UPS + Commercial Air**	**FedEx Day Turn**	**Total Air Transportation Costs**
2017 to 2018	$33,908,918	$3,168,603	$37,077,521	$342,363,888	$379,441,409
2018 to 2019	$10,201,834	$(21,922,039)	$(11,720,205)	$24,705,213	$12,985,008
2019 to 2020	$(11,259,500)	$(17,405,105)	$(28,664,605)	$309,815,534	$281,150,929

Source: Docket No. ACR2017, Library Reference USPS-FY17-32, December 29, 2017, folder “USPS-FY17-32.B.Workpapers,” subfolder “B Workpapers,” Excel file “CS14-Public-FY17.xlsx,” tab “WS14.4,” cells F47, D47, E47; Docket No. ACR2018, Library Reference USPS-FY18-32, December 28, 2018, folder “USPS-FY18-32.Files,” subfolder “B Workpapers,” Excel file “CS14-Public-FY18.xlsx,” tab “WS14.4,” cells F47, D47, E47; Docket No. ACR2019, Library Reference USPS-FY19-32, December 27, 2019, folder “B Workpapers,” Excel file “CS14-Public-FY19.xlsx,” tab “WS14.4,” cells F47, D47, E47; Docket No. ACR2020, Library Reference USPS-FY20-32, December 29, 2020, folder “B Workpapers,” Excel file “CS14-Public-FY20.xlsx,” tab “WS14.4,” cells F47, D47, E47.

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.[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 VII-16
Comparison of Relevant Highway Transportation Costs by Mode Over Time

Year	Inter P&DC	Inter Cluster	Inter Area	Total
2017	$144,585,716	$240,731,797	$859,846,468	$1,245,163,980
2018	$185,173,047	$239,464,532	$909,292,322	$1,333,929,901
2019	$174,632,640	$246,458,868	$975,923,247	$1,397,014,755
2020	$174,227,054	$249,405,828	$1,090,577,263	$1,514,210,146
Total Annual Cost Changes By Mode				
Year	**Inter P&DC**	**Inter Cluster**	**Inter Area**	**Total**
2017 to 2018	$40,587,331	$(1,267,265)	$49,445,854	$88,765,921
2018 to 2019	$(10,540,407)	$6,994,336	$66,630,925	$63,084,854
2019 to 2020	$(405,586)	$2,946,960	$114,654,016	$117,195,391

Source: Docket No. ACR2017, Library Reference USPS-FY17-32, folder "USPS-FY17-32.B.Workpapers," subfolder "B Workpapers," Excel file "CS14-Public-FY17.xlsx," tab "Input - Costs," cells G72, G74, G76, G78, G80, G82; Docket No. ACR2018, Library Reference USPS-FY18-32, folder "USPS-FY18-32.Files," subfolder "B Workpapers," Excel file "CS14-Public-FY18.xlsx," tab "Input - Costs," cells G72, G74, G76, G78, G80, G82; Docket No. ACR2019, Library Reference USPS-FY19-32, folder "B Workpapers," Excel file "CS14-Public-FY19.xlsx," tab "Input - Costs," cells G72, G74, G76, G78, G80, G82; Docket No. ACR2020, Library Reference USPS-FY20-32, folder "B Workpapers," Excel file "CS14-Public-FY20.xlsx," tab "Input - Costs," cells G72, G74, G76, G78, G80, G82.

[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

Year	Air	Highway
2017 to 2018	$379,441,410	$88,765,921
2018 to 2019	$12,985,007	$63,084,854
2019 to 2020	$281,150,929	$117,195,391

Source: PRC calculated using Docket No. ACR2017, Library Reference USPS-FY17-32, folder “USPS-FY17-32.B.Workpapers,” subfolder “B Workpapers,” Excel file “CS14-Public-FY17.xlsx,” tab “WS14.4,” cells F47, D47, E47; Docket No. ACR2018, Library Reference USPS-FY18-32, folder “USPS-FY18-32.Files,” subfolder “BWorkpapers,” Excel file “CS14-Public-FY18.xlsx,” tab “WS14.4,” cells F47, D47, E47; Docket No. ACR2019, Library Reference USPS-FY19-32, folder “B Workpapers,” Excel file “CS14-Public-FY19.xlsx,” tab “WS14.4,” cells F47, D47, E47; Docket No. ACR2020, Library Reference USPS-FY20-32, folder “B Workpapers,” Excel file “CS14-Public-FY20.xlsx,” WS14.4, cells F47, D47, E47; Docket No. ACR2017, Library Reference USPS-FY17-32, folder “USPS-FY17-32.B.Wokpapers,” subfolder “B Workpapers,” Excel file “CS14-Public-FY17.xlsx,” tab “Input - Costs,” cells G72, G74, G76, G78, G80, G82; Docket No. ACR2018, Library Reference USPS-FY18-32, folder “USPS-FY18-32.Files,” subfolder “B Workpapers,” Excel file “CS14-Public-FY18.xlsx,” tab “Input - Costs,” cells G72, G74, G76, G78, G80, G82; Docket No. ACR2019, Library Reference USPS-FY19-32, folder “B Workpapers,” Excel file “CS14-Public-FY19.xlsx,” tab “Input - Costs,” cells G72, G74, G76, G78, G80, G82; Docket No. ACR2020, Library Reference USPS-FY20-32, folder “B Workpapers,” Excel file “CS14-Public-FY20.xlsx,” tab “Input - Costs,” cells G72, G74, G76, G78, G80, G82.

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-

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[89] Library Reference USPS-LR-N2021-1/NP10, May 26, 2021, Excel file "Transportation Expenses - 10-Year Plan (Non-Public).xlsx," tab "A."

[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.

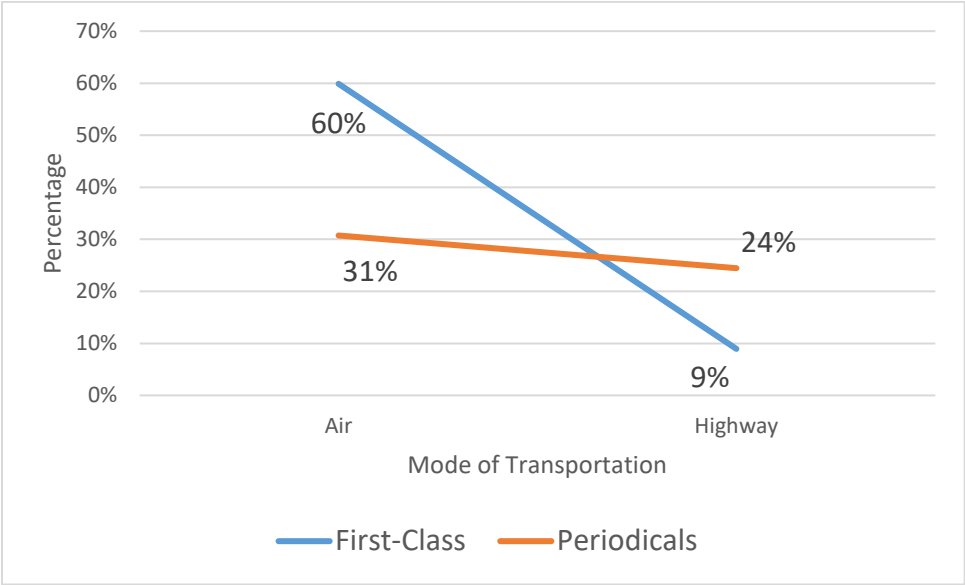
related costs, combined with the proposal-related decreased First-Class Mail revenue[91] that is comparatively higher, may not improve the Postal Service's financial condition.

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.

[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.

Figure VII-8
Percentage Decline in Projected Air and Surface Transportation Costs for First-Class and Periodical Mail between FY 2021 and FY 2022



Source: Library Reference USPS-LR-N2021-1/26, May 26, 2021, Excel file "N2021.1.Response.POIR.No3.Q7.FY2021.xlsx," tab "Step 6;" Library Reference USPS-LR-N2021-1/26, Excel file "N2021.1.Response.POIR.No3.Q7.FY2022.xlsx," tab "Step 7."

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[93] 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.[94]

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 VII-18
Comparison of "Baseline" Modeled Network and Actual Inter-SCF Transportation Network

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

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

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[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).[101] 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"[102] transportation.

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

	Baseline network annual mileages (a)	FY 2020 surface transportation costs, $ millions (b)	Baseline network annual mileages, as % of total	FY 2020 surface transportation costs, as % of total
Inter-Area	509,879,722	$1,091	78%	72%
Inter-Cluster	137,330,310	$249	21%	16%
Inter-P&DC	9,555,559	$174	1%	12%
TOTAL	656,765,591	$1,514		

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

[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.[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.[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. *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." *Id*. Such constraints are unrelated to First-Class

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[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, *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. *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[105] remained unchanged (*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.[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.

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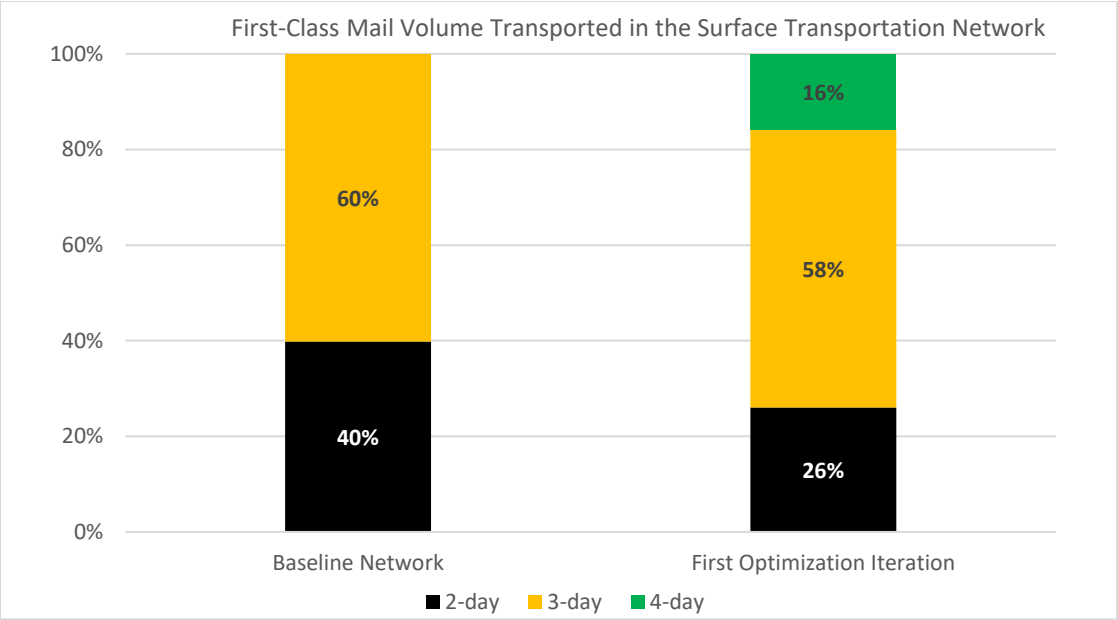
[105] The modeled volumes included: First-Class Mail, inbound and outbound international mail, Periodicals and Marketing Mail identified as being transported via First-Class network, and priority parcels and flats. Tr. 1/175, 214.

[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.

Figure VII-9
First-Class Mail Volume, by Service Standard, Included in the Surface Transportation Network, Baseline Model and First Optimization Iteration



Source: Library Reference USPS-LR-N2021-1/NP4, May 10, 2021, Excel file "Q11 - 3_Digit_Pair.xlsx."

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 declined,[109] 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.

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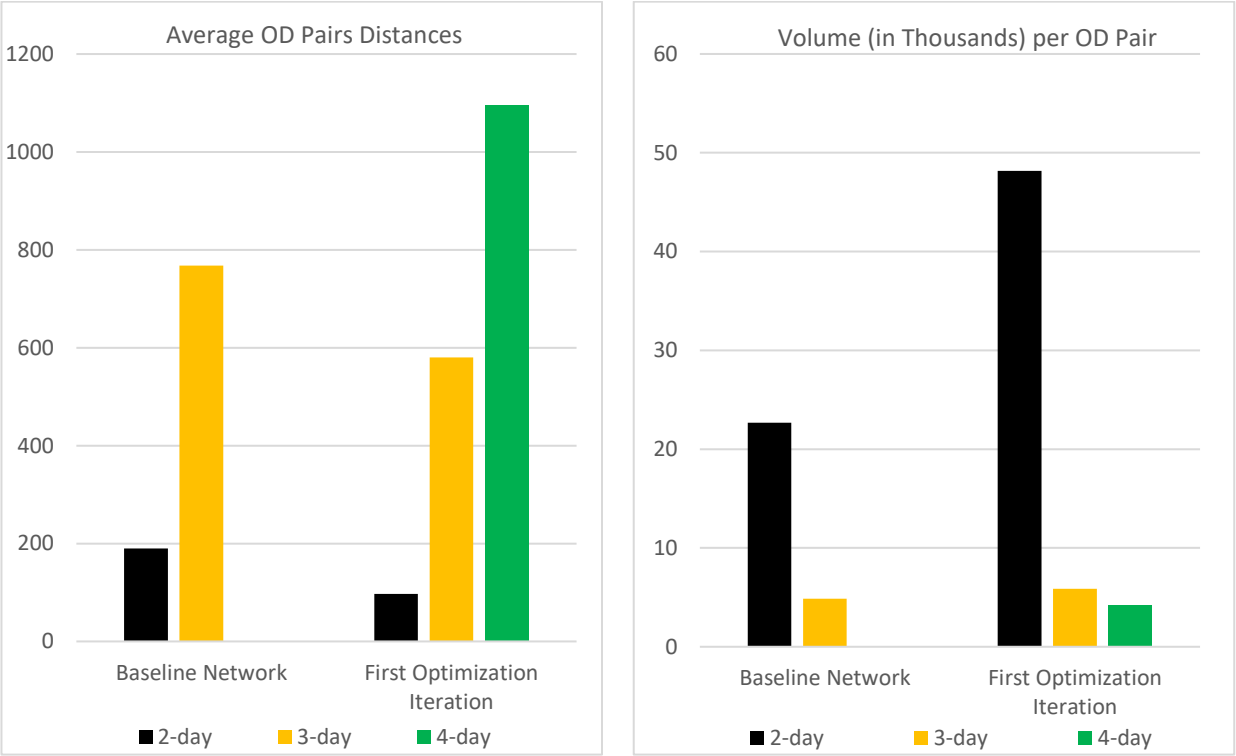
[108] USPS-T-3 at 13; USPS-T-1 at 18-19, 27; Tr. 1/345-46. The Postal Service listed factors that currently prevent timely dispatches from origin and make the current 2-day service standard "impracticable." USPS-T-1 at 18. Among those are late mail arrival due to transportation delays, issues with equipment 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.

Figure VII-10
Average OD Pair Distance and Average First-Class Mail Volume per OD Pair in the Baseline and First Optimization Iteration Network, by First-Class Mail Service Standard



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

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.[110] However, the data in Figure VII-10 above indicates that OD Pairs within 3-hours' drive time from origin

[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

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

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.[111] 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

[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

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[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.[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.[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.

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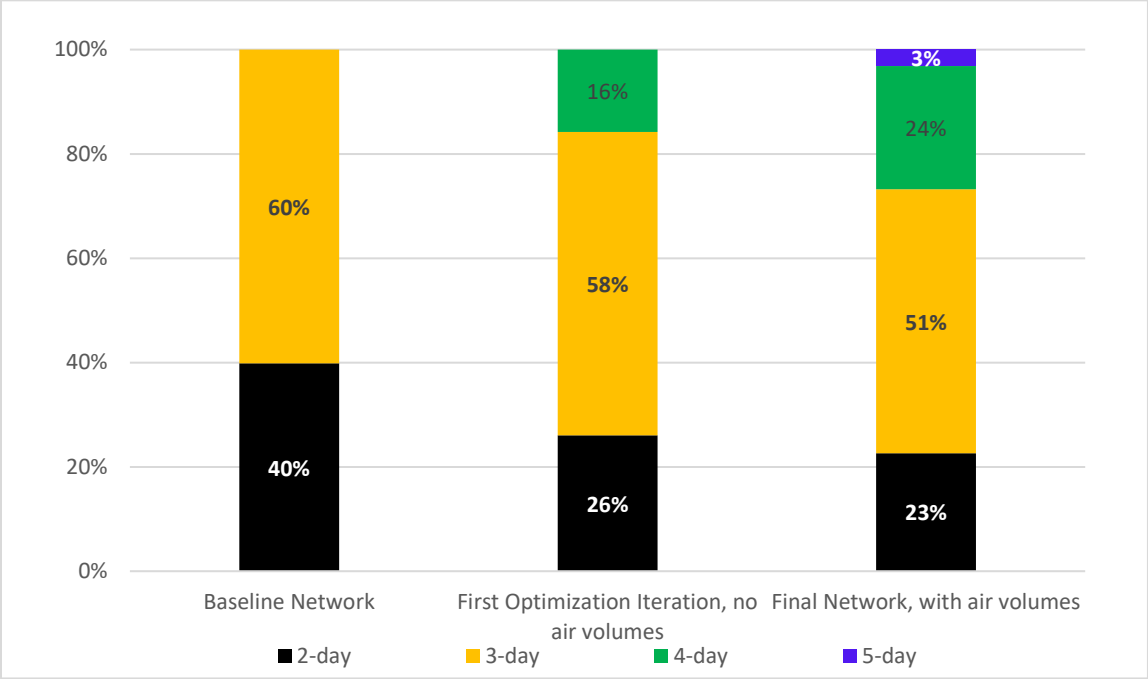
[114] *Id.* These new routings, established exclusively for air volumes, added approximately (1,115 * 1,306) = 1,456,190 daily mileages to the second iteration of the optimized network, *i.e.*, increased daily mileages in the second iteration network by 81 percent. *Id.*

[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. *Id.* at 210.

Figure VII-11
First-Class Mail Volume, by Service Standard, Included in the Surface Transportation Network, Baseline Model, First Optimization Iteration, and Final Network



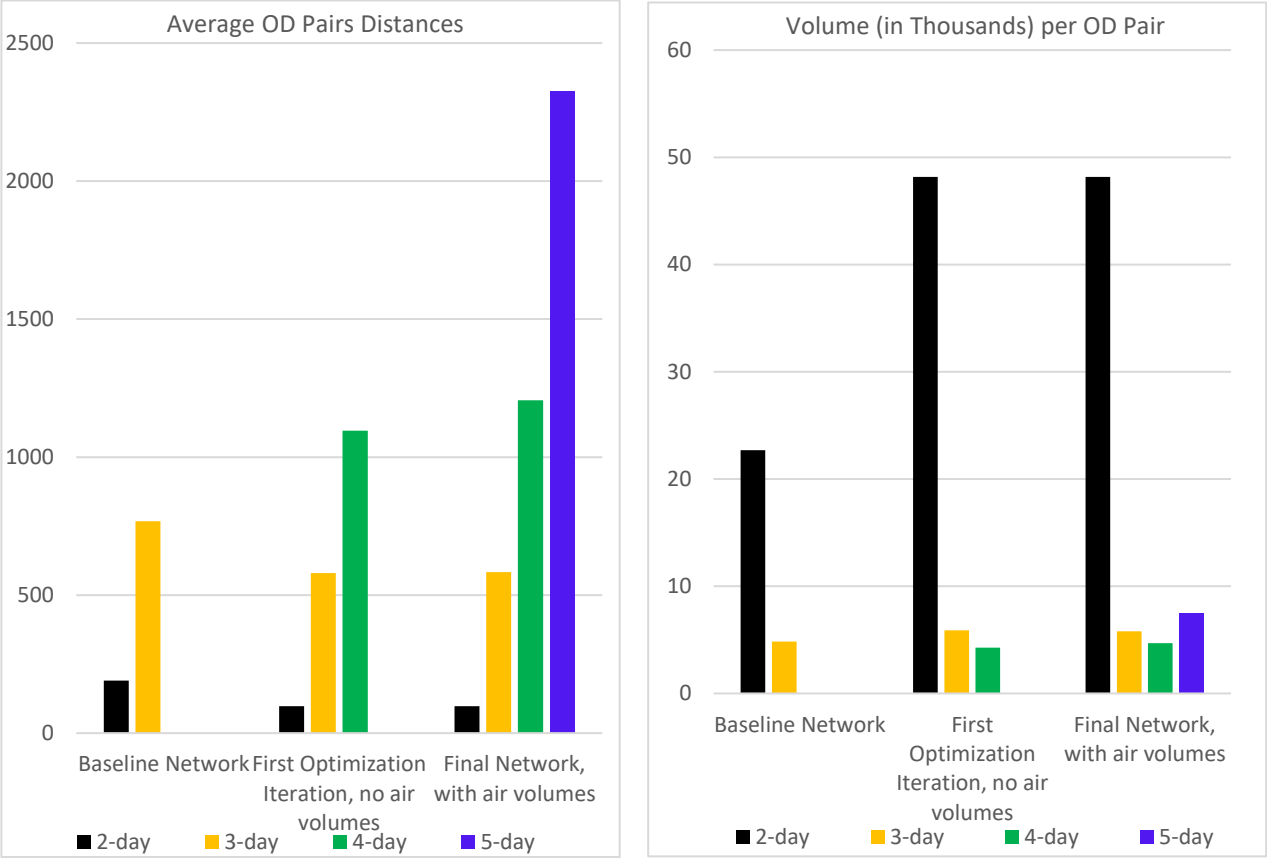
Source: Library Reference USPS-LR-N2021-1/NP4, Excel file "Q11 - 3_Digit_Pair.xlsx."

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



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

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.

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 VII-21
Model's Second Iteration

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

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.[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.

[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.

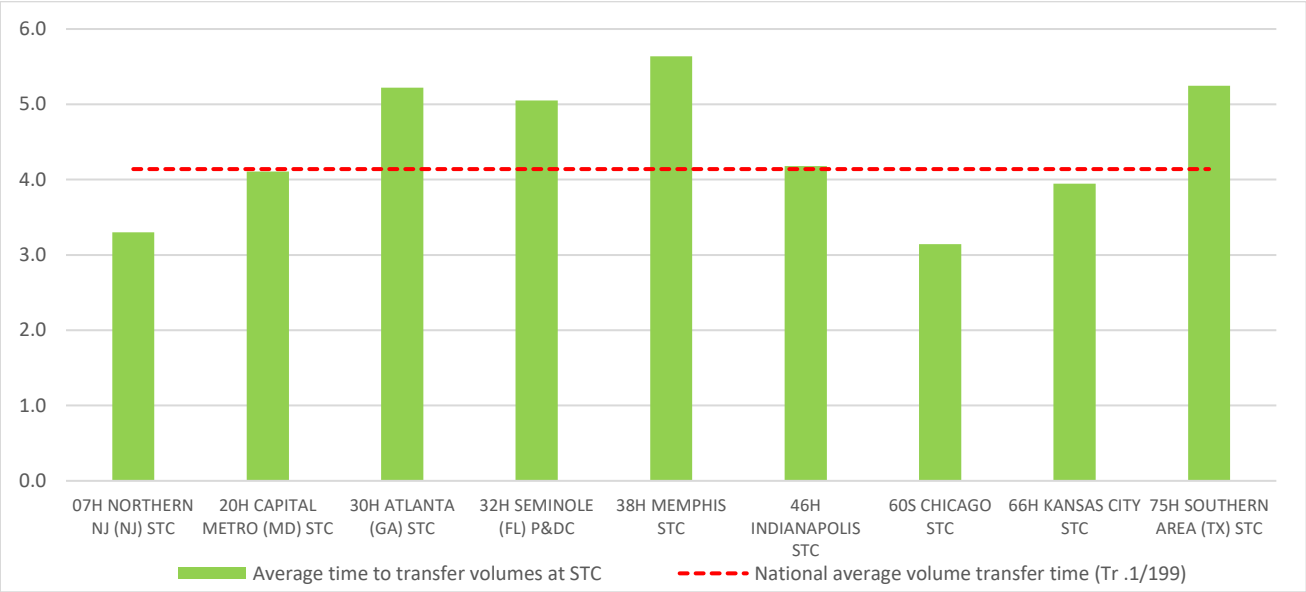
[118] *Id.* at 266, 373. The Postal Service explains that while a primary function of an STC is to consolidate volumes from multiple origins to a group of destinations within its service area, STCs are also used as aggregation sites to prepare volumes from multiple origins within its service area for 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.[121] The charts below show the current average volume transfer time by STC, for two- and three-leg trips.[122]

Figure VII-13
Average Volume Transfer Time (Hours) for Two-Leg Trips

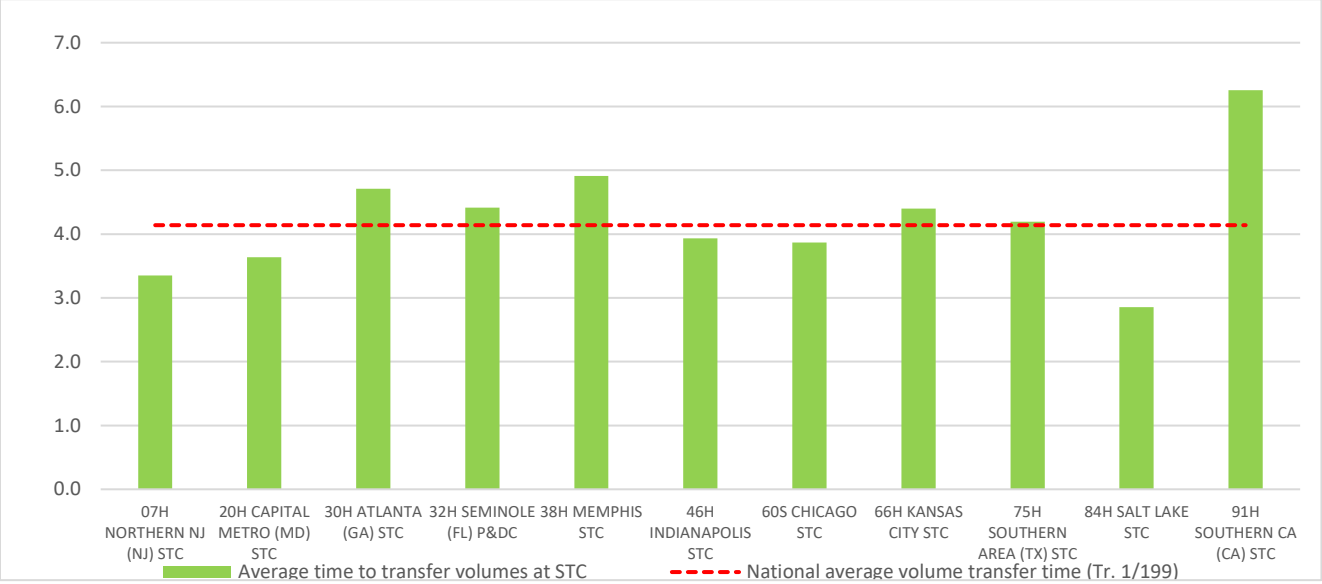


Source: Library Reference USPS-LR-N2021-1/17, Excel file "Q15b -STC vs Direct Analysis.xlsx;" Tr. 1/199.

[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.

Figure VII-14
Average Volume Transfer Time (Hours) for Three-Leg Trips



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

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.

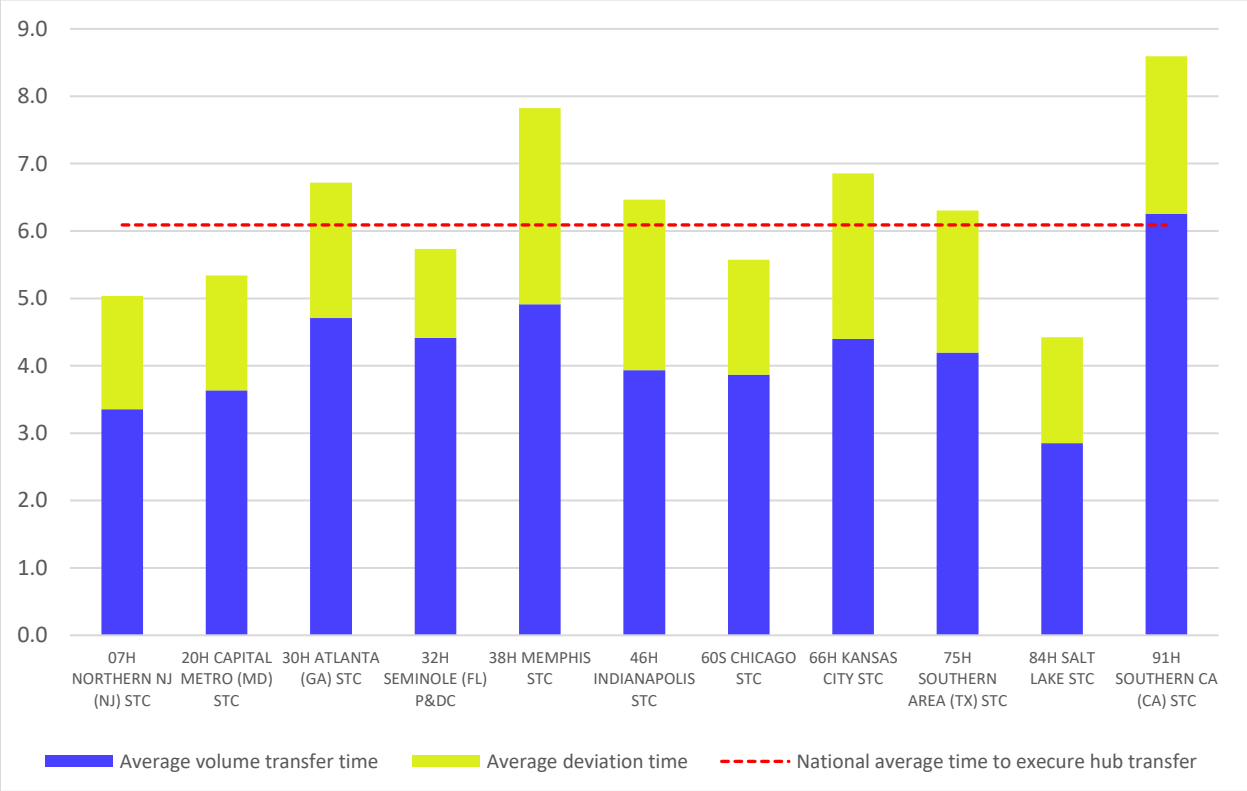
As for 3-leg trips, of the 11 STCs, 5 show average volume transfer times below 4.14 hours; of the remaining 6 STCs, 3 show average transfer times ½ hour to 2 hours longer than the national average.[123]

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.

Figure VII-15
Average Trip Deviation Time and Volume Transfer Time (Hours) for Three-Leg Trips



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

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.[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).

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. *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.[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. *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.

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[127] *Id*. The proposed transit times can be adjusted based on time of day, traffic, traffic lights, and local speed limits constraints. *Id.*

[128] *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

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[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 were 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.[132] *Id.* at 185, 205, 272.[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.

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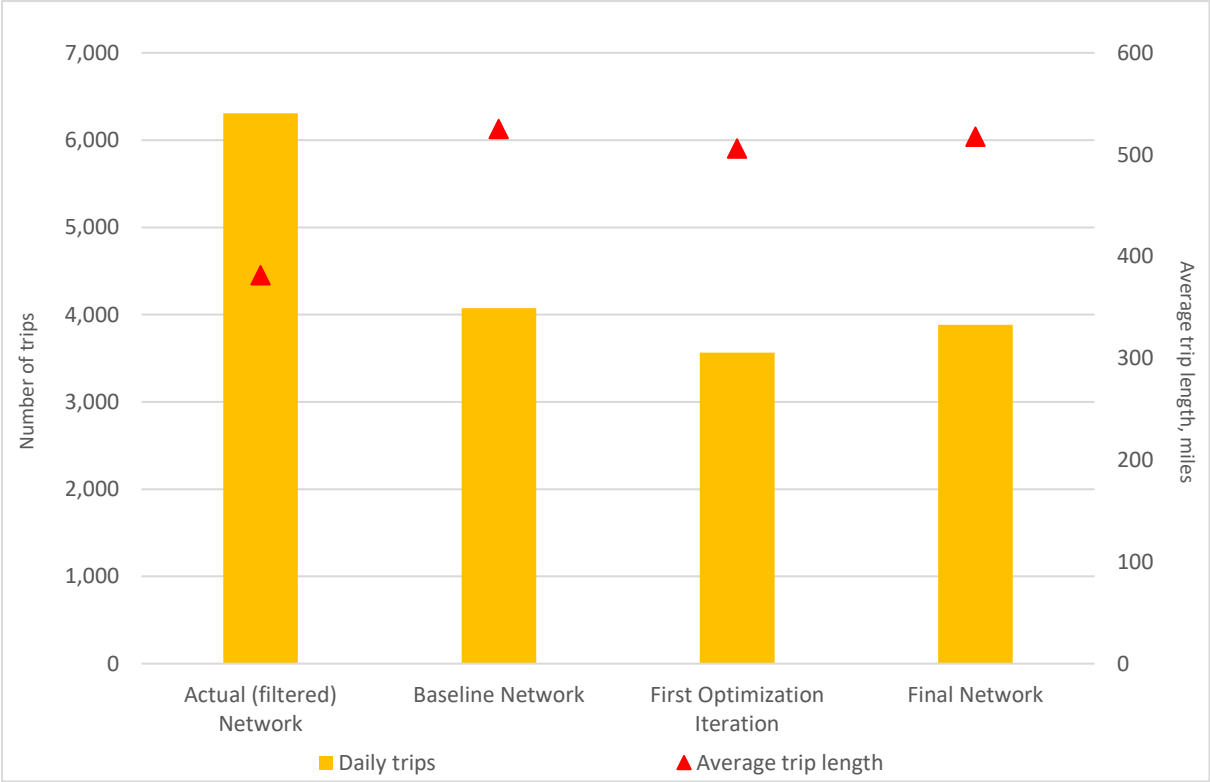
[132] The STC volume transfers will increase further if First-Class Package Service volumes' proposed service standards, the subject of Docket No. N2021-2, are implemented.

[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.

Figure VII-16
Comparison of Trips and Average Miles, Actual and Modeled Networks



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[134] 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.

Top Five Drivers of Customer Satisfaction from 2017 to 2021

Q4'2017	Q1'2018*	Q1'2019	Q1'2020	Q1'2021
Is reliable (182)	Is reliable (182)	Is reliable (160)	Is reliable (165)	Is reliable (158)
Delivers mail on time (125)	Delivers mail on time (125)	Provides fast mail delivery (159)	Consistently delivers the mail when expected (137)	Consistently delivers the mail when expected (144)
Provides fast mail delivery (123)	Provides fast mail delivery (123)	Keeps my mail safe (150)	Provides fast mail delivery (134)	Keeps my mail safe (131)
Delivers mail to the correct address (112)	Delivers mail to the correct address (112)	Consistently delivers the mail when expected (133)	Keeps my mail safe (132)	Provides fast mail delivery (122)
Offers a wide range of mailing products/services (87)	Offers a wide range of mailing products/services (87)	Delivers mail on time (126)	Delivers mail to the correct address (122)	Delivers mail to the correct address (112)

Source: Tr. 1/67. 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."[137] 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."[138] Based on this finding, the OIG concluded that,

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[137] United States Postal Service, Office of Inspector General, Report No. 20-215-R21, Peak Season Air Transportation, February 25, 2021, at 12, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2021/20-215-R21.pdf* (OIG Report No. 20-215-R21).

[138] USPS-T-4 at 13; *see* United States Postal Service, Office of Inspector General, Report No. NO-AR-19-008, Assessment of the U.S. Postal Service's Service Performance and Costs, September 17, 2019, at 1, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2019/NO-AR-19-008.pdf* (OIG Report No. NO-AR-19-008).

"[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,

and low-income customers.[139] 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

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[141] James H. Stock & Mark W. Watson, *Introduction to Econometrics* 473-502 (2003).

[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."[143] 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

[143] Docket No. N2012-1, Advisory Opinion on Mail Processing Network Rationalization Service Changes, September 28, 2012, at 125 (Docket No. N2012-1, Advisory Opinion).

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. *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. *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. *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. *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

enumerated in 39 U.S.C. § 3691(b)(1), taking into account the statutory factors enumerated in 39 U.S.C. § 3691(c). *Id*.

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

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[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."[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.[148] The Commission reiterates that the appropriate framework to evaluate section 403(c) is the three-part test articulated in Order No. 718.[149]

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

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[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, remediates 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.[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." *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,

[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.

characteristics of the mail, and other relevant similarities or differences as applicable. That evidence is not presented in this docket, nor is a definitive conclusion on whether these hypothetical mailers are similarly situated necessary given the finding for the final part of the test.

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.[154] 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 expeditions collection, transportation, and delivery of important letter mail." Section 101(f) provides:

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[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.[155] 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,

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[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.[1] 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

[1] Docket No. ACR2020, Library Reference PRC-LR-ACR2020-1, March 29, 2021.

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

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[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).

[5] United States Census Bureau, *65 and Older Population Grows Rapidly as Baby Boomers Age* (June 25, 2020), available at *https://www.census.gov/newsroom/press-releases/2020/65-older-population-grows.html*.

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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[6] Reply Brief of the United States Postal Service, June 25, 2021, at 20.

[7] United States Postal Service, The Household Diary Study, Mail Use and Attitudes in FY 2019, at 31, available at *https://www.prc.gov/docs/113/113300/2019%20Household%20Diary%20Study_Final.pdf* (2019 HDS); *see also id.* at 32.

[8] *See* United States Postal Service, Office of Inspector General, Report No. RARC-WP-18-007, Transactional Mail: Implications for the Postal Service, April 16, 2018, at 6-9, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2019/RARC-WP-18-007.pdf*. The Federal Reserve reports that approximately 19 percent of bill payments continue to be made by check, and older consumers are disproportionately reliant on checks. Furthermore, the checks are used in greater percentages for critical bills such as rent, mortgages, healthcare, utilities, education, and child care. *See* Claire Greene & Joanna Stavins, *Consumer Payment Choice for Bill Payments*, Table 2 and Table 4 (Federal Reserve Bank of Boston, Working Paper No. 20-9, 2020), available at *https://www.bostonfed.org/-/media/Documents/Workingpapers/PDF/2020/wp2009.pdf*; *see also* Federal Reserve Bank of San Francisco, 2019 Findings from the Diary of Consumer Payment Choice, Figure 7, available at *https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice/*.

[9] Rebuttal Testimony of Stephen Dematteo on Behalf of the American Postal Workers Union, AFL-CIO, June 2, 2021, at 6.

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."[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.[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.[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.

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[10] Tr. 2/457, June 17, 2021.

[11] *See* Statement of Position of 21 Attorneys General and Two Cities, June 21, 2021, at 2.

[12] *See* United States Postal Service, Office of Inspector General, Report No. RARC-WP-16-013, The Postal Service and its User Base, July 18, 2016, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2016/PSUserBase.pdf*. For a broader discussion of two sided markets, *see* Marc Rysman, *The Economics of Two-Sided Markets*, 23 J. Econ. Persps. 3, 125-43 (Summer 2009), available at *https://www.aeaweb.org/articles?id=10.1257/jep.23.3.125*.

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."[13]

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.[14] 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

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[13] Brief of the National Postal Policy Council, June 21, 2021, at 15.

[14] Statement of Position of the Association for Postal Commerce, June 21, 2021, at 4-5 (PostCom Statement).

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."[15] 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

[15] Statement of Position of the Lexington Institute, June 11, 2021, at 2.

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.[2] 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.[3] What the American people actually received, however, was permanently reduced service and negligible cost savings.[4] 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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[2] *See* Docket No. N2012-1; Docket No. N2014-1; Docket No. N2021-1.

[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.").

[4] *See* Docket No. ACR2020, *Annual Compliance Determination*, March 29, 2021, at 163 ("For the sixth consecutive year, no First-Class Mail product category achieved its service performance target."); *see generally* United States Postal Service, Office of Inspector General, Report No. NO-AR-16-009, Mail Processing and Transportation Operational Changes, September 2, 2016, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2016/NO-AR-16-009.pdf* (OIG Report No. NO-AR-16-009); United States Postal Service, Office of Inspector General, Report No. NO-AR-19-001, Operational Window Change Savings, October 15, 2018, available at *https://www.oversight.gov/sites/default/files/oig-reports/NO-AR-19-001.pdf* (OIG Report No. NO-AR-19-001).

processing network.[5]

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.[8] 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.[9] 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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[8] *See* OIG Report No. NO-AR-16-009; OIG Report No. NO-AR-19-001.

[9] *See* Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-3), April 21, 2021, at 24.

study showing that predominantly rural states and areas also tend to have the lowest rates of per capita decline in the use of First-Class Mail.[10]

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.[11] 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.[12] 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

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[10] *See* United States Postal Service, Office of Inspector General, Report No. RARC-WP-17-006, What's up with Mail? How Mail Use is Changing Across the United States, April 17, 2017, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2017/RARC-WP-17-006_0.pdf*.

[11] *See* Initial Brief of the United States Postal Service, June 21, 2021, at 47-48.

[12] *See generally* Postal Regulatory Commission, Report on Universal Service and the Postal Monopoly, December 19, 2008, available at *https://www.prc.gov/docs/61/61628/uso%20report.pdf*.

Congressional members from both sides of the aisle,[13] 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.[14] 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.[15] 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.[16] For 55 cents, a 1-ounce

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[13] *See, e.g.,* United States Postal Service, Office of Inspector General, Report No. RARC-WP-18-007, Transactional Mail: Implications for the Postal Service, April 26, 2018, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2019/RARC-WP-18-007.pdf*; 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; Statement of Position of 21 Attorneys General and Two Cities, June 21, 2021; U.S. Senator Cindy Hyde-Smith (R-MS), *Hyde-Smith Calls for Greater Postal Service Accountability to Customers* (July 13, 2021), available at *https://www.hydesmith.senate.gov/hyde-smith-calls-greater-postal-service-accountability-customers*; Jacob Bogage, *Slow mail is no way for USPS to cut costs, bipartisan group of lawmakers tells The Post*, Washington Post (June 24, 2021), available at *https://www.washingtonpost.com/business/2021/06/24/usps-dejoy-congress-delivery/*.

[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.[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.[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),[19] an extensive nationwide delivery network, and regularly conducted quarterly and annual tracking surveys that give it a distinct advantage in overcoming these

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[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.

[18] Brief of the National Postal Policy Council, June 21, 2021, at 16-17; Brief of the Greeting Card Association, June 21, 2021, at 8.

[19] *See* United States Postal Service, 2020 Report on Form 10-K, November 13, 2020, at 19, available at *https://about.usps.com/what/financials/10k-reports/fy2020.pdf*.

challenges.[20] 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.[21] 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.

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[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.

[21] *See, e.g.,* Docket No. RM2017-3, Order on the Findings and Determination of the 39 U.S.C. § 3622 Review, December 1, 2017, at 255 (Order No. 4257) ("There is 'the potential to cut costs by way of service reductions to comply with price cap requirements.'") (quoting Postal Regulatory Commission, Section 701 Report, Analysis of the Postal Accountability and Enhancement Act of 2006, September 22, 2011, at 58).

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.[22] 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

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[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.

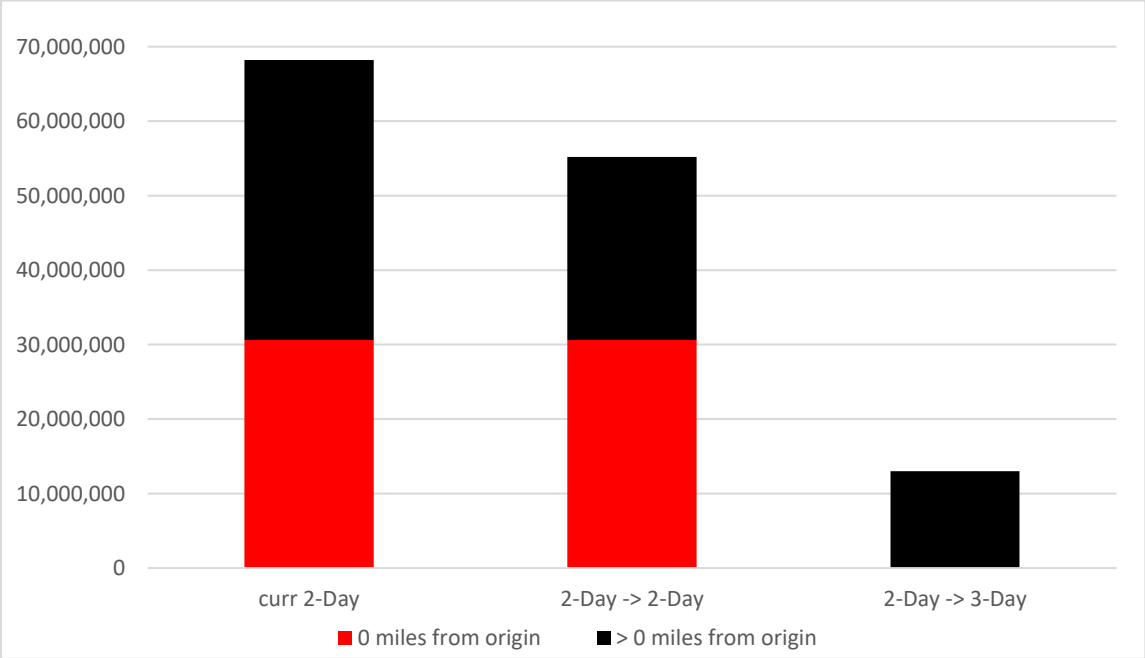
B. Current 2-Day Service Standard: Volume and Facility Impact

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-LR-N2021-1/3, Excel file "3_Zip3_OD_Pairs.xlsx."

Figure A-1
Impact of the Proposed Service Standard Changes on the First-Class Mail Volumes that are Subject to the Current 1- to 2-Day Service Standards



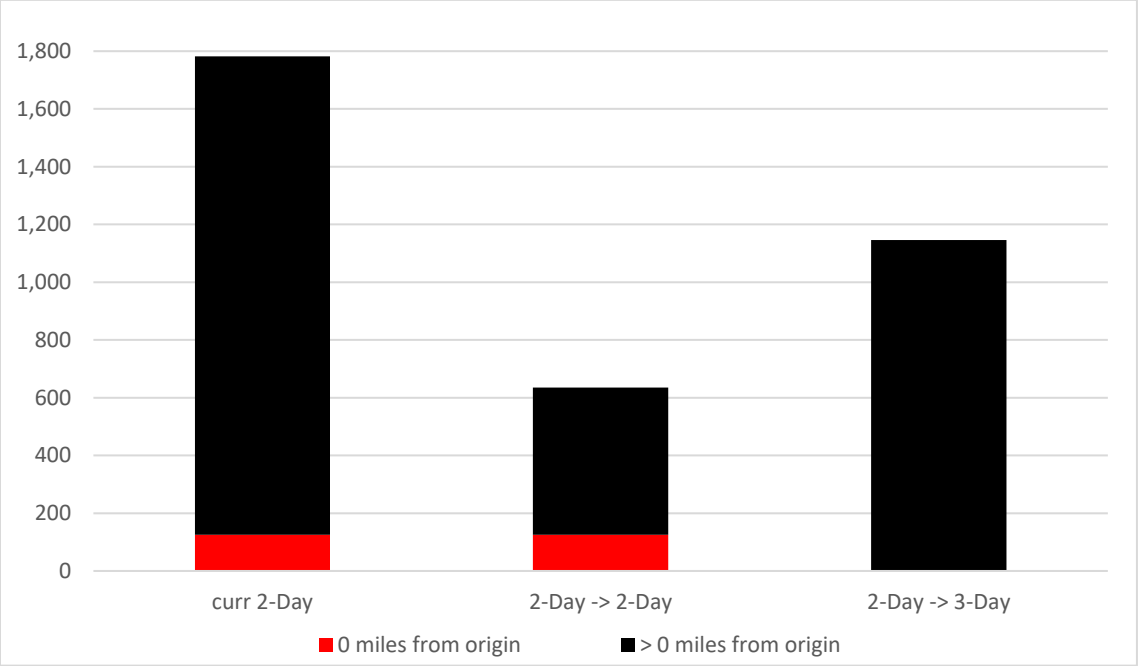
Source: Library Reference USPS-LR-N2021-1/NP4, May 10, 2021, Excel file "Q11 - 3_Digit_Pair.xlsx."

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



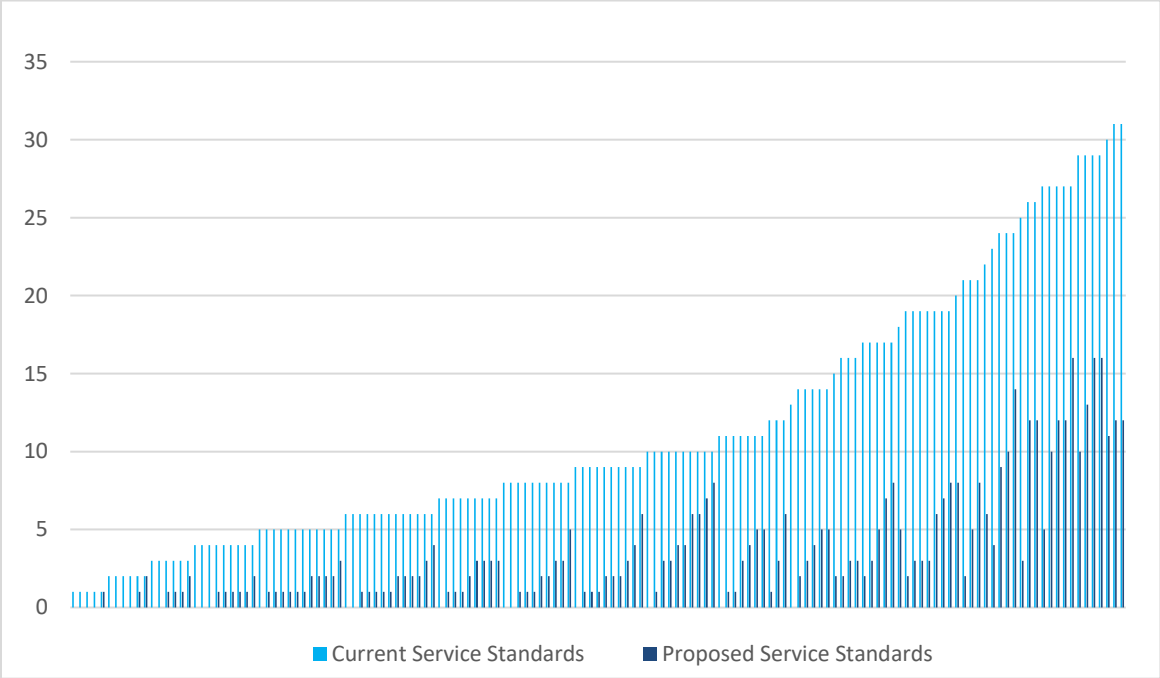
Source: Library Reference USPS-LR-N2021-1/NP4, Excel file "Q11 - 3_Digit_Pair.xlsx."

[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.

Figure A-3
Impact of the Proposed Service Standard Changes on the Number of Destination SCFs to which 2-Day Volumes Would Need to be Transported, by Origin Facility



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

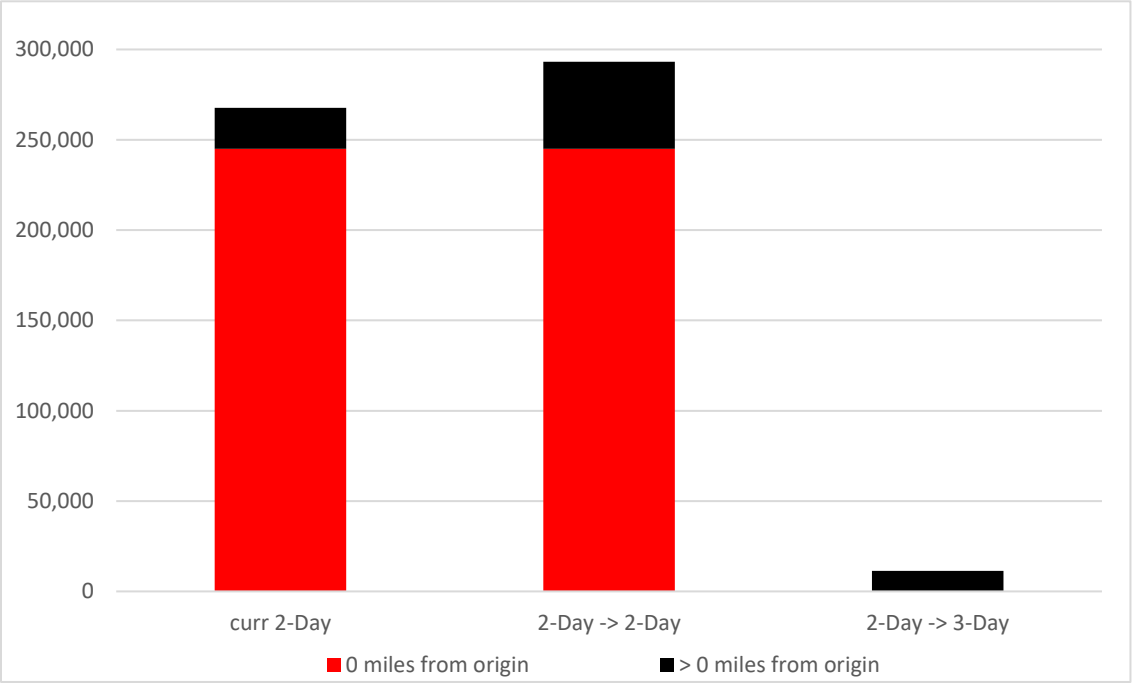
The data in the above figure suggest that P&DCs are required to transport First-Class Mail volumes under the current 2-day service standard, *i.e.*, within a 6-hour transit time from origin, to between 1 and 31 SCFs. With the reduced geographic reach, the number of destination SCFs served by origin P&DCs 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.

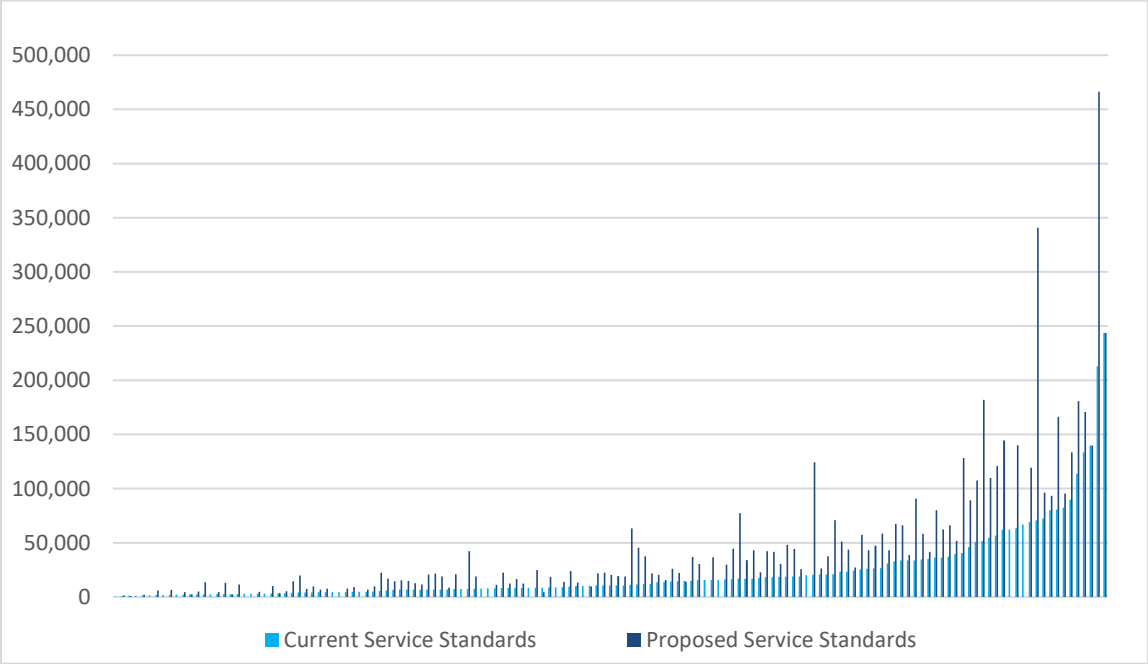
Figure A-4
Impact of the Proposed Service Standard Changes on the First-Class Mail Volume per OD Pair, for Volume that is Subject to the Current 1- to 2-Day Service Standards



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

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.

Figure A-5
Average First-Class Mail Volume per Destination SCF Within the Current and the Proposed 2-Day Reach of Origin P&DC



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

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.[4]

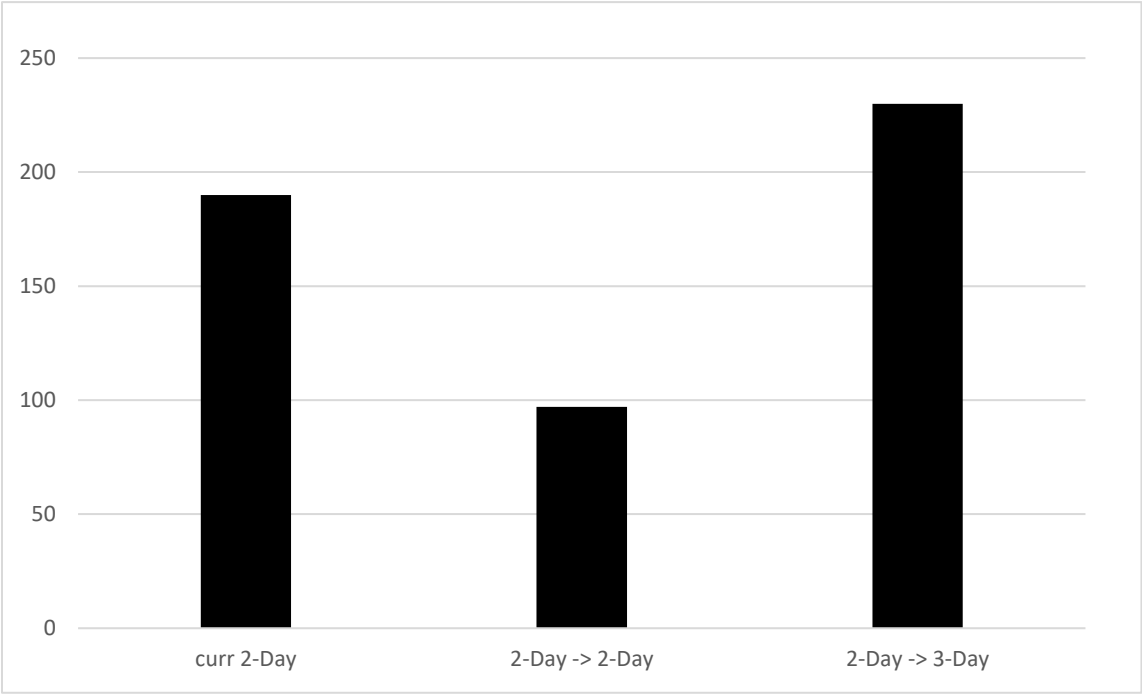
The Commission notes that the Postal Service's anticipated ability to hub 2-day volumes will depend on sites' capabilities for earlier dispatches. Similarly, the ability to reduce dedicated, inefficient 2-day transportation and the ability to reduce transportation scheduled to transport volumes processed 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.[5]

[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.

[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



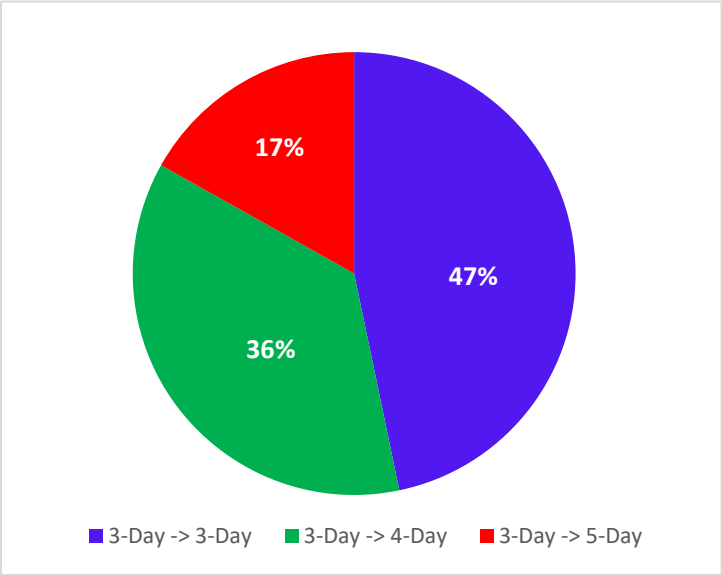
Source: Library Reference USPS-LR-N2021-1/NP4, Excel file "Q11 - 3_Digit_Pair.xlsx."

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
Impact of the Proposed Changes on the Current 3-Day Service Standard Volume

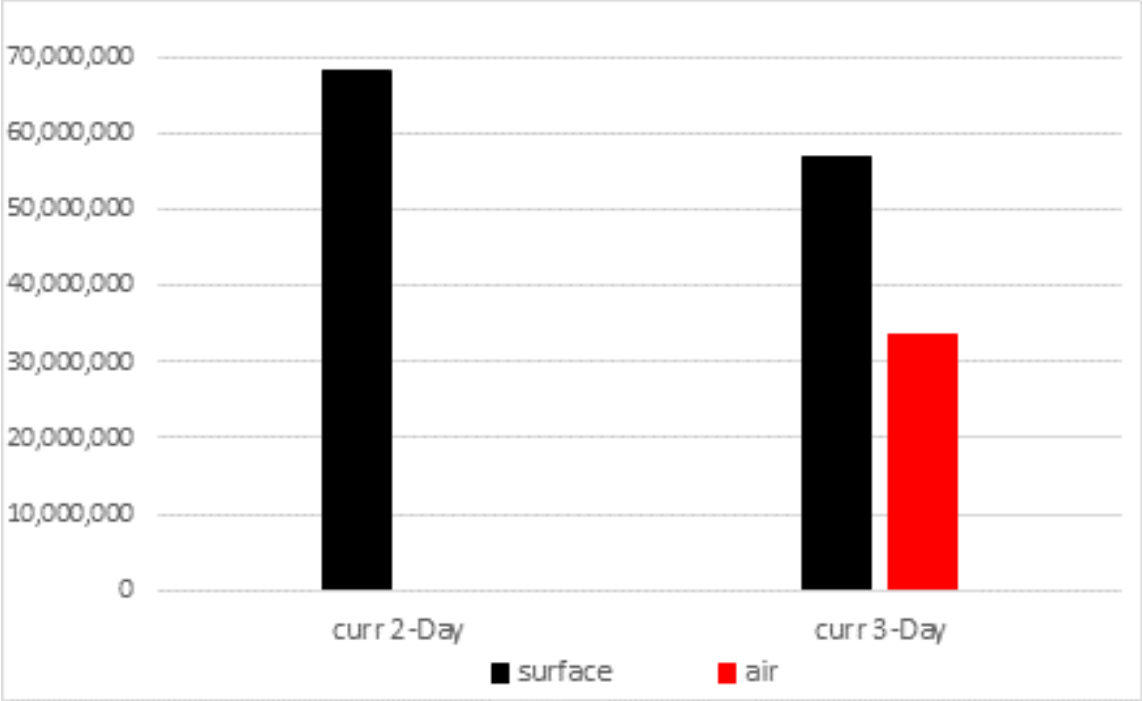


Source: Library Reference USPS-LR-N2021-1/NP4, Excel file "Q11 - 3_Digit_Pair.xlsx."

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.

Figure A-8
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: Library Reference USPS-LR-N2021-1/NP4, Excel file "Q11 - 3_Digit_Pair.xlsx."

As detailed in this figure, roughly 37 percent of mail that is currently subject to a 3-day standard is transported by air.

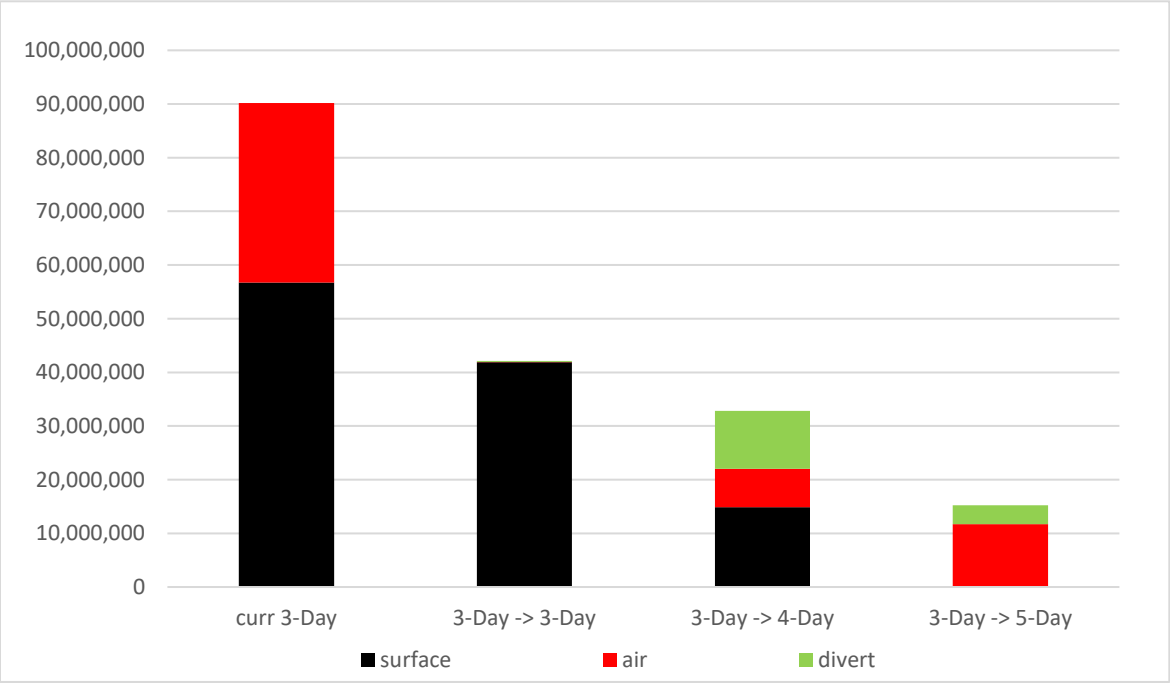
The current 3-day mail that is currently transported by surface falls into two buckets: mail that will retain a 3-day standard and mail that will have an extended standard of 4 days. The modeling provided by the Postal Service projects that all mail that is currently transported by surface will continue 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.

[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

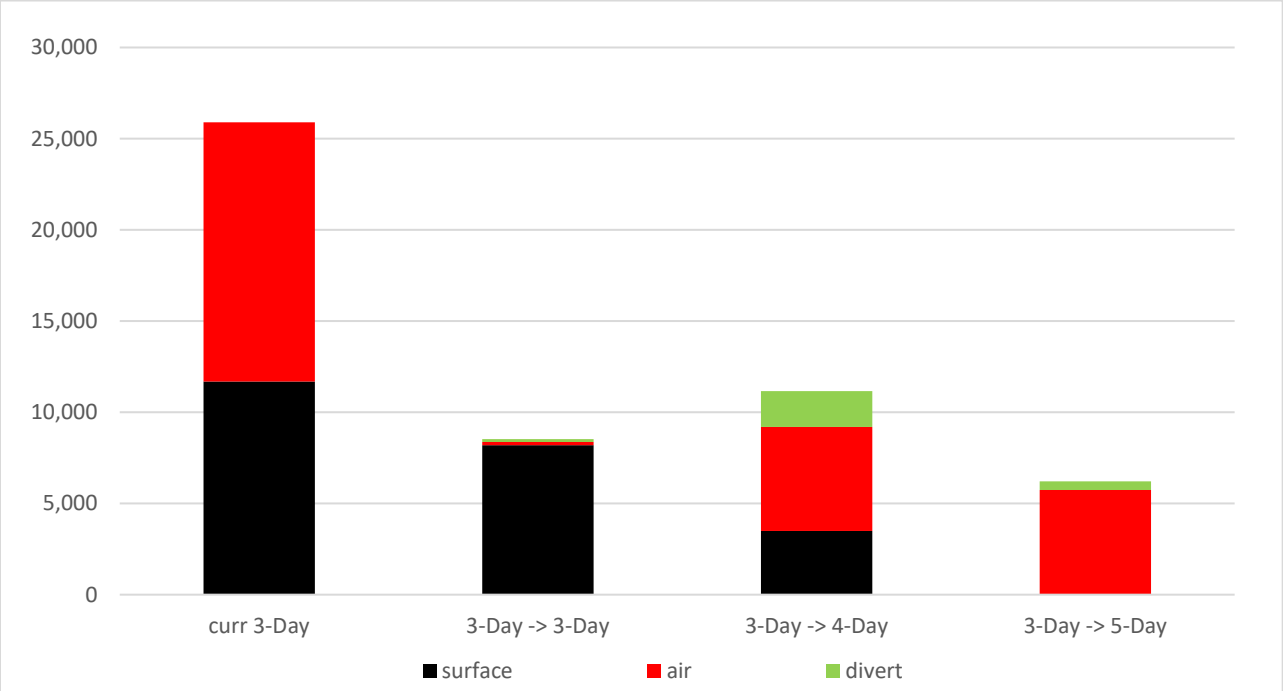


Source: USPS-LR-N2021-1/NP4, Excel file "Q11 - 3_Digit_Pair.xlsx."

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
Impact of the Proposed Service Standard Changes on the Number of OD Pairs that are 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."

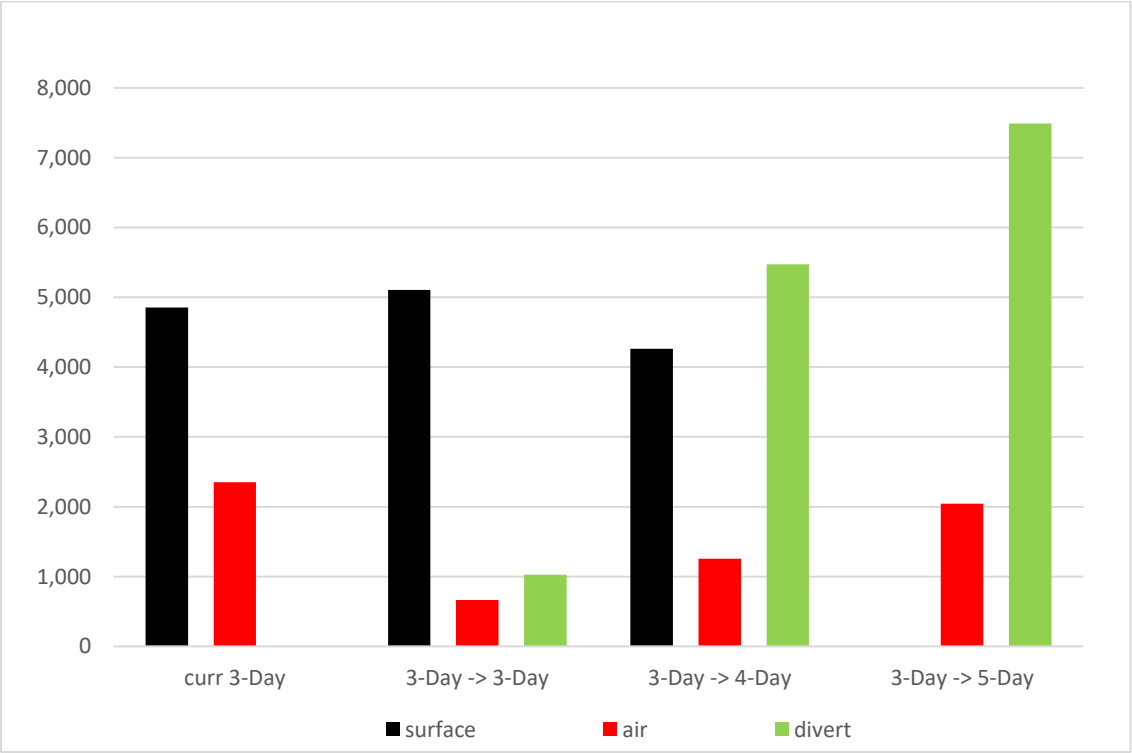
Figure A-10 shows that the Postal Service projects a much larger proportion of OD pairs will continue to use air transportation after the service standards are changed, as compared to the proportion of First-Class Mail volumes determined to remain in the air network (as shown in Figure A-9 above). Figure 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

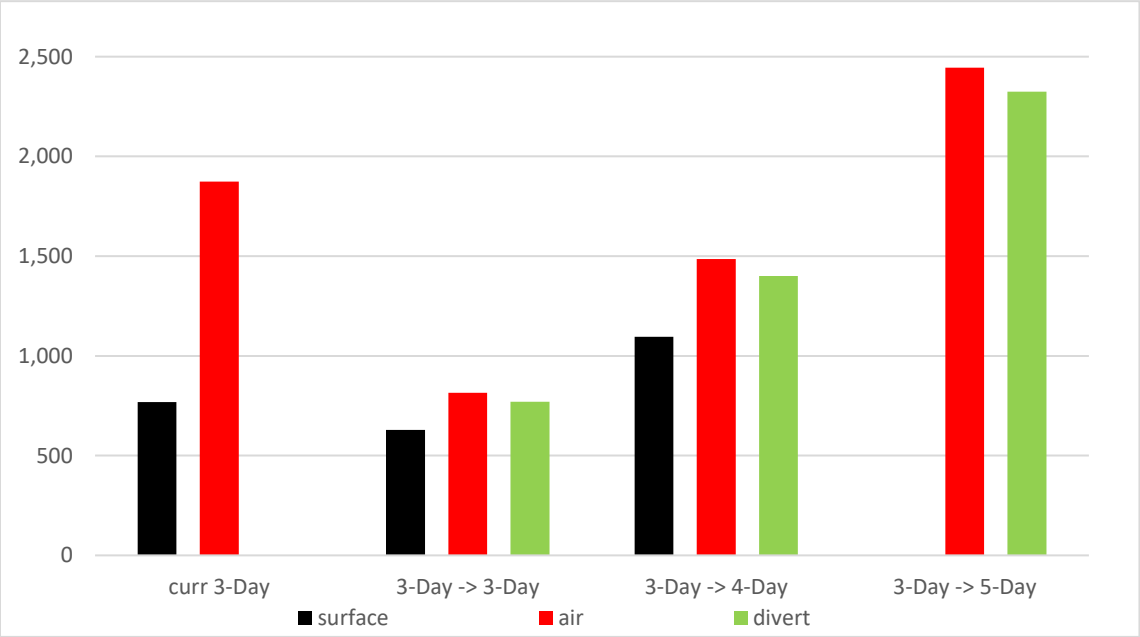


Source: Library Reference USPS-LR-N2021-1/NP4, Excel file “Q11 - 3_Digit_Pair.xlsx.”

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[7] 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[8], witness Thress bears the burden

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[7] Postal Service Econometric Estimates of Demand Elasticity for All Postal Products, FY 2020, January 20, 2021.

[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[9], 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

[9] Postal Service Econometric Estimates of Demand Elasticity For All Postal Products, FY 2020, January 20, 2021.

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

Participant and Counsel	Participant Short Form
American Postal Workers Union, AFL-CIO Frederick Wesley Turner Melinda Holmes	APWU
Association for Postal Commerce Matthew D. Field Michael Plunkett	PostCom
Discover Financial Services, LLC Shaida Lynch	DFS
Douglas F. Carlson Douglas F. Carlson	Carlson
Steve Hutkins Steve Hutkins	Hutkins
Mailers Hub LLC Leo Raymond	Mailers Hub
MPA—The Association of Magazine Media Eric Berman Rita D. Cohen	MPA
National Association of Letter Carriers, AFL-CIO Peter DeChiara	NALC
National Association of Postal Supervisors Robert M. Levi	NAPS
National Association of Presort Mailers Kathleen Siviter	NAPM
National Newspaper Association Tonda Rush	NNA
National Postal Policy Council Arthur B. Sackler	NPPC

APPENDIX C
TESTIMONY/REBUTTAL TESTIMONY

Direct Testimony—United States Postal Service (Postal Service)		
Citation	**Filing Date**	**Short Citation**
Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1)	April 21, 2021	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

Rebuttal Testimony		
Citation	**Filing Date**	**Short Citation**
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
Rebuttal Testimony of Steve Hutkins (Corrected)	June 10, 2021	SH-RT-1 (Corrected)

APPENDIX D
BRIEFS/REPLY BRIEFS

Citation	Filing Date	Short Citation
American Postal Workers Union, AFL-CIO (APWU)		
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	June 21, 2021	APWU Brief
Douglas F. Carlson (Carlson)		
Douglas F. Carlson Initial Brief	June 21, 2021	Carlson Brief
Douglas F. Carlson Reply Brief	June 25, 2021	Carlson Reply Brief
Greeting Card Association (GCA)		
Initial Brief of the Greeting Card Association	June 21, 2021	GCA Brief
Steve Hutkins (Hutkins)		
Initial Brief of Steve Hutkins	June 21, 2021	Hutkins Brief
Reply Brief of Steve Hutkins	June 25, 2021	Hutkins Reply Brief
National Postal Policy Council (NPPC)		
Brief of the National Postal Policy Council	June 21, 2021	NPPC Brief
Public Representative (PR)		
Initial Brief of the Public Representative	June 21, 2021	PR Brief
Reply Brief of the Public Representative	June 25, 2021	PR Reply Brief
United States Postal Service (Postal Service)		
Initial Brief of the United States Postal Service	June 21, 2021	Postal Service Brief
Reply Brief of the United States Postal Service	June 25, 2021	Postal Service Reply Brief

APPENDIX E
COMMENTS

Citation	Filing Date	Short Citation
Comments of Enid Braun	April 26, 2021	Braun Comments
Comments of Meredeth Turshen	April 26, 2021	Turshen Comments

EXHIBIT 3

Postal Regulatory Commission
Submitted 9/29/2021 8:16:03 AM
Filing ID: 119881
Accepted 9/29/2021

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 Package Service (FCPS),
Service Standard Changes, 2021

Docket No. N2021-2

ADVISORY OPINION ON THE SERVICE STANDARD CHANGES ASSOCIATED WITH FIRST-CLASS PACKAGE SERVICE

Washington, DC 20268-0001
September 29, 2021

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APPENDIX D—STATEMENTS OF POSITION

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 Package Service (FCPS),
Service Standard Changes, 2021

Docket No. N2021-2

ADVISORY OPINION ON THE SERVICE STANDARD CHANGES ASSOCIATED WITH FIRST-CLASS PACKAGE SERVICE

(Issued September 29, 2021)

I. EXECUTIVE SUMMARY

The Postal Service requests an advisory opinion on its proposal to revise the service standards for First-Class Package Service (FCPS).[1] The Postal Service claims its proposal will result in more reliable and consistent service performance, improve the Postal Service's ability to run according to its operating plans and optimize its surface transportation network, and create cost savings by allowing more time to transport FCPS at a lower expense. Request at 6-7. Specifically, the Postal Service seeks to lengthen the service standards by 1 to 2 additional days for approximately 31.2 percent

[1] United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 17, 2021 (Request).

of FCPS volume and shorten the service standards by 1 day for approximately 4.8 percent of FCPS volume.[2]

In general, decisions regarding the Postal Service's Competitive products—products that have private competitors in the marketplace—are left to the reasonable business judgment of the Governors of the Postal Service. FCPS is a Competitive product and the Postal Accountability and Enhancement Act (PAEA)[3] limited the Commission's oversight role for these types of products. Therefore, the law makes the Commission's oversight role in this case far more limited.[4] Additionally, the Postal Service's FCPS offering competes directly with private sector firms in the market for lightweight parcels. Unlike Market Dominant products, the Postal Service's Competitive product prices are not capped and quality of service is subject to less regulatory oversight because market competition is expected to serve as the primary guarantor of discipline with respect to price and quality. With respect to service standards, the PAEA and federal regulations require the Postal Service to give advance notice of plans to change its service standards and to submit proposed changes for the Commission to issue an advisory opinion;[5] however, the Commission lacks the authority to enforce its advice regarding the Postal Service's proposed changes to service standards.

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[2] Library Reference, USPS-LR-N2021-2/4, July 13, 2021, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells E5, E8, E10, E11, and E16. Specifically, the Postal Service estimates that its proposal would subject approximately 16.9 percent of FCPS volume to a downgrade of 1 additional day (changing from 2-day to 3-day and from 3-day to 4-day service standard) and 14.3 percent of FCPS volume to a downgrade of 2 additional days (changing from 3-day to 5-day service standard). These Postal Service estimates refer only to volume both originating and destinating in the contiguous United States.

[3] Pub. L. 109-435, 120 Stat. 3198 (2006).

[4] This is discussed in more detail below in Sections VII.A., C.1.

[5] 39 U.S.C. § 3661(b) (requiring the Postal Service to "submit a proposal [to change the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis], within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change."); 39 C.F.R. § 3020.112 (requiring the Postal Service to file notice of any changes to the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis at least 90 days in advance).

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

First, the Commission finds that the Postal Service's stated goals for the proposal appear reasonable. However, the Postal Service assumes a number of factors for successful implementation that have not been demonstrated. These factors include: (1) successful operational implementation; (2) achievement of consistency and reliability of service over time; (3) reasoned assumptions with regard to demand changes; and (4) the ability to actually achieve modeled efficiencies. The Postal Service's proposal is a directional rather than tactical presentation; therefore, other factors may impact its success.

Second, the Commission finds that the proposed changes should have a positive impact on the Postal Service's ability to meet its service performance targets. However, due to the COVID-19 pandemic, estimating service performance impacts on a model based on Fiscal Year (FY) 2020 data may be unreliable as FY 2020 was not a representative year for service performance. The Postal Service does not include a firm estimate for when the Postal Service will meet its service performance targets, nor does it include any interim service performance targets. As such, it is unclear when the Postal Service plans to realize the full impact of its proposed changes. The Commission notes that the Postal Service also did not provide detailed data for evaluating the service performance differences between transportation modes, nor did it analyze in detail the impact on the end users of FCPS, such as recipients of pharmaceutical FCPS volume.

Third, the Commission finds that the Postal Service's estimates of how much it will save as a result of implementing the proposed changes may be inflated. The Commission is concerned that the Postal Service has not adequately developed the charter carrier and network distribution center (NDC) optimization cost estimates that

supports several of its underlying cost assumptions. Additionally, the Postal Service relies heavily on the achievement of cost savings related to changes for Market Dominant First-Class Mail letters and flats proposed in Docket No. N2021-1, which are also based on FY 2020. Even if the Postal Service's cost savings estimates prove to be accurate, the Commission's analysis shows that the proposed changes would not substantially affect the Postal Service's overall financial condition.

Fourth, the Commission is concerned that several flaws in the Postal Service's transportation model could diminish its reliability. These flaws include: oversimplifications of assumptions, reduced complexity of business rules, and the baseline trip structure,[6] which is more efficient and not representative of the actual network's trip structure. As a result of these flaws, the model presented by the Postal Service fails to account for the actual network's operational constraints and therefore does not reflect the operating environment likely to exist after the proposal is implemented. Once these modeling limitations are accounted for, the Commission finds that the proposed changes will likely not be as beneficial as the Postal Service's projections. The Commission also observes that in order to achieve its modeled efficiencies, the Postal Service must ensure timely operations at all points along the route. The models have not been operationally tested by the Postal Service.

Fifth, the Commission's analysis shows that the baseline network presented by the Postal Service may be unrealistic in that it is significantly more optimized than its current actual network operations. Thus, the Postal Service's surface network impact projections and estimated cost changes are potentially inaccurate and unachievable. The Commission notes that the Postal Service has not demonstrated in this proceeding that it is operationally capable of managing the complex surface network modeled to

[6] The "baseline" network discussed in the advisory opinion refers to the baseline scenario modeled by the Postal Service using the logistics industry optimization software, Blue Yonder© Transportation Modeler (TMOD). It does not refer to the actual and current postal network. As described in this document, there are significant differences between the data for FY 2020 and the descriptive statistics for the baseline network.

support the service standard changes it plans to implement. Additionally, the Commission is concerned that the Postal Service's planned timeframe may be too ambitious because implementing processing and transportation changes prior to peak season would be difficult under typical circumstances and may face additional challenges due to the continuation of the COVID-19 pandemic emergency and stress on the logistics industry.

Although the Commission finds that the proposed change may reinforce FCPS's value due to increased reliability, it observes that the Postal Service's ability to maintain current volumes could be dampened by increased competition in the parcel market. The Commission evaluates the results of the First-Class Package Service Transit Commitment Survey ("FTC Survey"),[7] which sampled current FCPS-Commercial shippers, and observes some technical weaknesses that affect the validity of the survey. The Commission finds that the survey inadequately addresses the responses of certain key groups, such as package recipients, retail customers, and marketplace shippers.

Finally, the Commission finds that the proposed changes are not facially inconsistent with applicable statutory requirements. However, in its filing and responses throughout this Advisory Opinion process, the Postal Service has not demonstrated that its implementation of the proposed changes will comport with these requirements.

Based on these findings, the Commission provides the following recommendations to the Postal Service for consideration before implementing its plan. The Postal Service should:

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[7] *See* Library Reference USPS-LR-N2021-2/NP3, June 17, 2021, Excel file "FTC Survey.N2021-2-NP3.FINAL.ppt.xlsx."

- *Set realistic interim service performance targets.* Because of a number of highly dynamic factors that the Postal Service expects to continue to evolve throughout FY 2022 and a lack of operational testing of how the Postal Service would achieve the planned service standards in the field, the Postal Service should set realistic interim service performance targets to monitor progress towards its longer-term target of delivering FCPS at a level of 95 percent on-time.
- *Develop a rigorous analytical methodology to identify the changes in costs that will result from implementing its plan.* Because the potential cost savings projected by the Postal Service rest on a number of unproven assumptions, the Postal Service should develop a rigorous analytical methodology to identify the changes in cost that will result from implementing its plan.
- *Gauge customer satisfaction specific to the implementation of its proposed changes*. Because the FTC Survey performed on behalf of the Postal Service may not be fully representative of the diverse user base of FCPS (such as some of the Postal Service's largest FCPS-Commercial shippers, package recipients, retail customers, marketplace shippers, and other stakeholders), the Postal Service should monitor customer satisfaction going forward, particularly for key segments that may be most affected by implementation of its plan.
- *Engage stakeholders in a continuing dialogue regarding the effects of implementing its proposed changes and potential mitigation measures.* Because of a number of highly dynamic factors that the Postal Service expects to continue to evolve throughout FY 2022, the Postal Service should engage stakeholders in a continuing dialogue regarding the effects of implementing its proposed changes and potential mitigation measures.

II. PROCEDURAL HISTORY

A. Pre-Filing Issues

On March 23, 2021, the Postal Service published a 10-year strategic plan announcing potential changes intended to achieve financial stability and service

excellence.[8] The Postal Service Strategic Plan identified the Postal Service's proposed changes to the service standards for First-Class Mail (FCM)[9] and end-to-end Periodicals, which were subsequently submitted to the Commission for an advisory opinion.[10] As a result, the Commission issued its advisory opinion in Docket No. N2021-1.[11]

On May 25, 2021, the Postal Service filed a notice of its intent to conduct a pre-filing conference regarding additional proposed changes, this time to the service standards for FCPS, which it claimed would "'generally affect service on a nationwide or substantially nationwide basis.'"[12]

On May 26, 2021, the Commission issued Order No. 5900, which established Docket No. N2021-2 to consider the Postal Service's proposed changes, notified the public concerning the Postal Service's pre-filing conference, and appointed a Public Representative.[13] Due to the COVID-19 pandemic, the Postal Service held its pre-filing conference virtually on June 8, 2021. *See* Order No. 5900 at 1, 3.

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[8] *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* (Postal Service Strategic Plan). The Postal Service Strategic 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.

[9] In this Advisory Opinion, the Commission uses "FCM" to refer to Market Dominant First-Class Mail.

[10] Docket No. N2021-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 21, 2021 (Docket No. N2021-1 Request).

[11] Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021 (Docket No. N2021-1 Advisory Opinion).

[12] Notice of Pre-Filing Conference, May 25, 2021, at 1 (quoting 39 U.S.C. § 3661(b)) (Notice).

[13] Notice and Order Concerning the Postal Service's Pre-Filing Conference, May 26, 2021, at 1-2, 3 (Order No. 5900).

B. The Postal Service Request

On June 17, 2021, the Postal Service filed its formal request for an advisory opinion from the Commission regarding planned changes to the service standards for FCPS. *See* Request. The intended effective date of the Postal Service's planned changes is no earlier than October 1, 2021, which is more than 90 days after the filing of the Request. Request at 1. 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 id.* at 2.

In support of its Request, the Postal Service provided the direct testimony of three witnesses: Stephen B. Hagenstein (USPS-T-1), Michelle Kim (USPS-T-2), and Thomas J. Foti (USPS-T-3).[14] The Postal Service identified a fourth 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 seven library references, four of which are available to the public and three of which are designated as non-public material.[15]

Witness Hagenstein discusses the proposed service standard changes, their benefits, and how they would affect current mail volume in the contiguous United States. *See* USPS-T-1.

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[14] Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service, June 17, 2021 (USPS-T-1); Direct Testimony of Michelle Kim on Behalf of the United States Postal Service, June 17, 2021 (USPS-T-2); Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service, June 17, 2021 (USPS-T-3). The Postal Service subsequently filed a replacement version of witness Hagenstein's testimony that added line numbers. Notice of Filing Replacement Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1), June 21, 2021.

[15] Library Reference USPS-LR-N2021-2/1, June 17, 2021; Library Reference USPS-LR-N2021-2/2, June 17, 2021; Library Reference USPS-LR-N2021-2/3, June 17, 2021; Library Reference USPS-LR-N2021-2/4, June 17, 2021; Library Reference USPS-LR-N2021-2/NP1, June 17, 2021; Library Reference USPS-LR-N2021-2/NP2, June 17, 2021; Library Reference USPS-LR-N2021-2/NP3, June 17, 2021.

Witness Kim discusses the Postal Service's financial situation and the estimated impact of the proposed changes on the Postal Service's financial situation (including estimated transportation cost savings related to the proposal). *See* USPS-T-2.

Witness Foti discusses current trends in the lightweight package market, how the proposed service standard changes may impact customer satisfaction, and the market research conducted to estimate the potential volume and contribution impact of the proposed service standard changes. *See* USPS-T-3.

C. Initial Commission Action and Errata Filed by the Postal Service

On June 21, 2021, the Commission issued Order No. 5920, which set forth a procedural schedule for the proceeding and designated Commissioner Ann C. Fisher as Presiding Officer.[16]

On July 2, 2021, the Postal Service filed a notice of errata modifying certain pages of the Request and the supporting testimony filed on behalf of its three witnesses.[17] The Postal Service also filed a notice revising the following supporting library references: USPS-LR-N2021-2/1, USPS-LR-N2021-2/4, USPS-LR-N2021-2/NP1, and USPS-LR-N20201-2/NP2.[18] The Postal Service states that both sets of revisions are related to errors in how its summary tables were compiled and/or

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[16] Notice and Order on the Postal Service's Request for an Advisory Opinion on Changes in the Nature of Postal Services, June 21, 2021, at 9-10 (Order No. 5920).

[17] The Postal Service included revised versions of certain pages of the Request and the witness testimony. Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata, July 2, 2021 (Errata to Request and Testimony). The version of the Request that includes the amended pages is hereafter referred to as the "Revised Request," while the testimony that includes the revised pages is hereafter referred to as "Revised USPS-T-1," "Revised USPS-T-2," and "Revised USPS-T-3," respectively. Each testimony, as revised by the replacement version for Witness Hagenstein and the errata for all three witnesses, is included in the transcript. *See* Presiding Officer's Ruling Granting Motions to Admit Evidence and Designating Additional Materials for the Evidentiary Record, August 16, 2021 (POR No. N2021-2/7), Attachment at 1-2.

[18] Notice of the United States Postal Service of Revisions to Library References 1, 4, NP1, and NP2 -- Errata, July 2, 2021 (Notice Revised Library References).

deficiencies in aggregating modeled results with unmodeled results. *See* Errata to Request and Testimony at 1-3.

On July 8, 2021, the Commission amended the procedural schedule.[19]

On July 13, 2021, the Postal Service filed another notice of errata revising Library Reference USPS-LR-N2021-2/4 and Library Reference USPS-LR-N20201-2/NP2, stating that these revisions corrected errors in discrete Excel spreadsheet cells.[20]

D. Public Participation and Additional Information

The following six parties intervened in this proceeding: (1) Douglas F. Carlson (Carlson); (2) American Postal Workers Union, AFL-CIO (APWU); (3) Steve Hutkins (Hutkins); (4) National Association of Letter Carriers, AFL-CIO (NALC); (5) Association for Postal Commerce (PostCom); and (6) National Association of Postal Supervisors (NAPS).[21]

APWU, Hutkins, and the Public Representative propounded discovery to clarify the Revised Request and witness testimony.[22] The Postal Service answered each of

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[19] Order Modifying Procedural Schedule, July 8, 2021 (Order No. 5933). This schedule was further amended on July 26, 2021. *See* Presiding Officer's Ruling Further Adjusting Procedural Schedule and Pre-Hearing Filings, July 26, 2021 (POR No. N2021-2/3).

[20] Notice of the United States Postal Service of Revisions to Library References 4 and NP2 -- Errata, July 13, 2021, at 1.

[21] Douglas F. Carlson Notice of Intervention, June 28, 2021; Notice of Intervention of the American Postal Workers Union, AFL-CIO, June 28, 2021; Steve Hutkins Notice of Intervention, June 29, 2021; Notice of Intervention of the National Association of Letter Carriers, AFL-CIO, June 29, 2021; Notice of Intervention of the Association for Postal Commerce, June 29, 2021; National Association of Postal Supervisors Notice of Intervention, June 30, 2021. Appendix A provides a list of these parties and identifies their counsel/authorized representative.

[22] Public Representative's First Set of Interrogatories and Requests for Production to United States Postal Service Witness Thomas J. Foti, July 8, 2021; Public Representative's Second Set of Interrogatories and Requests for Production to United States Postal Service Witness Stephen B. Hagenstein (PR/USPS-T-1), July 16, 2021; American Postal Workers Union, AFL-CIO Interrogatories to Stephen B. Hagenstein (APWU/USPS-T-1/1-16), July 20, 2021; Steve Hutkins Interrogatories to United States Postal Service Witness Foti, July 21, 2021; Steve Hutkins Interrogatories to United States Postal Service Witness Hagenstein, July 21, 2021.

these discovery requests.[23] In total, 13 Presiding Officer's Information Requests (POIR) containing over 100 questions, many of which contained multiple subparts, were issued to further develop the record.[24]

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[23] Revised Responses of Postal Service Witness Foti to Public Representative Interrogatories PR/USPS-T3-1 – 4 -- Errata; July 19, 2021 (replacing responses filed on July 15, 2021 with corrected numbering); Revised Response of United States Postal Service Witness Hagenstein to PR/USPS-T1 – 8 -- Errata; July 19, 2021 (replacing responses filed on July 15, 2021 with corrected numbering); Response of Postal Service Witness Foti to Public Representative Interrogatory PR/USPS-T3-5, July 23, 2021; Responses of United States Postal Service Witness Hagenstein to the Public Representative's Second Set of Interrogatories and Requests for Production - PR/USPS-T1-9 - 10, July 23, 2021 (Response to PR/USPS-T1-9-10); Response of Postal Service Witness Kim to Public Representative Interrogatory PR/USPS-T2-1, July 23, 2021; Response of United States Postal Service Witness Hagenstein to Intervenor American Postal Workers Union, AFL/CIO's Interrogatories 1-3, 5-13 and 16, July 27, 2021 (Response to APWU/USPS-T1); Response of United States Postal Service Witness Foti to APWU/USPS-T1-14 and 15, Redirected From Witness Hagenstein, July 27, 2021; Response of United States Postal Service Witness Hagenstein to Intervenor American Postal Workers Union, AFL/CIO's Interrogatory APWU/USPS-T1-4, July 28, 2021 (Response to APWU/USPS-T1-4); Response of United States Postal Service Witness Hagenstein to Intervenor Steve Hutkins' Interrogatories SH/USPS-T1-1 – 10, July 28, 2021 (Response to SH/USPS-T1); Responses of United States Postal Service Witness Foti to Intervenor Steve Hutkins' Interrogatories (SH/USPS-T3-1-5), July 28, 2021.

[24] Presiding Officer's Information Request No. 1 and Notice of Filing Under Seal, June 28, 2021; Presiding Officer's Information Request No. 2 and Notice of Filing Under Seal, July 1, 2021; Presiding Officer's Information Request No. 3 and Notice of Filing Under Seal, July 8, 2021; Presiding Officer's Information Request No. 4 and Notice of Filing Under Seal, July 16, 2021; Presiding Officer's Information Request No. 5, July 19, 2021; Presiding Officer's Information Request No. 6, July 20, 2021; Presiding Officer's Information Request No. 7, July 22, 2021; Presiding Officer's Information Request No. 8 and Notice of Filing Under Seal, July 29, 2021; Presiding Officer's Information Request No. 9, July 30, 2021; Presiding Officer's Information Request No. 10, August 3, 2021; Presiding Officer's Information Request No. 11 and Notice of Filing Under Seal, August 5, 2021; Presiding Officer's Information Request No. 12, August 10, 2021; Presiding Officer's Information Request No. 13, August 13, 2021.

The Postal Service answered each of these questions.[25]

On August 4, 2021, APWU filed a rebuttal testimony.[26] No party filed a notice of intent to cross-examine any of the witnesses or requested to present oral argument by the established deadlines.[27] Accordingly, the oral hearing scheduled for August 11-13, 2021 was cancelled, and procedures were established to administratively enter witness

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[25] Responses of the United States Postal Service to Questions 1-8.a, 9-11 of Presiding Officer's Information Request No. 1, July 6, 2021 (July 6 Response to POIR No. 1); Response of the United States Postal Service to Question 8.B of Presiding Officer's Information Request No. 1, July 7, 2021 (July 7 Response to POIR No. 1). Responses of the United States Postal Service to Questions 1-15 of Presiding Officer's Information Request No. 2, July 8, 2021 (Response to POIR No. 2); Revised Response of the United States Postal Service to Question 1 of Presiding Officer's Information Request No. 3 -- Errata, July 28, 2021 (July 28 Response to POIR No. 3) (replacing responses filed on July 15, 2021 with corrected header); Responses of the United States Postal Service to Questions 1-22 of Presiding Officer's Information Request No. 4, July 23, 2021 (Response to POIR No. 4); Responses of the United States Postal Service to Questions 1-7 of Presiding Officer's Information Request No. 5, July 26, 2021 (Response to POIR No. 5); Responses of the United States Postal Service to Questions 1-9 of Presiding Officer's Information Request No. 6, July 27, 2021 (Response to POIR No. 6); Responses of the United States Postal Service to Questions 1-5 of Presiding Officer's Information Request No. 7, July 29, 2021 (Response to POIR No. 7); Responses of the United States Postal Service to Questions 1-6 of Presiding Officer's Information Request No. 8, August 5, 2021 (Response to POIR No. 8); Responses of the United States Postal Service to Question 1 of Presiding Officer's Information Request No. 9, August 6, 2021 (Response to POIR No. 9); Responses of the United States Postal Service to Questions 1-2 of Presiding Officer's Information Request No. 10, August 10, 2021 (Response to POIR No. 10); Responses of the United States Postal Service to Questions 1-7 and 9-19 of Presiding Officer's Information Request No. 11, August 12, 2021 (August 12 Response to POIR No. 11); Responses of the United States Postal Service to Question 8 of Presiding Officer's Information Request No. 11 (August 16 Response to POIR No. 11). Responses of the United States Postal Service to Questions 1-9 of Presiding Officer's Information Request No. 12, August 17, 2021 (August 17 Response to POIR No. 12); Supplemental Responses of the United States Postal Service to Question 2.a of Presiding Officer's Information Request No. 12 - Errata, August 19, 2021 (August 19 Response to POIR No. 12); Responses of the United States Postal Service to Questions 1-3 of Presiding Officer's Information Request No. 13, August 20, 2021 (Response to POIR No. 13).

[26] Rebuttal Testimony of Anita Morrison on Behalf of the American Postal Workers Union, AFL-CIO, August 4, 2021.

[27] Presiding Officer's Ruling Cancelling Hearing and Establishing Procedures, August 6, 2021, at 1-2 (POR No. N2021-2/6).

testimony, written cross-examination, and associated library references into the record.[28]

Initial briefs were filed by the Postal Service and the Public Representative; additionally a reply brief was filed by the Postal Service.[29] The Commission also received 10 statements of position.[30]

The record in this docket closed on September 1, 2021.[31]

III. COMMISSION LEGAL AUTHORITY

The Postal Service is required to 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 before the proposed effective date of the change in the nature of postal services involved." 39 C.F.R. § 3020.112.

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

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[28] *See* POR No. N2021-2/6 at 2-3; *see also* Presiding Officer's Ruling on Designation of Responses for Inclusion in the Evidentiary Record, August 5, 2021 (POR No. N2021-2/5); POR No. N2021-2/7; Presiding Officer's Ruling Noticing Filing of Transcript and Granting Motion for Late Acceptance, August 19, 2021 (POR No. N2021-2/8). Appendix B provides a list of each written direct and rebuttal testimony entered into the record and the citations.

[29] Initial Brief of the United States Postal Service, August 20, 2021 (Postal Service Brief); Initial Brief of the Public Representative, August 20, 2021 (PR Brief); Reply Brief of the United States Postal Service, August 27, 2021 (Postal Service Reply Brief). Appendix C provides a list of these filings and citations.

[30] The 10 statements of position can be found on the Commission's website at *https://www.prc.gov/dockets/doclist/N2021-2/Statement-of-Position.* Appendix D provides a list of these filings and citations.

[31] Presiding Officer's Ruling Designating and Taking Official Notice of Additional Materials and Closing the Evidentiary Record, September 1, 2021 (POR No. N2021-2/9).

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 process is intended to better inform the Postal Service in its decision-making process, provide an opportunity for the public to question and challenge Postal Service assumptions, 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.[32]

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. The Postal Service states that the existing service standards for FCPS mirror the existing service standards applied to Market Dominant Single-Piece FCM (letter- and flat-shaped mailpieces). *See id.* at 3. The Postal Service's proposed changes for FCPS are similar to the changes proposed for Market Dominant FCM in Docket N2021-1 because the FCPS service standards would also be adjusted to account for additional drive time between origin and destination processing facilities (OD Pairs). *See* Notice at 2; *see also* Request at 3. However, the actual service standards that the Postal Service proposes to apply to FCPS would differ from those proposed for FCM. *See id*. The Postal Service plans for its proposed changes for FCPS to become effective no earlier than October 1, 2021. *See* Request at 1.

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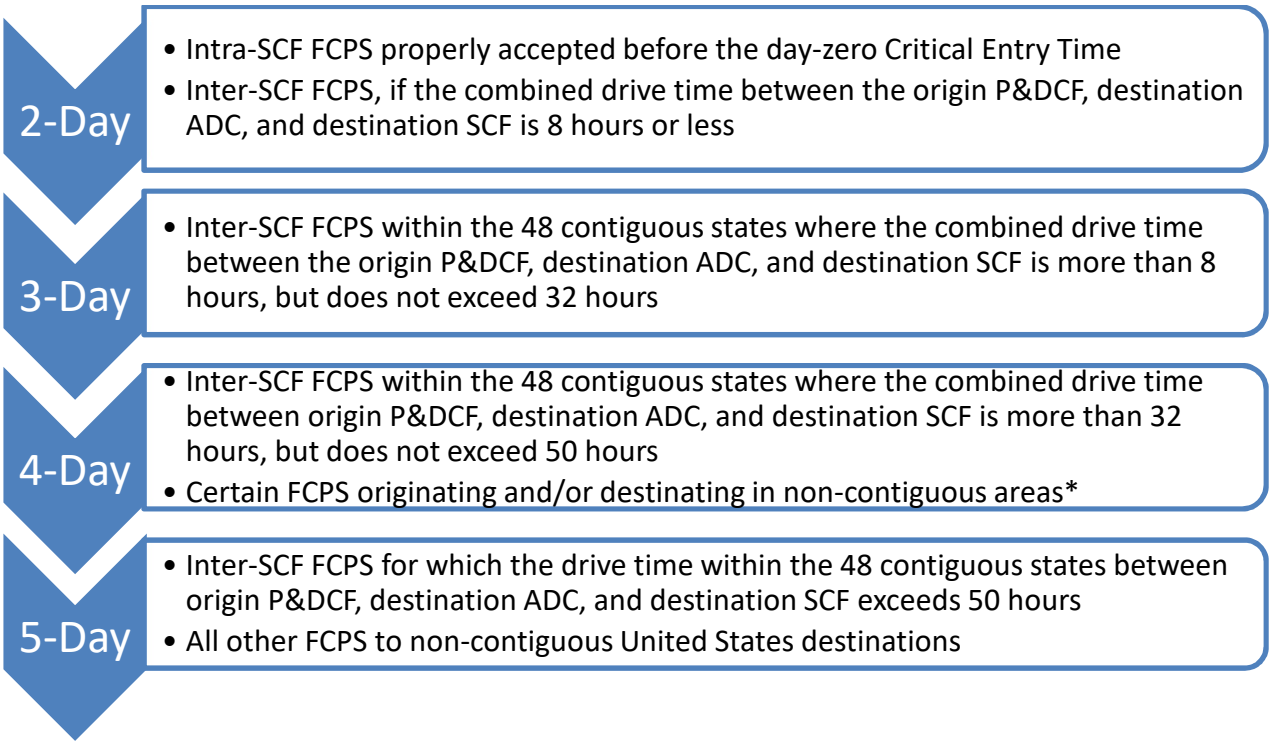
[32] *See* Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014, at 7.

The Postal Service proposes to expand the scope of the existing 2-day service standard applied to FCPS. *See id.* at 3. For FCPS within the contiguous United States, the Postal Service proposes to narrow the scope of the existing 3-day service standard; and 4-day and 5-day service standards would apply to certain FCPS traveling longer distances between origin and destination. *See id.* Overall for FCPS volume within the contiguous United States, the Postal Service projects that approximately 25.4 percent would be subject to the proposed 2-day service standard; 43.5 percent would be subject to the proposed 3-day service standard; approximately 16.8 percent would be subject to the proposed 4-day service standard; and approximately 14.3 percent would be subject to the proposed 5-day service standard. *See* Revised Request at 4, Figure 1. The Postal Service projects that pharmaceutical volume would experience less impact from the proposed changes than other FCPS volume, estimating that almost all pharmaceutical volume currently subject to the 2-day service standard and the majority of pharmaceutical volume currently subject to the 3-day service standard would remain subject to those respective service standards. *See* Request at 5.

Specifically, the Postal Service proposes to apply the following service standards to FCPS.

Figure IV-1
Proposed Postal Service FCPS Service Standards



Notes:
* Specifically, this refers to the following:

- FCPS 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.
- FCPS originating in the 006, 007, or 009 3-Digit ZIP Code areas in Puerto Rico and the destination is in the contiguous 48 states.
- FCPS originating in Hawaii and the destination is in Guam, or vice versa.
- FCPS originating in Hawaii and the destination is in American Samoa, or vice versa.
- FCPS for which both the origin and destination are within Alaska.

Request at 5.

"SCF" refers to sectional center facility. *Id.* at 3. With respect to a particular SCF, "intra-SCF" refers to volumes that originate and destinate within the 3-Digit ZIP Code areas assigned to that SCF in the Domestic Mail Manual and "inter-SCF" refers to volumes that originate outside those 3-Digit ZIP Code areas. Revised Service Standards for Market-Dominant Mail Products, 77 Fed. Reg. 31,190, 31,194, n.12 (May 25, 2012) (codified at 39 C.F.R. part. 121). "P&DCF" refers to processing & distribution center or facility. Request at 3. "ADC" refers to area distribution center. 77 Fed. Reg. 31,192.

Source: Request at 3, 5; Notice of Filing Designated Materials and Declaration Attesting to the Proposed Record Material for United States Postal Service Witness Stephen H. Hagenstein, August 10, 2021, at 8-9 (Revised USPS-T-1).

The Postal Service states 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 explains that transporting FCPS by surface (trucks) is more reliable and cost-effective than air transportation. *Id.* The Postal Service asserts that the proposed changes would allow the Postal Service to use surface rather than air transportation for more FCPS volume between additional Postal Service OD Pairs. *Id*. The Postal Service states that the proposed changes could generate a net improvement to the Postal Service's finances of approximately $42 million annually,[33] when considering transportation cost savings and the Postal Service's projection that the proposal would not materially impact FCPS volumes. *Id.*

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 id.* at 6-9. It adds that the proposed changes are a key component of the Postal Service's 10-Year Strategic Plan, intended to achieve financial stability and service excellence. *Id.* at 9.

Further, the Postal Service asserts that the proposed changes would conform to the policies of Title 39, United States Code. *See id.* at 9-12. The Postal Service discusses how the proposed changes would continue to satisfy the universal service provisions appearing in 39 U.S.C. §§ 101, 403, and 3661(a) under the proposed service

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[33] The Postal Service notes that "[t]his figure only considers the additional transportation savings that are generated by the expansion of the transportation window for FCPS in conjunction with First-Class Mail, as compared to the results of only expanding the transportation window for First-Class Mail and end-to-end Periodicals (as presented in Docket No. N2021-1)." *Id.* at 8.

standards.[34] The Postal Service also asserts that the proposed changes would not impair compliance with the policies of 39 U.S.C. 3633, which govern the financial performance of Competitive products. *See* Request at 11-12.

B. 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. Revised USPS-T-1 at i. His testimony discusses the proposed service standard changes, their benefits, and how they would affect current mail volume in the contiguous United States.

Witness Hagenstein explains that the Postal Service's current abilities to meet existing service standards leave room for improvement. *Id*. at 1. He states that the Postal Service seeks to add up to two additional days for FCPS in order to improve its service capabilities and achievement of service standards, reduce mail transportation costs, and enhance the reliability of the mail. *Id*.

Witness Hagenstein explains that the proposed changes will allow the Postal Service to increase the volume of FCPS moved by surface transportation, which he states is more cost-effective and more reliable than air transportation. *Id*. at 2. He states that "historical service performance measurements indicate that volume transported via surface modes has better on-time performance than volume transported by air." *Id*. 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*.

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[34] *See id.* at 9-11. The Postal Service observes that the Commission has concluded that the universal service obligation extends to Competitive products. *See id.* at 9 n.1 (citing Postal Regulatory Commission, *Report on Universal Postal Service and the Postal Monopoly*, December 19, 2008, available at *https://www.prc.gov/docs/61/61628/USO%20Report.pdf*).

Witness Hagenstein explains that "[d]elays and schedule alterations occur less 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*. at 2-3. 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 Hagenstein 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 United States or territories. *Id*. at 5. 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*.

Witness Hagenstein discusses the existing and planned changes to the service standards. *Id*. at 5-9. He explains that the current 2-day service standard applies to FCPS volume within a 6 hour drive time between the origin P&DCF and destination SCF, and that a 3-day service standard applies to all other FCPS volume within the contiguous United States. *Id.* at 6-7. He states that the "[c]urrent FCPS service standards account for surface transit times with respect to two-day service standards, but not for service standards of three or more days." *Id*. at 9. He asserts that "[i]n practice, the three-day service standard is achievable only by forcing the Postal Service to prioritize air transportation, which is both more costly and less reliable than surface transportation." *Id.* at 10.

Witness Hagenstein provides an overview of the current mail transportation logistics, noting that the Postal Service currently employs two primary modes of transportation for the delivery of mail and packages: air and surface transportation. *Id*. at 11. He explains that time and cost are determining factors for whether the Postal Service transports volume by air or by surface. *Id*. at 14. He states that the Postal

Service will transport volume by air if transporting that volume by surface would not meet the applicable service standard or if that volume is insufficient to justify the cost of using surface transportation. *Id*.

Witness Hagenstein states that the proposed changes "will enable the Postal Service to implement cost-saving and efficiency-improving transportation network changes." *Id*. at 15. He adds that the proposed changes would allow the Postal Service to use surface transportation more efficiently. *Id*. First, with respect to the 2-day service standard, he states that the proposed changes will "offer customers expanded reach…because the business rule for that standard would increase from a six-hour to an eight-hour drive time" which will "enable almost five percent of FCPS volume to experience a shorter service standard than that [is] currently in place." *Id*. He asserts that "[w]hile this will impact the Postal Service's ability to adopt efficiency-enhancing measures for this volume, it does so only modestly, and the Postal Service has determined that providing an expanded 2-day reach is an important factor in the highly competitive package delivery market." *Id.* Second, with respect to the 3-day service standard volume, he proffers that expansion of the available time in the transit window increases opportunity to route volumes more efficiently. *Id*. at 16. He states that the proposal to decrease the transit window time from 38 hours (or less) to 32 hours (or less) 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. Third, he states that adding a 4-day service standard for FCPS "would have similar efficiency-increasing effects" and "significantly extends the surface transportation reach capability and allows for more efficient surface routings and capacity utilization." *Id.* Finally, he asserts that adding a 5-day service standard will allow the Postal Service to

shift additional volume from the air transportation network to the "more economical and reliable surface transportation network." *Id.* at 16-17.

Witness Hagenstein explains that, under the Postal Service's proposal, 64 percent of FCPS volume will retain its existing service standards and almost 5 percent of volume will be upgraded from a 3-day to a 2-day service standard. *Id.* at 38. He expects that the proposal would enable approximately 28.2 percent of current FCPS volume to shift from air transportation to surface transportation.[35]

Witness Hagenstein notes that the network changes would require "[m]inor processing changes" to the Postal Service's mail processing operations, but the Postal Service anticipates that those modifications would "improve efficiencies in the processing centers" and thus "reduce workhours, but not to a degree anticipated to impact employee complement." Revised USPS-T-1 at 17-18.

Witness Hagenstein describes the methodology used to analyze the potential impact of the service standard changes to the surface transportation network. *Id.* at 18-32. He states that logistics industry optimization software, Blue Yonder© Transportation Modeler (TMOD), was used to model network scenarios.[36] He explains that the TMOD software was instructed to create optimal routings to move modeled volumes in the network while minimizing transportation miles. *Id*. at 22. He adds that in order to ensure comparative analysis of results, the modeling was an iterative process.

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[35] Initially, the Postal Service estimated that the proposal would enable approximately 31 percent of FCPS volume to shift from the air to the surface transportation network, based on current air FCPS volume. *See* USPS-T-1 at 18. On July 2, 2021, the Postal Service filed revisions to Library References USPS-LR-N2021-2/1, USPS-LR-N2021-2/4, USPS-LR-N2021-2/NP1, and USPS-LR-N20201-2/NP2. *See* Notice of Revised Library References. At the same time, the Postal Service filed revised versions of certain pages of the Request and the witness testimonies. *See* Errata to Request and Testimony. The Postal Service's revisions included a change in FCPS volumes projected to divert from the air to the surface network. *See* Library Reference USPS-LR-N2021-2/NP1, Excel file "FCPS Transportation Savings-NonPublic.Rev.7.2.2021." However, page 18 of USPS-T-1 was not included among revised pages of USPS-T-1 testimony. *See* Errata to Request and Testimony at 6, 15, 34-35, 37-38, 41; *see also* Revised USPS-T-1 at 18.

[36] *Id*. at 18. *See* Section VII.D. for a more detailed discussion and analysis of the modeled network scenarios.

Id. at 18-19. 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.[37]

In further describing the modeling process, witness Hagenstein provides the inputs used, the proposed service standard assignment rules, the assumptions made, and constraints of the modeling. *Id.* at 20-32. He explains that October 2020 volume was used for FCPS, while the rest of the modeled volume was for March 2020.[38] The March volume was used because this month is traditionally "not skewed by holiday impacts." *Id.* Six consecutive days of volume were modeled (pertaining to the second highest Wednesday of the month, rather than to weekly—Monday through Saturday—volume) "to allow efficient connection throughout the end-to-end network." *Id.* at 20-21.

Based on the modeling, witness Hagenstein projects that the "percent of 3-digit [ZIP Code] OD Pairs[39] subject to two-day and three-day service standards changes from 9.1 and 90.9 percent to 14.8 percent and 57.4 percent, respectively." *Id*. at 33. He also expects that the "percentages of 3-digit [ZIP Code] OD pairs newly subject to four- and five-day service standards [is] 19.2 and 8.6 percent, respectively." *Id*. He explains that the:

> [P]ercentage of FCPS volume subject to a two-day service standard increases from 20.6 percent to 25.4 percent; and the percentage of volume subject to a three-day service standard decreases from 79.4 percent to 43.5 percent. The model projects 16.8 percent of volume to be subject to a four-day service standard; and 14.3 percent of volume to be subject to a five-day service standard.

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[37] *Id*. at 19. The evaluation involved comparing the cost of a surface trip to the cost associated with transporting corresponding volumes via the air transportation network. *Id*.

[38] *Id.* at 20. More precisely, witness Hagenstein explains that all volume other than FCPS is based on March 2019 WebODIN (renamed from Origin Destination Information System (ODIS)) data and is scaled to March 2020. *Id*.

[39] 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.

Id. at 34. He notes that 99.8 percent of FCPS presently subject to a 2-day service standard would remain as 2-day, and 54.7 percent of FCPS subject to a 3-day service standard would remain as 3-day. *Id*. Witness Hagenstein notes that "[t]he model projects that in most circumstances pharmaceutical volume would be less impacted by the proposed service standard changes than other FCPS volume." *Id.* at 35. He also concludes that under the proposed service standards, 26.7 percent of FCPS volume is expected to be transported by air and 73.3 percent is expected to be transported by the surface network. *Id.* at 37.

Witness Hagenstein asserts 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 38. While he states that the modeling described in his testimony demonstrates that the proposed changes would lead to a more 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 32, 38.

Witness Hagenstein states that the Postal Service considered the impact of the changes on all relevant stakeholders. *Id*. at 38. He observes 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 about the changes. *Id*. He states that the "changes will not directly impact the Postal Service's workforce." *Id*. at 39.

Regarding the impact on commercial air and surface transportation suppliers, witness Hagenstein states that the "Postal Service anticipates that the proposed changes would reduce the volume of FCPS carried by commercial air contractors…and cargo air contractors" while increasing the use of surface transportation suppliers. *Id*.

at 39. He states that the Postal Service anticipates that "there will likely be fewer total expenses related to contracted transportation of mail." *Id*. at 39-40. He further states that the "Postal Service will work with its contractors to ensure that changes are communicated effectively and that negative impacts on suppliers from abrupt changes are minimized." *Id*. at 40.

In addition, witness Hagenstein asserts that the proposed changes are consistent with the policies and requirements of Title 39. *Id*. at 40. He states that the Postal Service has designed its proposal with certain intended objectives, such as:

> [S]eek[ing] 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 of 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 40-42.

C. Witness Michelle Kim Testimony

Witness Michelle Kim serves as the Director, Cost Systems and Analysis for the Postal Service, where her "office is responsible for the design, development, operation, and enhancement of the ongoing national statistical sampling systems for distributing costs to products."[40] Her testimony describes "the methodology that the Postal Service has used to estimate the expected cost savings resulting from the proposed changes in service standards" and presents "the overall estimated change in cost and the additional cost impact of some potential future savings opportunities." Revised USPS-T-2 at iii.

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[40] Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Kim, August 10, 2021, at i (Revised USPS-T-2).

Witness Kim asserts that the proposed changes will reduce the FCM and FCPS pounds flown by 61.2 percent. *Id*. at 3. She states that the "reductions will be spread across multiple carriers." *Id*. She explains that "air transportation costs are, for the most part, fully volume variable." *Id*. at 4. "Thus, for each carrier, the percent capacity reduction…is multiplied by the total cost in order to calculate the cost savings that will result from this change in capacity." *Id*. Using this method, she expects that the Postal Service will save $304 million per year in air transportation costs, with an additional $15 to $98 million savings possible as a result of reducing reliance on higher-cost charters. *Id*.

Because of the shift away from the air network, witness Kim states that the proposed change will result in an increase in required surface capacity to handle the additional FCPS volume. *Id*. at 5. She asserts, however, that "the change in service standards will also enable optimization of the network to transport the volumes more efficiently, which will offset this increase from the handling [of] additional volume." *Id.*

In combining the impacts to the surface network capacity for the several different contract types, witness Kim expects that the Postal Service will save $10 million per year in purchased highway transportation costs. *Id*. at 7-8. She also notes that, based on witness Hagenstein's projection of reduced capacity from the streamlining of the transportation network, the Postal Service will also see an additional $62 to $116 million in savings. *Id.* at 8. In total, she estimates that the proposed changes will result in a total annual cost savings of $314 million for purchased transportation. *Id*. at 8-9. She notes, however, that these savings "are the result of a combined model of both FCM and FCPS service standard changes being implemented together," and that the FCPS-only savings is $42 million. *Id.* at 9.

D. Witness Thomas J. Foti Testimony

Witness Thomas J. Foti serves as the Vice President of Product Solutions for the Postal Service, where he oversees "the management of product lines and services,

including the development of strategies, policies, and business plans."[41] His testimony describes the lightweight package landscape and the volume impact expected from the proposed service standard changes. Revised USPS-T-3 at 2.

Witness Foti explains that the FCPS product is a competitive, lightweight, under-one-pound shipping product that consists of Retail (FCPS-Retail) and Commercial (FCPS-Commercial) price categories. *Id.* at 1, 3. FCPS-Retail packages must weigh less than 13 ounces and are shipped from Post Office locations, while FCPS-Commercial packages may weigh up to 16 ounces and are available to commercial and online customers. *Id.* at 3.

Witness Foti explains that "[d]uring the pandemic, the package market has experienced significant e-commerce growth due to changes in consumer behavior and expectations" that led to an increase in the Postal Service's Shipping and Package volumes of 18.8 percent in FY 2020. *Id.* at 4. According to witness Foti, the Postal Service expects "this new normal within e-commerce to sustain package volumes at elevated levels" going forward. *Id.*

Witness Foti asserts that the top driver of satisfaction for shipping customers in FY 2020 was reliability. *Id.* at 5. Thus, he explains that as the Postal Service improves its shipping reliability for the FCPS product, the "opportunity exists to capture additional package volume and drive incremental market share." *Id.*

Witness Foti notes that, historically, from FY 2014 to FY 2019, FCPS volumes have grown approximately 10 percent each year but that in FY 2020, FCPS volumes increased by 32.2 percent. *Id.* at 1, 5. Witness Foti states that "[t]he Postal Service projects a modest increase in FCPS volumes, driven by its competitiveness in both price and service." *Id.* at 5.

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[41] Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Foti, August 10, 2021, at i (Revised USPS-T-3).

Witness Foti explains that the Postal Service intends "to shift portions of [FCPS] volumes to an enhanced ground network to improve on-time reliability for [its] customers and reduce costs in [its] networks." *Id.* at 6. Citing to witness Hagenstein's testimony, witness Foti explains that "approximately 31 percent of current FCPS volumes with a 3-day service standard would have a 4-day or 5-day service standard," while "[f]ive percent of current FCPS volumes with a 3-day service standard would upgrade to a 2-day service standard," leaving "64 percent of FCPS volumes with unimpacted service standards." *Id.*

According to witness Foti, the results of the Postal Service-commissioned survey of FCPS-Commercial users (FTC Survey) demonstrate that if FCPS volume that was shipped farther distances "slowed by 1 to 2 days, but if on-time performance were to increase to 95 percent," current FCPS volumes would be maintained due to FCPS' "highly competitive prices and improved reliability in meeting service expectations." *Id.* at 6-8. Witness Foti notes that survey respondents "most frequently cited price as the primary reason for using FCPS," and that the majority of respondents stated that "they would maintain, or in some cases, increase FCPS volumes with these proposed changes." *Id.* at 7-8. He also asserts that the Postal Service expects to maintain current volumes for FCPS-Retail given its prices, expected improved reliability, and "the convenience to retail customers of accessing [Postal Service] package products through [its] extensive retail network." *Id.* at 8. Thus, the Postal Service estimates that there will be no net impact on FCPS volumes due to the proposal. *Id.* at 9.

V. SUMMARY OF REBUTTAL CASE

The APWU filed rebuttal testimony by Anita Morrison (APWU-RT-1), who serves as the Founding Principal of Partners for Economic Solutions (PES), a full-service urban economics consulting firm.[42] PES analyzes the proposed changes to the FCPS service

[42] Rebuttal Testimony of Anita Morrison on Behalf of the American Postal Workers Union, AFL-CIO, August 4, 2021, at 1 (APWU-RT-1).

standards, considering the changes by geographic location and by impact on package delivery volume. APWU-RT-1 at 2. Witness Morrison asserts that the Postal Service's analysis of the total impact of the FCPS service standard changes "mask[s] the different impacts on individual states and regions," explaining that "PES's analysis shows that the new standards will disproportionately impact the West Coast and, to a lesser extent, the East Coast." *Id.* She presents summary and maps regarding which areas would be subject to longer service standards (downgrades) or shorter service standards (upgrades) under the proposal. *Id.* at 2-7, Exhibits A-I.

With respect to the downgrades, witness Morrison states "PES calculated the percentage of three-digit ZIP code area origins from which the package delivery standard is proposed to be downgraded for each three-digit ZIP code destination area." APWU-RT-1 at 2-3. She states that downgrades would be "most extensive in southern Texas and southern Oregon," projecting that "81 to 99 percent of three-digit ZIP code areas in those geographic areas" would be affected. *Id.* at 3. She also identifies the areas that are projected to be subject to downgrades for 61 percent to 80 percent of ZIP Code areas: "[a]ll of the West Coast and most of Nevada and Idaho as well as northwest Montana and northwest and southeast Arizona." *Id.* She further identifies the areas that are projected to be subject to downgrades for 41 percent to 60 percent of ZIP Code areas: "[m]ost of the East Coast and New England, Colorado, northwestern Minnesota, western and central Louisiana, southwestern Arkansas, and the balance of Wyoming, Arizona, New Mexico and Texas." *Id.* She also identifies the areas that are projected to be subject to downgrades for less than 21 percent of ZIP Code areas: "most of the Midwest, the southwest of Georgia and the Great Plains." *Id.* Finally, she shows that 2-day downgrades (areas that are currently subject to the 3-day service standard that would be changed to a 5-day service standard) would affect 31 percent to 43 percent of 3-Digit ZIP Codes of areas in Washington, Oregon, California, Nevada, and Idaho. *See id.* at 3-4.

With respect to the upgrades, Witness Morrison's analysis shows that upgrades from the existing 3-day service standard to the proposed 2-day service standard would primarily affect the Midwest. *See id.* at 4.

Witness Morrison also presents an impact analysis based on the volume of FCPS, which she observes "shows a different geographic pattern." *Id.* For example, she opines that central Washington, most of Oregon, northern California, western and central Nevada, and northern Idaho would be subject to downgrades affecting 41 percent to 59 percent of FCPS volume. *Id.* at 4. She projects that 2-day downgrades would affect 26 percent to 32 percent of the FCPS volume in the following areas "western Washington, most of Oregon, northern and central coastal California, northwestern Nevada, southern and west central Florida, much of Connecticut, Massachusetts and Rhode Island, and small portions of New York and New Jersey." *Id.* at 5. She further projects that "upgrades in [FCPS] standards peak at 25 percent in northwest Vermont, western New York and north central Pennsylvania," and that many other areas will see upgrades to a smaller percentage of their volumes. *See id.* at 5-6.

Witness Morrison asserts that "[FCPS] standards for packages containing pharmaceuticals pose a particular concern given the nation's growing reliance on mail delivery of medicine and prescriptions." *Id.* at 6. Her impact analysis based on the volume of pharmaceutical FCPS indicates that "downgrades in the service standards of any length will be most prevalent in California, southwest Arizona, northwest Nevada, Oregon, western Washington, northwest Montana, north central North Dakota, northern Illinois, southeastern Wisconsin and Maryland's Eastern Shore, affecting more than 51 percent of packages delivered." *Id.* She explains that "[t]wo-day downgrades in the standards applying to pharmaceutical [FCPS] are less prevalent given the propensity for regional shipping." *Id.* at 7. She also opines that "improved standards for pharmaceutical packages would affect more than 50 percent of the volume in Michigan, central Iowa, eastern Missouri, southern Illinois, northern and western Kentucky,

southern Indiana, southwestern and northeastern Ohio, western Pennsylvania, western New York, northwestern Vermont and northeastern Massachusetts." *Id.*

VI. BRIEFS AND STATEMENTS OF POSITION

Initial briefs were filed by the Postal Service, and the Public Representative; additionally a reply brief was filed by the Postal Service. These briefs and reply briefs are summarized below.[43]

A. Briefs/Reply Briefs

1. Public Representative

The Public Representative, while not opposing the proposed changes in the Postal Service's Request, identifies several areas of concern. PR Brief at 1. As an initial matter, the Public Representative asserts that the Postal Service misconstrues the applicable legal standard.[44] She argues that 39 U.S.C. § 3661 "does not require the Commission to provide simple approval or disapproval of a proposal, but rather requires…the Commission to provide its expert advice to the Postal Service, in conformance with the policies of the [PAEA]." *Id.*

Observing that the service standard changes proposed for FCPS in this proceeding are predicated on implementation of the service standard changes for FCM and Periodicals, which the Commission recently addressed in Docket No. N2021-1, the Public Representative cautions that the service standard changes for FCM and Periodicals "have no proven record of success, and no operational or pilot testing has occurred…." *Id.* at 12. She states that implementing both sets of changes, "without adequate testing, opens up the Postal Service to potential risks." *Id.* at 12-13.

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[43] Appendix C provides a list of these filings and citations.

[44] PR Brief at 2 (citing Request at 1, 12-13).

The Public Representative "cannot state with certainty that the Postal Service's proposal supports the conclusion that the current surface network can absorb increased volumes from *both* FCM and Periodicals *and* First-Class Package Service." *Id.* at 14 (emphasis in original). She also notes that the proposed service standard changes "do not automatically solve the service performance issues unique to surface transportation[,]" for which "numerous issues beset…reliability." *Id.* Moreover, she states that the Postal Service "has not provided any degree of certainty" that its proposed 95 percent on-time service performance target for FCPS can be achieved in the short run. *Id.* at 14-15.

The Public Representative expresses a number of concerns with the network scenario modeling relied upon by the Postal Service in support of its Request. *Id.* at 15. She states that "a number of constraints affect the modeling[,]" which "utilizes an advanced set of heuristics" that "can produce results which are less than optimal." *Id.* at 16. The modeling software "offers a variety of ways to approach many…business rules, and seemingly small changes can sometimes have large unexpected impacts on the results…."[45] Furthermore, "[s]everal constraints of the modeling require manual input or post-processing refinement to mitigate the impact of these constraints" *Id.* The Public Representative states that given these constraints "there is no shortage of speculation[ ]" with regard to the validity of the Postal Service's modeling. *Id.* at 17. She cites an example uncovered during discovery in this proceeding, in which an input omission in the modeling produced inflated mileage reduction percentages that "had a domino effect on the testimonies of all the Postal Service's witnesses."[46] She asserts that "since the modeling underpins the Postal Service's Request and proposed service standard changes, any assumptions, constraints, and iterations must be viewed critically." *Id.* at 18.

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[45] *Id.* (citing Revised USPS-T-1 at 12-20).

[46] *Id.* (citing Response to POIR No. 2, question 2).

The Public Representative questions the Postal Service's assertion that one of the most predictive drivers of customer satisfaction with respect to FCPS is reliability. *Id.* at 19. Specifically, while she finds the Postal Service's conclusions with respect to commercial mailers, which are based on survey data, to be reasonable, she finds the Postal Service's conclusions with respect to retail mailers to "lack[ ] any degree of supportive data." *Id.* at 19-20. She argues that it is possible that for retail mailers, customer satisfaction might be reduced as a result of downgrading the existing service standards, even if the service provided is more reliable. *Id.* at 20. She expresses concern that this could lead to decreased volume, revenue, and contribution in the long run. *Id.*

The Public Representative states that even though FCPS is a Competitive product, the Postal Service needs to be mindful of the impact any changes in service standards could have on customers that rely on the Postal Service for critical services, such as "individuals who are physically impaired, live in rural areas, and receive their pharmaceuticals only by mail." *Id.* at 20-21. She states that these customers are "more likely to be negatively impacted by the proposed service standards changes." *Id.* at 21. However, the Public Representative finds that the Postal Service's assertion that its proposed service changes will have negligible impact on pharmaceutical customers is supported by the model, which, if accurate, projects that pharmaceutical volume would be less impacted than other FCPS volume. *Id*.

The Public Representative observes that the Postal Service's projected $314 million in cost reductions is based on both the FCM and Periodicals service standard changes addressed in Docket No. N2021-1, and the service standard changes for FCPS that are the subject of the instant proceeding being implemented together. *Id.* at 22. However, the cost savings associated with FCM and Periodicals make up the bulk of this amount. *Id.* When those are deducted, the projected cost savings associated solely with FCPS are only $42 million. *Id.* She notes testimony concerning "potential"

cost savings associated with future NDC network optimization, but states that those cost savings estimates are still "in development."[47]

The Public Representative states that, in general terms, it is likely that the Postal Service would achieve cost savings by shifting mail volume from air transportation to surface transportation, and that moving FCPS volume to less costly surface transportation and lengthening the transportation window would provide the Postal Service with more time to utilize its network more efficiently. *Id.* at 22-23. She finds that the methodology employed by the Postal Service to calculate projected cost savings is sound, and that the Postal Service's cost savings analysis is reasonable from a business perspective. *Id.* at 23.

Despite the foregoing, however, the Public Representative asserts that she "cannot conclusively say that the projected cost savings analysis is accurate." *Id.* She notes that historically projected cost savings estimates by the Postal Service have not always materialized. *Id.* Furthermore, she notes that the Postal Service's Request and the associated testimony and evidence contained quantitative errors that required revisions to cost savings estimates, reducing total savings from the proposed service standard changes for FCPS from an annual $55 million to $42 million. *Id.* She asserts that "*how* the proposed service standard changes are actually implemented will be the key factor with regard to the amount of cost savings that are actually realized." *Id.* (emphasis in original). She states that she "cannot recommend that the Commission rely on the [Postal Service's] cost savings estimates in the development of its advisory opinion." *Id.* at 23-24.

The Public Representative suggests that if the Postal Service decides to implement the proposed service standard changes for FCPS, it's to do so at a later date and not simultaneously with the service standard changes for FCM and Periodicals. *Id.* at 25. She also cautions the Postal Service to be "mindful of [the] tradeoff between the

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[47] *Id.* (citing Revised USPS-T-2 at 9; Response to PR/USPS-T1-9-10).

cost savings expected as a result of the instant proceeding ($42 million) and…service degradation of a highly [C]ompetitive product that currently has a net positive contribution…." *Id.* She states that "[i]f cost savings materialize for First-Class Mail and Periodicals, and should it appear that the surface transportation network can handle additional volume and on-time service performance appears reliable[,] then the Postal Service could move forward with the proposed service standard changes related to First-Class Package Service." *Id.* at 25-26.

2. Postal Service

The Postal Service reiterates the assertions presented in the Request and revised testimonies. *See generally* Postal Service Brief; Postal Service Reply Brief. The Postal Service maintains that the proposed service standard changes for FCPS are an essential component of the Postal Service Strategic Plan, and should be evaluated within the larger context of that plan. Postal Service Reply Brief at 3; *see* n.8, *supra*.

The Postal Service states that the existing service standards for FCPS "impose and reinforce transportation network inefficiencies and high costs by compelling dependence on more expensive and less reliable air transportation for a significant amount of FCPS volume." Postal Service Brief at 2. Additionally, the Postal Service asserts that "the constrained transportation requirements necessitated by the existing service standards prevent the Postal Service from leveraging strategies to reduce transportation costs and increase delivery-time reliability." *Id.* By contrast, the Postal Service contends that the proposed changes would "enable the Postal Service to provide more consistent and reliable service, realize cost savings, increase utilization of transportation capacity[,]…improve transportation network efficiency[,]…[and] enable future improvements in the…mail processing network." Postal Service Reply Brief at 3; *see* Postal Service Brief at 7-10.

The Postal Service asserts that the proposed service standard changes will reduce costs by allowing the Postal Service to shift volume from air to surface

transportation and increase efficiency. *See* Postal Service Brief at 11-14. However, while the proposed service standard changes will facilitate the increased use of surface transportation, they will not compel it. *See id.* at 15. The Postal Service explains that it will retain the flexibility to use air transportation "in cases where it would be more efficient or cost effective[,]" and the Postal Service "projects that over 26 percent of FCPS volume will continue to be transported by air under the proposed service standards." *Id.*

The Postal Service argues that parties and participants criticizing its cost savings projections and its transportation model have failed to offer any alternative projections or models. Postal Service Reply Brief at 16. It explains that its model is a "decision-support tool," which is not "intended to be dispositive" or to "capture[ ] all details and intricacies of the current network." Postal Service Brief at 8-9; Postal Service Reply Brief at 19-20. Nevertheless, the Postal Service maintains that it "utilized appropriate data sources and modeling techniques…[,]" and that "the model…reveal[s] significant benefits of the added transit windows afforded by the proposed service standards." *Id.* The Postal Service argues that the States and Cities,[48] misrepresent the record testimony and evidence by ignoring the potential cost savings associated with future reductions in charter flights and streamlining the NDC network, estimated by witness Kim to range from $77 million to $214 million. Postal Service Reply Brief at 18 (citing States and Cities Statement at 8; Revised USPS-T-2 at 10).

The Postal Service asserts that the proposed service standard changes will not materially impact FCPS volume. Postal Service Brief at 16; Postal Service Reply Brief at 13-15. The Postal Service cites survey data in contending that commercial shippers are likely to maintain, or even increase, FCPS volume under the proposed service standards. Postal Service Brief at 16; Postal Service Reply Brief at 14. The Postal Service states that survey respondents most frequently identified price (as opposed to

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[48] Statement of Position of 17 State Attorneys General and Two Cities, August 20, 2021 (State and Cities Statement). The States and Cities Statement is summarized in Section VI.B.2., *infra*.

speed) as the primary driver for using FCPS. Postal Service Brief at 16. With regard to retail customers, the Postal Service states that "[f]or the [ ] same reasons, and the added convenience of the Postal Service's extensive retail network, the Postal Service also anticipates continued growth in FCPS-Retail volumes after the proposed service standard changes are implemented." Postal Service Brief at 16; Postal Service Reply Brief at 14-15. The Postal Service rejects criticism that it did not specifically survey retail customers, whom it asserts represent approximately 9 percent of FCPS volume. Postal Service Reply Brief at 14. The Postal Service maintains that its market research is equally applicable to both commercial and retail customers. *Id.* at 14-15.

The Postal Service asserts that the proposed service standard changes will only modestly impact customers. Postal Service Brief at 16-17. It anticipates that only 31 percent of current 3-Day FCPS volume within the contiguous 48 states will be subject to the proposed 4- or 5-day standard. *Id.* The Postal Service states that it will inform retail and commercial customers about the service standard changes "so they can set appropriate expectations for delivery times and allow orderly process adjustments." *Id.* at 17. In addition, the Postal Service states that it "will continue to offer [the] Priority Mail product for FCPS customers that require delivery over longer distances in three days or less." Postal Service Brief at 17; Postal Service Reply Brief at 15.

The Postal Service states that it will work with its transportation suppliers to mitigate the impact of the proposed service standard changes on the Postal Service's transportation network. *See* Postal Service Brief at 17-18. The Postal Service states that it does not anticipate any reduction in its workforce consequent to the proposed changes, although it is possible that increased efficiency could reduce the need for employee overtime. *Id.*

The Postal Service asserts that the proposed changes accord with and conform to relevant statutory policies. *Id.* The Postal Service contends that while "[m]any parties fixate narrowly on delivery speed and relegate reliability, efficiency, economy, and cost control to second-tier policy objectives[,]" what the applicable statutes actually

require is for the Postal Service to balance the achievement of all of these objectives "in a manner that is operationally and financially sustainable[,]" which "cannot be done under the current service standards." Postal Service Reply Brief at 3. It asserts that "particularly relevant to the proposed service standard changes at issue in these proceedings…is balancing prompt and economical service."[49] The Postal Service asserts that "title 39…recognizes mail transportation as a specific power granted to the Postal Service[,]" and it has "significant discretion to determine how best to balance and fulfill these policies."[50]

The Postal Service argues that the proposed service standard changes will enable it to achieve a better balance between prompt and economical transportation, delivering significant cost savings while negatively impacting less than one-third of FCPS volume. *Id.* at 19-20. Specifically, the Postal Service states that 17 percent of volume will experience a 1-day increase in delivery time, while 14 percent will experience a 2-day increase. *Id.* at 20. On the other hand, almost 5 percent of volume will experience a 1-day improvement in delivery time. *Id.* The Postal Service asserts that "[t]he limited scope of these service changes demonstrates…careful[ ] consider[ation] [of] how to appropriately balance the statutory policies." *Id.* Moreover, the Postal Service states that the "fraction" of FCPS volume that experiences a service reduction "will receive significantly enhanced service reliability, further demonstrating that the Postal Service is striking an appropriate balance." *Id.*

The Postal Service argues that the proposed service standard changes also promote more reliable and efficient service, in accordance with 39 U.S.C. §§ 101(a),

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[49] Postal Service Brief at 18 (citing 39 U.S.C. § 101(f) ("In selecting modes of transportation, the Postal Service shall give the highest consideration to the prompt and economical delivery of all mail.")).

[50] *Id.* at 18-19 (citing 39 U.S.C. § 404(a)(1) ("The Postal Service shall have the following specific powers, among others: to provide for the…transportation…of mail….")).

403(a), and 3661(a).[51] It states that increasing the use of surface transportation "will greatly improve [FCPS] transportation reliability[,]" and "will also improve the overall efficiency of the postal transportation network…." *Id.* The Postal Service asserts that the proposed service standard changes will improve even further on service for FCPS that is "already more than adequate" within the meaning of 39 U.S.C. §§ 403(a) and 3661(a).[52]

The Postal Service argues that 39 U.S.C. § 101(e) only applies to "important letter mail," not to packages.[53] The Postal Service also argues that "for package transportation as opposed to letter mail, 'prompt' does not mean as fast as possible[,]" a distinction which "the law makes…expressly[;] [w]hereas 'prompt and economical delivery' is a paramount consideration for transporting 'all mail,' the principal transportation consideration for important letter mail is 'most expeditious.'"[54] The Postal Service argues that "[g]iven the distinct application of 'most expeditious' exclusively to important letter mail, 'prompt' as applied to package mail must mean something less." *Id.* The Postal Service states that "with respect to the required and necessary balance between speed and cost, the Postal Service offers a range of package products for customers to choose from[,] [in which] FCPS provides a particular balance, while other package products exist for those who want faster delivery." *Id.* at 20-21.

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[51] *Id.* at 21 (citing 39 U.S.C. § 101(a) ("The Postal Service…shall provide…reliable, and efficient services…."); 39 U.S.C. § 403(a) ("The Postal Service shall…provide adequate and efficient postal services…."); 39 U.S.C. § 3661(a) ("The Postal Service shall develop and promote adequate and efficient postal services.")).

[52] *Id.* at 22 (citing 39 U.S.C. § 403(a) ("The Postal Service shall…provide adequate and efficient postal services…."); 39 U.S.C. § 3661(a) ("The Postal Service shall develop and promote adequate and efficient postal services.")).

[53] Postal Service Reply Brief at 5-6 (citing 39 U.S.C. § 101(e) ("In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious…transportation…of important letter mail.")).

[54] Postal Service Brief at 20 (citing 39 U.S.C. § 101(e); 39 U.S.C. § 101(f) ("In selecting modes of transportation, the Postal Service shall give the 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…of important letter mail…shall be a primary goal of postal operations.")).

The Postal Service argues that 39 U.S.C. § 3691 is inapplicable to the proposed changes in this docket because it only applies to Market Dominant products. Postal Service Reply Brief at 4-5. The Postal Service also contends, in response to statements of position received, that the source of postal funding is beyond the scope of these proceedings and the Postal Service does not have the option of ignoring its self-funding mandate, pursuant to which costs are an express operational consideration that the Postal Service must balance. Postal Service Brief at 26.

The Postal Service argues that the proposed service standard changes are not unduly or unreasonably discriminatory, as they do not meet the three-part test used by the Commission to establish a claim of undue discrimination. Postal Service Brief at 23; Postal Service Reply Brief at 8-13. Under that test, 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) the mailer or group of mailers is similarly situated to the other mailer or mailers who have been offered the more favorable rates or terms and conditions; 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.[55]

The Postal Service "disagree[s] with [the Commission's] articulation" of the first element of the *Gamefly* test in the Docket No. N2021-1 Advisory Opinion—that "'[i]t is enough[ ]…that a mailer be able to show a different level of service received by two mailers[ ]'"—and contends that that articulation "is arguably confined by its terms to the

[55] Postal Service Brief at 23. *See* 39 U.S.C. § 403(c) ("The Postal Service shall not…make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user."). *See also* Docket No. C2009-1, Order on Complaint, April 20, 2011, ¶ 4021 (Order No. 718) (articulating *Gamefly* test for establishing a claim of undue discrimination).

context of First-Class Mail and not to the context of FCPS, a service that does not carry a uniform rate, and for which distance-based zones already exist."[56]

Nevertheless, the Postal Service argues that because the proposed service standards for FCPS, like the current service standards, are based on distance (or drive time) from origin to destination, and all mailers are offered and receive the same service depending on the drive time from origin to destination, "no similarly situated customers are treated differently under [the proposed] standards."[57] The Postal Service states "[a]t the very least, there is no basis to make such a conclusion in the abstract…[,]" because "whether shippers are 'similarly situated'…is a fact-driven, nuanced, and complex inquiry—that is best determined on a case-by-case comparison of the relevant characteristics of the mailers."[58]

Moreover, the Postal Service argues that even if the proposed changes did treat similarly-situated mailers differently, they still accord with 39 U.S.C. § 403(c) because they advance legitimate postal policies.[59] The Postal Service states that "the differentiation of service standards based on drive time from origin to destination is rationally related to the Postal Service's statutory mandate to provide adequate, efficient, reliable, and economical postal services[,]" and "it is well-settled that 'the

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[56] Postal Service Reply Brief at 9 (citing Docket No. N2021-1 Advisory Opinion at 175).

[57] Postal Service Brief at 23-24; Postal Service Reply Brief at 6-7, 9-11. The Postal Service also states that "focus[ing] on service standards [for purposes of evaluating the second element of the *Gamefly* test] obscures the extent to which actual service performance may differ from those standards[,]" either by failing to meet the standards or by, in some cases, exceeding them. Postal Service Reply Brief at 10. The Postal Service asserts that "downgrading service standards…should provide…chances for the Postal Service to…improve the actual service that…customers receive[,]" which will "increase the likelihood that similarly situated customers receive the same real-world level of service…." *Id.*

[58] Postal Service Brief at 24; Postal Service Reply Brief at 10-11 (citing Docket No. N2021-1 Advisory Opinion at 175-76).

[59] Postal Service Brief at 24; Postal Service Reply Brief at 12-13.

Postal Service has wide latitude in providing different levels of service to different groups of users so long as those distinctions are reasonable."[60]

The Postal Service disputes claims that veterans or rural customers will be disproportionately affected by the proposed changes, asserting that such claims are speculative and unsupported. Postal Service Reply Brief at 11-12. It asserts that the proposed changes will have a negligible impact on pharmaceutical customers, including veterans, and that the proposed changes will have similar volume impacts on both rural and urban customers. *Id.* The Postal Service asserts that following implementation of the proposed changes it will continue to comply with the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), which requires that "during the COVID-19 emergency, the Postal Service—(1) shall prioritize delivery of postal products for medical purposes[,]" by "[t]o the extent feasible,…continu[ing] to give priority to the delivery of postal products (including FCPS) for medical purposes."[61] The Postal Service maintains that the majority of pharmaceutical volume will be unaffected by the proposed changes. Postal Service Reply Brief at 8.

The Postal Service asserts that the proposed service standard changes conform with the provisions applicable to Competitive products in 39 U.S.C. § 3633. Postal Service Brief at 25-26. It asserts that under the proposed changes, the FCPS product will continue to cover its attributable costs, and there is no increased risk of Competitive products being cross-subsidized by Market Dominant products or of Competitive products being unable to contribute the required appropriate share to institutional costs. *Id.*

The Postal Service rejects the suggestion that it delay implementation of the proposed changes in this docket until after it has had time to evaluate the changes to

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[60] Postal Service Brief at 25 (citation and internal punctuation marks omitted); Postal Service Reply Brief 12-13.

[61] *Id.* at 7-8 (citing CARES Act, Pub. L. 116-636, § 6001(c)(1), 134 Stat. 281, 505 (March 27, 2020)).

service standards for FCM. Postal Service Reply Brief at 20. It maintains that the changes to FCM and FCPS are interrelated, such that benefits accruing to one cannot be obtained in isolation from the other. *Id.* The Postal Service also rejects criticism that it failed to perform pilot testing, arguing that the complexity and interconnectivity of its transportation network makes such testing unrealistic and unreasonable. *Id.* at 21. It argues that the States and Cities' assertion that the Postal Service should seek public service appropriations rather than implement the proposed changes[62] is a "total red herring" that is totally "unrelated to…the instant proposal." Postal Service Reply Brief at 18.

The Postal Service maintains that its proposed 95 percent on-time service performance target for FCPS is reasonable, "enabled not merely by the proposed service standard changes, but also by processing and network changes that the Postal Service expects to make…." *Id.* at 21. While the Postal Service is taking a "realistic view" of its ability to immediately achieve the target, "a recognition that results will not be instant and will occur after necessary network and other changes are made does not imply an admission that performance targets are unreliable." *Id.* at 22.

Finally, the Postal Service rejects criticism that it did not publish the proposed rule changes for FCPS in the *Federal Register*, arguing that doing so would be "duplicative and unnecessary." *Id.* at 22-23. The Postal Service argues that unlike service standards for Market Dominant products, which are covered by 39 U.S.C. § 3691 (which requires that such standards be established and revised "by regulation"), no analogous statutory provision applies to Competitive products such as FCPS. *Id.* at 23.

Based on the record, the Postal Service lists its proposed findings and conclusions. Postal Service Brief at 27-32; Postal Service Reply Brief at 24-25.

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[62] *See* States and Cities Statement at 9. The States and Cities Statement is summarized in Section VI.B.2., *infra*.

B. Statements of Position

The Commission received a total of 10 statements of position from 1 organization, a group of attorney generals and cities, and 8 individuals. These statements of position are summarized below.[63]

1. National Association of Letter Carriers, AFL-CIO

The National Association of Letter Carriers, AFL-CIO (NALC) opposes the proposed service standard changes.[64] First, NALC states that "the Postal Service's major customers and the American public have expressed strong opposition to downgrades in service[,]" which precludes "lengthening service standards for any portion of [FCPS] volume[,]…[including] pharmaceutical volume." *Id.* Second, "the potential damage to the Postal Service's brand [from] reducing the quality of service at a time when the agency is using its much needed expanded authority to raise postage rates[ ] could…trigger greater volume losses than those suggested by price elasticities calculated many years ago." *Id.* Third, "the Postal Service's proposal is based on the same model that was critiqued by the Commission in Docket No. N2021-1[,]" which "calls into question both the projected effect on FCPS volume and the Postal Service's ability to achieve the projected cost savings…." *Id.* at 2-3. Finally, "as a matter of long-term strategy, even if the model used by [the Postal Service] accurately predicts possible cost savings, the minimal level of such savings…do not appear to be worth the potential damage to the agency's brand[,]" as the projected cost savings "represent[ ] a fraction of one percent of current operating costs." *Id.* at 3. NALC urges the Postal Service to reconsider the proposed changes, and advocates instead "revisit[ing] the 10-year plan…to aim…for revenue-generating product innovation[,]" as well as

[63] Appendix D provides a list of these filings and citations.

[64] Statement of Position of the National Association of Letter Carriers, AFL-CIO, August 19, 2021, at 2 (NALC).

"look[ing] to further public policy reforms to strengthen the Postal Service's finances." *Id.*

2. States and Cities

The Commonwealth of Pennsylvania, the State of New York, the State of California, the State of Connecticut, the State of Delaware, the State of Hawaii, the State of Maine, the State of Maryland, the State of Michigan, the State of Minnesota, the State of New Jersey, the State of North Carolina, the State of Oregon, the State of Washington, the Commonwealth of Massachusetts, the Commonwealth of Virginia, the District of Columbia, and the City of New York (collectively, these parties refer to themselves as "States and Cities") submit a statement of position on the proposed changes. *See generally* States and Cities Statement.

The States and Cities assert that "it appears that the Postal Service is repeating many of the[ ] mistakes[ ]" that were allegedly made with respect to a series of controversial operational initiatives the Postal Service introduced in 2020, which the States and Cities maintain "had a devastating effect on mail service."[65] They state that the Postal Service is now "moving swiftly and without proper diligence to change postal operations and degrade service standards…for FCPS." *Id.* at 2.

They note that FCPS "is often used to ship mail-order prescriptions and orders from online marketplaces, the latter of which are a 'key conduit' for small and medium-sized businesses[,]" and that in FY 2020, FCPS accounted for 25 percent of the Postal Service's total package volume. *Id.* (citation omitted). They assert that the Postal Service's proposal would shift nearly one-third of all FCPS volume currently subject to a 3-day standard—including 16 percent of pharmaceutical volume—to a 4- or 5-day standard. *Id.* at 5-6. They cite rebuttal testimony submitted in this docket in arguing

[65] *Id.* at 1-2. The Commission has previously discussed the operational initiatives referred to by the States and Cities in depth. *See* Docket No. ACR2020, *Annual Compliance Determination*, FY 2020, March 29, 2021, at 118-34, 144-50 (FY 2020 ACD).

that specific geographic areas would be disproportionately affected, including parts of Texas, Oregon, "[a]ll of the West Coast," Nevada, Idaho, Montana, Arizona, Utah, Wyoming, New Mexico, North Dakota, South Dakota, "[m]ost of the East Coast and New England," Colorado, Minnesota, Louisiana, and Arkansas.[66]

The States and Cities argue that the Postal Service has failed to show that its Request is justified. *Id.* They assert that substituting surface transportation for air transportation will not mitigate processing point failures, and thus will not address low service performance. *Id.* at 6-7. They also note that the proposed business rules for FCPS differ from the business rules proposed for FCM (which the Commission addressed in Docket No. N2021-1), providing for longer drive time windows for FCPS to qualify for the 2-, 3-, 4-, or 5-day delivery standards. *Id.* at 7. They state that "[g]iven that First-Class Mail and FCPS would be moving in the same surface transportation network subject to the same constraints…it is not clear why—or how—the Postal Service is proposing to move FCPS packages…farther than First-Class Mail in the same period of time." *Id.* In any event, they argue that "a request prioritizing packages above First-Class Mail cannot be squared with the statutory requirement that the Postal Service 'give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.'"[67]

The States and Cities note that Postal Service's model for estimating the impact of the proposed service standard changes for FCPS is based on implementing those changes simultaneously with the proposed service standard changes for FCM. *Id.* at 8. Thus, the proposal "relies on many of the same assumptions, analysis, and modeling that the Commission already found lacking." *Id.* at 3, 8. For this reason, they maintain that the model "likely overestimates the extent to which the proposed changes will improve transit efficiency for FCPS…." *Id.* at 8.

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[66] *Id.* at 6 (citing APWU-RT-1 at 3).

[67] *Id.* (citing 39 U.S.C. § 101(e)).

The States and Cities assert that the $42 million in annual cost savings that the Postal Service projects from the proposed service standard changes for FCPS constitutes only 0.05 percent of the Postal Service's annual operating budget. *Id.* Moreover, they note that the Postal Service's cost-savings analysis is based on a combined model that includes service standard changes for both FCPS and FCM, but, they observe, the Postal Service's cost-savings analysis with respect to FCM was significantly critiqued by the Commission in Docket No. N2021-1.[68]

The States and Cities argue that instead of pursuing the proposed service standard changes in this docket, the Postal Service should seek to avail itself of statutory authority to seek appropriated funds as "reimburse[ment]…'for public service costs incurred…in providing…postal service'…."[69] They urge the Commission to recommend that the Postal Service's Board of Governors ask Congress to appropriate such funds, which would "constitute more than ten times" the annual savings associated with the proposed service standard changes in this docket. *Id.*

The States and Cities caution against using the "anomalous" circumstances of 2020 and 2021 as a baseline for long-term planning. *Id.* They cite again to the Postal Service's operational initiatives in FY 2020, which they characterize as having "imposed sweeping changes in the face of…unprecedented challenges, [with] result[s] [that were] disastrous." *Id.* at 10. They maintain that the Postal Service should abandon the proposed changes and focus on remediating deficiencies in its service performance. *Id.*

The States and Cities argue that the proposed changes would harm their residents' interests. *Id.* They note that the proposed changes will result in downgraded service standards for 16 percent of FCPS pharmaceutical volume, which they argue will significantly harm their residents who rely on mail-order medications. *Id.* They assert that many of their residents "must turn to mail-order medications in order to get highly

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[68] *Id.* at 9 (citing Docket No. N2021-1 Advisory Opinion at 66-67).

[69] *Id.* (citing 39 U.S.C. § 2401(b)(1)).

specialized prescriptions[,]" and "[i]ncreased transit time may be especially dangerous for residents whose medications require refrigeration or are otherwise sensitive to temperature changes." *Id.* They maintain that "[f]or some, insurance companies require prescriptions to be fulfilled by [the Postal Service]…and, as such, many low-income patients cannot seek out faster alternatives." *Id.*

They assert that the Postal Service fails to account for geographic disparities with respect to pharmaceutical volume. *Id.* at 11. They argue that such geographic disparities violate the Postal Service's legal obligation not to "'make any undue or unreasonable discrimination among users of the mails.'"[70] They also maintain that slowing pharmaceutical delivery presents serious public health concerns to the States and Cities, especially in light of the ongoing COVID-19 pandemic, which has required "many[,]…including…elderly and immunocompromised residents—to turn to mail-order medications…." *Id.* They assert that "[s]lowing these deliveries when hospitals and other healthcare providers are already overwhelmed or understaffed due to the COVID-19 surge risks exacerbating the current crisis…." *Id.* They argue that "actively taking steps to slow the delivery of pharmaceuticals" also violates the CARES Act, which requires that "during the COVID-19 emergency, the Postal Service shall prioritize delivery of postal products for medical purposes."[71]

The States and Cities argue that the Postal Service has failed to account for the proposed changes' effect on specific populations, including veterans and rural communities. *Id.* at 12. They assert that many large and rural states will be disproportionately affected by the proposed changes, which they argue violates 39 U.S.C. § 101(b)'s requirement that the Postal Service "provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining." *Id.* With respect to veterans, they note that

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[70] *Id.* (citing 39 U.S.C. § 403(c)).

[71] *Id.* at 11-12 (citing CARES Act, Pub. L. 116-636, § 6001(c)(1), 134 Stat. 281, 505)).

Department of Veterans Affairs fulfills a large majority of its prescriptions by mail through the Postal Service, and they assert that the proposed changes "will require millions of veterans to adjust or pay nearly twice as much (or more) for faster alternatives—if that option is even available to them." *Id.*

The States and Cities state that the Postal Service has not issued a notice of proposed rulemaking with respect to the proposed changes in this docket, and they argue that this has deprived the public of an opportunity to comment on the proposed changes and receive an explanation from the Postal Service. *Id.* at 13-14. They assert that the instant proceeding is not an adequate substitute, "as the Postal Service's decision to file critical information…under seal has undermined the ability of the public to evaluate the proposed changes—much less meaningfully participate in the hearings." *Id.* at 14. They urge the Commission to recommend that the Postal Service accept public comment prior to implementing any changes to service standards for FCPS. *Id.*

The States and Cities maintain that the proposed changes in this docket cannot be evaluated in isolation, outside of the context of the Postal Service's broader 10-year Strategic Plan with which they are intertwined, including the service standard changes for FCM and Periodicals from Docket No. N2021-1. *Id.* at 14-15. They urge the Commission to "conduct a special study, establish a public inquiry proceeding, or pursue other appropriate means to evaluate the proposed changes…within the broader context of the now-forthcoming changes to First-Class Mail service standards and the Postal Service's Strategic Plan."[72] They also urge the Commission to "give itself adequate time" to evaluate the issues in this proceeding, extending, if necessary, the regulatory deadline for issuing an advisory opinion. *Id.* at 15-16.

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[72] *Id.* at 14 (citing 39 C.F.R. § 3020.102(b)).

3. Statement of Position and Comments from Individuals

Generally, individual members of the public that filed statements of position and/or comments oppose the Postal Service's proposal.[73] Multiple individuals emphasize their reliance on the Postal Service's speed of delivery to receive items for medical purposes.[74] Some individuals express concerns regarding the impact of the changes on rural communities and areas that lack reliable access to the internet.[75]

VII. COMMISSION ANALYSIS

A. Background

First-Class Package Service is classified as a Competitive product used to ship lightweight packages.[76] First-Class Package Service is divided into segments: Retail (single-piece) and Commercial (bulk). *See* MCS § 2125. The vast majority of FCPS pieces are FCPS-Commercial pieces and only a small percent falls under the FCPS-Retail category. *See* August 12 Response to POIR No. 11, questions 13.b., 14.a.,

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[73] *See, e.g.,* Statement of Position from Edward Taussig, May 26, 2021 (Taussig Statement); Statement of Position from John Cowley, May 26, 2021 (Cowley Statement); Statement of Position from Lila Oshatz, May 26, 2021 (Oshatz Statement); Statement of Position from Sylvia Fellows, June 2, 2021 (Fellows Statement); Statement of Position from M. Bruce, June 22, 2021 (Bruce Statement); Statement of Position from Stephanie Ladd, June 22, 2021 (Ladd Statement); Statement of Position from Evan Wolfe, June 22, 2021 (Wolfe Statement); Statement of Position from Sharon Hamersley, June 23, 2021 (Hamersley Statement).

These filings also raise issues that are outside the scope of this Advisory Opinion, such as general dissatisfaction with the Postal Service's Strategic Plan and/or the Postmaster General, access to collection boxes, service standards and service performance of Market Dominant products, the delivery of letter mail related to elections, bills, and personal correspondence (which are sent using Market Dominant products rather than FCPS), lines at local Post Offices, and the closures of processing facilities and retail units. Docket No. N2021-2 is limited in scope to the specific changes proposed by the Postal Service in its Request. *See* 39 C.F.R. § 3020.102(b).

[74] *See, e.g.,* Taussig Statement; Fellows Statement; Bruce Statement; Ladd Statement; Wolfe Statement; Hamersley Statement.

[75] *See, e.g.,* Oshatz Statement; Bruce Statement; Ladd Statement.

[76] *See* Postal Regulatory Commission, (*draft*) Mail Classification Schedule posted January 25, 2021, (with revisions through March 31, 2021, available at *http://www.prc.gov/mailclassification-schedule* (MCS), § 2125.

14.b.ii. FCPS-Retail services are available at Post Offices to retail customers that wish to ship packages weighing less than 13 ounces and are sealed against inspection. *See* MCS § 2125. FCPS-Commercial services are available to commercial and online customers shipping packages weighing less than 16 ounces and are not sealed against inspection. *See id.* Competitive domestic negotiated service agreements (NSAs) that include FCPS products in the agreements will also be affected because the Postal Service states that "NSA FCPS domestic packages will have the same service standards as published rated packages." Response to POIR No. 2, question 8.c.ii. Taken together, the Postal Service delivered 1.8 billion FCPS packages in FY 2020, and the product accounts for 27.5 percent of the Postal Service's domestic package volume.[77]

Additionally, the international analogs to FCPS will be subject to the applicable proposed service standard.[78] Thus, Outbound Single-Piece First-Class Package International Service, Inbound Letter Post packets, and international NSA customers will be affected in the same manner as domestic FCPS customers. *See* Response to POIR No. 2, question 8.c.iii. The Postal Service avers that no other products will be affected by the proposal. *See* Response to POIR No. 4, question 7. In summary, the Postal Service's proposed changes in Docket No. N2021-2 only affect: FCPS, domestic and international NSAs that include FCPS products, Outbound Single-Piece First-Class

[77] *See* FY 2020 Public Cost and Revenue Analysis, available at *https://about.usps.com/what/financials/cost-revenue-analysis-reports/fy2020.pdf*, at 5.

[78] *See* Revised USPS-T-1 at iii n.2; Response to POIR No. 2, questions 8.a., 8.c.i., 8.c.iii.

Package International Service, and Inbound Letter Post packets. *See* Revised USPS-T-1 at iii n.2; Response to POIR No. 2, questions 8.a., 8.c.i.-8.c.iii.; Response to POIR No. 4, question 7.[79]

Under the bifurcated regulatory scheme established by the PAEA, products in the Market Dominant category are defined as all products covered by the postal monopoly as well as "each product in the sale of which the Postal Service exercises sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products."[80] Competitive products, by contrast, are defined as all other postal products that do not fall within the Market Dominant category.[81]

Overall, decisions regarding the Postal Service's Competitive products are left to the reasonable business judgment of the Governors of the Postal Service. Consequently, the Commission's oversight role is far more limited for Competitive products. For example, the Governors of the Postal Service may establish rates and classes for all Competitive products, subject to certain price floor regulations

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[79] The States and Cities question whether the Postal Service intends to change service standards for the Market Dominant products in the Package Services class of mail: Alaska Bypass Service, Bound Printed Matter (BPM) Flats, BPM Parcels, and Media Mail/Library Mail. *See* States and Cities Statement at 5. Such changes have not been presented by the Postal Service in Docket No. N2021-2. These products are categorized in a separate class of Market Dominant mail referred to as "Package Services" and are distinct from the Competitive product at issue in Docket No. N2021-2, FCPS. *See* MCS §§ 1400, 2125. Before the transfer, FCPS was categorized in a different class of Market Dominant mail referred to as "First-Class Mail" and the full product name was "First-Class Mail Parcels." *See* Docket No. MC2015-7, Order Conditionally Approving Transfer, July 20, 2017, at 3, 41 (Order No. 4009); Docket No. CP2017-230, Order Approving Price Adjustment for First-Class Package Service Product, August 8, 2017, at 3-4 (Order No. 4032).

[80] 39 U.S.C. § 3642(b)(1)-(2). The postal monopoly is codified in the Private Express Statutes, which are a group of civil and criminal statutes that make it unlawful for any entity other than the Postal Service to send or carry letters. *See* 18 U.S.C. §§ 1693-1699; 39 U.S.C. §§ 601-606.

[81] 39 U.S.C. § 3642(b)(1). While Competitive products consist largely of parcels, they also include express letters and flats and a wide variety of ancillary and non-postal products and services. *See* MCS Part B.

promulgated by the Commission pursuant to 39 U.S.C. § 3633, as well as notice requirements. *See* 39 U.S.C. § 3632. With respect to service standards, the PAEA and federal regulations require the Postal Service to give advance notice of plans to change its service standards and to submit proposed changes for the Commission to issue an advisory opinion;[82] however, the Commission lacks the authority to enforce its advice regarding the Postal Service's proposed changes to service standards. Further, certain statutory provisions related to service standards that apply to the Postal Service's Market Dominant products do not apply to Competitive products such as: the objectives and factors governing the Postal Service's revisions of its service standards for Market Dominant products (39 U.S.C. § 3691(b-c)), the requirement that the Postal Service publish its service standards for Market Dominant products in the Code of Federal Regulations (39 U.S.C. § 3691(a)), and the requirement that the Postal Service measure and report quality of service for each Market Dominant product (39 U.S.C. § 3652(a)).

B. Roadmap of Analysis

1. Overarching Conclusion

The Postal Service's stated goals in its proposal are to: provide more reliable and consistent service performance, improve its ability to function according to its operating plans and optimize its surface transportation network, and create cost savings by allowing more time to transport FCPS at a lower expense. As a threshold matter, these goals appear reasonable. The Postal Service contends that the proposal would achieve these goals because lengthening the service standards would enable it to transport

[82] 39 U.S.C. § 3661(b) (requiring the Postal Service to "submit a proposal [to change the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis], within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change."); 39 C.F.R. § 3020.112 (requiring the Postal Service to file notice of any changes to the nature of postal services that will generally affect service on a nationwide or substantially nationwide basis at least 90 days in advance).

more FCPS volume by surface rather than air. The Postal Service contends that surface transportation is more reliable and less costly than air transportation. The Postal Service also contends that extending the service standard will allow the Postal Service the flexibility to create a more efficient transportation network and implement future operational benefits without a material loss in FCPS volume. However, the proposal's success depends on a number of factors that the Postal Service has not demonstrated in its proposal. These factors include: successful operational implementation; achievement of consistency and reliability of service over time; reasoned assumptions with regard to demand changes; and the ability to actually achieve modeled efficiencies. In addition, because the Postal Service's proposal is a directional rather than a tactical presentation (similar to the limitations of the corresponding Postal Service's proposal applicable to Market Dominant FCM in Docket No. N2021-1[83]), the Commission further observes that there may be other unexplored factors that may impact success.

The following sections of this advisory opinion discuss the estimated impact of the proposal on the Postal Service's service performance, financial condition, transportation network, and customer satisfaction. Based on the Commission's analysis, the Commission provides recommendations for the Postal Service to consider if it chooses to implement its proposal.

[83] *See* Docket No. N2021-1 Advisory Opinion at 145-46.

2. Service Issues Findings

The Postal Service estimates that its proposal would extend the expected time to delivery for 31 percent of total FCPS volume and would shorten the expected time to delivery for 5 percent of total FCPS volume.[84] Based on analysis of non-public data, the Commission finds that the proposed changes target FCPS volume that consistently fails to meet performance goals and thus has the most room for improvement in service performance. Response to POIR No. 4, questions 2, 13. Therefore, the proposed 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 of its proposal. The Postal Service's estimates of the proportion of FCPS volume impacted by the proposal are based on October FY 2020 data, which may skew results that predict the impact on service for existing 2-day and 3-day FCPS volume.[85] Due to the COVID-19 pandemic, estimating service performance impacts on a model based on FY 2020 data may be unreliable. The Commission cautions that FY 2020 was not a representative year for service performance generally, and FCPS in particular, due to the COVID-19 pandemic's effect on package volume. Revised USPS-T-1 at 4. As such, the Postal Service's baseline may be less than accurate for predicting service impacts.

Further, the additional day added to FCPS service standards during the COVID-19 pandemic did not enable the Postal Service to meet its FCPS service performance

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[84] The Postal Service estimates that approximately 31 percent of FCPS volume will experience a service downgrade from 3-day service, and more specifically that 16.8 percent of FCPS volume will receive 4-day service and 14.3 percent of FCPS volume will receive 5-day service under the proposal. The Postal Service estimates that approximately 5 percent of FCPS volume will experience a service upgrade from 3-day service to 2-day service. Figure 7 of Revised USPS-T-1 was not updated to reflect the percentages reported in Revised USPS-LR-N2021-2/NP2. Revised USPS-T-1 at 35.

[85] The Postal Service explains that in FY 2020 packages did not follow a historic seasonal trend due to the COVID-19 pandemic and based their model on October 2020 data instead of March 2020 data for packages. Response to POIR No. 6, question 4.a.

target in FY 2020.[86] It is not clear whether the inability to meet service standards despite an additional day was due to the rapid increase in package volume in FY 2020 or whether the Postal Service's contention that lengthening service standards will enhance the ability to meet service performance targets is unsound.

The Postal Service's contention that FCPS service performance is higher for pieces traveling on surface transportation, rather than air transportation, appears to be supported by data filed in non-public library references. *See* Library Reference Revised USPS-LR-N2021-2/NP2. However, the Postal Service did not provide more detailed FCPS service performance data by transportation mode, disaggregated by 2-day and 3-day volume, for evaluating the service performance differences between transportation modes.

The Postal Service is required by the CARES Act to prioritize the delivery of postal products for medical purposes during the COVID-19 emergency.[87] This appears to be unaccounted for in the Postal Service's projected impact of the proposal. The Postal Service also fails to account for the potential challenges of acquiring adequate surface transportation due to a shortage of truck drivers. Because the Postal Service does not include any firm estimates for when it will meet its service target under its proposed changes, and it does not include any interim service targets, it is unclear when the Postal Service plans to realize the full service impact of its proposed changes.[88] The Commission finds that relaxing the existing service standards may put the Postal Service in a position to improve service performance, but service reliability will require across the board operational improvements. The Postal Service has not

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[86] *See* Docket No. ACR2020, *Analysis of the Postal Service's FY 2020 Annual Performance Report and FY 2021 Performance Plan*, June 2, 2021, at 35-36 (Docket No. ACR2020 FY 2020 Analysis); Revised USPS-T-1 at 1 n.4.

[87] Pub. L. No. 116-136 § 6001(c) (2020).

[88] Response to POIR No. 4, question 9.b.ii. Over 2 months after the initial filing, witness Hagenstein relayed his expectation that the Postal Service would set an interim target for FCPS. *See* August 16 Response to POIR No. 11, question 8.

provided details on how or when it intends to accomplish such improvements. In terms of customer segments impacted, the Postal Service projects that approximately 16 percent of pharmaceutical FCPS volume that currently receive 3-day service will experience a downgrade to 4-day or 5-day service. *See* Response to APWU/USPS-T-1-12. The Postal Service did not explore the impact of its proposal on recipients of pharmaceutical FCPS volume. The Postal Service's response to questions regarding this issue is that shippers could switch to Priority Mail to maintain the service standard that they currently receive. *See* Response to POIR No. 6, question 5.b.

To analyze the Postal Service's claim that moving mail from air to surface will improve service performance, the Commission evaluates root cause data provided by the Postal Service and provides additional detail in a non-public technical appendix to this Advisory Opinion. *See* Non-public Appendix.

3. Financial/Savings Findings

The Commission finds that the Postal Service's estimated cost savings may be inflated. The Postal Service has not fully developed its charter carrier and NDC network optimization cost estimates and additionally, several of its underlying assumptions appear untenable. The Postal Service tends to rely heavily on the achievement of cost savings related to changes proposed in Docket No. N2021-1, which are based on an outlier year (FY 2020) when costs and transportation modes were in flux compared to prior years. For example, the projected cost savings for surface transportation in Docket No. N2021-1 are dependent on usage of underutilized capacity. If the Postal Service does not achieve transportation route optimization, cost increases would negatively impact the projected savings for surface transportation for FCPS. Moreover, it is unclear whether the cost savings realized would outweigh the additional costs of optimizing the NDC network.

Further, the Commission finds that even if the Postal Service's cost saving estimates prove to be accurate, the proposal would not substantially affect the Postal Service's financial condition.

The Commission recommends that the Postal Service ensure that any savings realized are balanced with maintaining quality and customer satisfaction. The Postal Service should develop metrics to evaluate the savings associated with the individual components of its plan. Such metrics should include, but not be limited to, operating plan compliance and delayed volumes. *See* August 12 Response to POIR No. 11, question 6. Additionally, the Postal Service, before implementation, should consider whether any potential loss in volume caused by the proposed changes negate the level of potential savings to be realized. *See* Sections VII.B.3. and VII.D.2.b.3., *supra.*

Finally, the advisory opinion process is designed to allow for public vetting of the Postal Service's proposal. As such, the Postal Service may continue to refine its earlier findings in response to issues raised during the process. However, in the instant case, the Postal Service filed several errata revising its initial cost savings estimates downward in the middle of the advisory opinion process. In order to improve confidence in the cost-benefit analysis set forth by the Postal Service, the Commission recommends that the Postal Service create an auditing process for its filings prior to publishing them.

4. Transportation Modeling Findings

The Commission finds that the transportation modeling results, which were presented by the Postal Service to facilitate its analysis, are not fully developed. The Postal Service accomplished the optimized network's efficiencies not only by the assumed implementation of the more relaxed service standards for FCM and FCPS, but also by assuming a more efficient trip structure. The Postal Service's model has several limitations that make it unrepresentative of the current operational reality, such

as reduced complexity of business rules, simplified assumptions, and lack of accounting for the actual network's operational constraints.

The Commission finds that once these modeling limitations are accounted for, the final network that will be implemented will likely be less efficient than the Postal Service's projections. The Commission also finds that efficiently structured trips (*i.e.*, trips with stops at multiple origins, or multiple destinations, or at volume aggregation sites) are logistically complex, and have not been operationally tested. In order to achieve the modeled efficiencies, including trip consolidation, overall network mileage reduction, and improved capacity utilization, the redesigned transportation network would require timely operations at all points along the line of travel to the final destination. For example, pairing of volumes at aggregation sites will depend on all inbound transportation arriving at transfer sites on time (and with all committed volumes),[89] and it will depend on timely volume transfers, in order to enable pairings of volumes as planned, and timely departures of outbound transportation to meet destination Critical Entry Times (CETs). Less than optimal postal operations (*i.e.*, operations other than modeled) may further reduce network efficiencies from those modeled.

The Commission's analysis reveals that a significant portion of the modeled efficiencies in the Postal Service's optimized network is accomplished in the baseline network,[90] which is subject to the existing service standards, and which forms the basis of the Postal Service's transportation modeling. The Commission's finding is supported by the baseline network being almost indistinguishable from the optimized network – and markedly different from the actual inter-SCF network – in terms of trip structure,

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[89] Committed volumes refers to all volumes scheduled to share transportation from origin to aggregation sites for consolidation.

[90] The "baseline" network discussed in the advisory opinion refers to the baseline scenario modeled by the Postal Service using the logistics industry optimization software, Blue Yonder© TMOD. It does not refer to the actual and current postal network. As described in this document, there are significant differences between the data for FY 2020 and the descriptive statistics for the baseline network.

mileage distribution, and average trip length. Consequently, the Commission concludes that the basis of the Postal Service's transportation analysis may be unrealistic, and its surface network impact projections and estimated cost changes potentially misleading and inaccurate. A more meaningful presentation of the transportation impact analysis would have involved finalized network routings, mileages, and trips, and would have referenced actual network routings, mileages, and trips to determine projected changes.

The Commission concludes that a simultaneous implementation of the FCM and FCPS service standard changes presents the potential for increased network efficiencies and for cost reduction. However, the Postal Service has not demonstrated that it is operationally feasible to run the complex surface transportation network modeled in the instant proceeding and achieve the results promised.

5. Customer Satisfaction Findings

The Postal Service believes that the proposed service standard change will reinforce the value of FCPS as a reliable choice for end-to-end shippers. The Commission finds this argument reasonable, but it notes that increased competition in the parcel market could dampen the Postal Service's ability to maintain current FCPS-Commercial and FCPS-Retail volumes after the service standard change.

The Commission evaluates the Postal Service's claims that it will be able to retain FCPS volumes after the proposed service standard change based on the results of the FTC Survey, which sampled 458 of its FCPS-Commercial shippers. The Commission highlights some of the technical strengths and weaknesses of the survey. For example, the Commission finds that although small- and medium-sized businesses are represented in the survey, the validity of the survey is questionable because it may not represent some of the Postal Service's largest FCPS-Commercial shippers and only represents a small fraction of the total FCPS-Commercial volume. Moreover, the Commission finds that the survey fails to address or inadequately addresses the responses of package recipients, retail customers,

marketplace shippers, and other stakeholders, which are key groups that will determine the effect of the proposed service standard change on FCPS volumes and customer satisfaction.

Finally, the Commission evaluates the Postal Service's communication strategy and the manner in which it has received and responded to feedback from stakeholders and the general public. The Commission finds that the Postal Service did not present its communication and mitigation strategies for affected customers until later in this proceeding. It recommends the Postal Service monitor the impact of the proposal on shippers' and recipients' demand and satisfaction and consider ways to address impacts for those who may be negatively affected, particularly those discrete groups of stakeholders, such as recipients, pharmaceutical companies, marketplaces, rural residents, shippers that are older and/or low-income, and small businesses.

6. Statutory Considerations

The Commission determines that the proposed changes are not facially inconsistent with the qualitative requirements of 39 U.S.C. §§ 3661(a) and 101(a-b), (e-f). The States and Cities have alleged that the proposal could potentially disproportionally impact veterans and rural communities. The Commission finds that such allegations are too speculative to violate section 101. Further, the Commission finds that FCPS packages are not being prioritized above important letter mail in violation of section 101(e).

The Commission will not require the Postal Service to file a Notice of Proposed Rulemaking for the same changes proposed in this docket, as it finds that there has been ample opportunity for the public to participate in this docket and have its interests represented by the Public Representative. The Commission has already extended the procedural schedule beyond the 90-day timeline in order to sufficiently analyze the impact of the proposed changes and declines to make a further extension.

7. Section 403 Analysis

The Commission analyzes claims of undue or unreasonable discrimination among mailers in violation of 39 U.S.C. § 403(c) according to a three-part test. First, the non-preferred mailer must be offered less favorable rates or terms and conditions than the 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 offered to the preferred mailer.

Here, the Commission concludes that service downgrades for pharmaceutical deliveries meet the first prong of the three part test, but fail the similarly situated and rational or legitimate basis prongs of the test. Thus, the Commission concludes that the Postal Service's proposed plan does not facially violate 39 U.S.C. § 403(c) at this juncture. However, the Commission may evaluate any post-implementation claims alleging undue or unreasonable discrimination pursuant to the complaint process set forth in 39 U.S.C. § 3662.

C. Service Performance Analysis

1. Overview

Although the instant docket is similar to Docket No. N2021-1, there are significant differences in the Commission's oversight role due to FCPS' status as a Competitive product. Because FCPS is a Competitive product, the Postal Service has wide latitude over pricing and product features. The Postal Service can choose to raise prices or change the product according to the Board of Governors' reasonable business judgement. Unlike First-Class Mail, which includes Market Dominant products, detailed service performance results for FCPS are not required in the Postal Service's Annual Compliance Reports (ACRs) and any data reported for FCPS are filed as non-public information. The FCM Parcels Retail (Single-Piece) price category was transferred from

the Market Dominant to the Competitive product list,[91] beginning in September 2017. Consequently, the Postal Service began to report service performance indicators for FCPS from FY 2017 through FY 2020 under seal.[92] The lack of detailed service performance data for FCPS limits the Commission's ability to perform analysis on service performance trends for FCPS and compare service performance results of FCPS based on transportation modes. However, data filed in non-public library references show that the Postal Service has consistently failed to meet its FCPS service performance targets.[93]

The Postal Service recognizes that "its current abilities to meet service standards leave room for improvement." Revised USPS-T-1 at 1. It maintains that adding up to 2 additional days for FCPS would potentially enhance its service capabilities, leading to improved achievement of service standards and greater reliability. *Id.* The Postal Service aims "to achieve 95 percent on-time reliability and improve the current reach of 2-day volumes, which aligns with the key customer demand driver of reliable, consistent, on-time delivery, and the importance of regional delivery in today's marketplace." Revised USPS-T-3 at 6. The Postal Service claims that with no changes other than the proposed service standard changes, FCPS on-time service performance

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[91] *See* Order No. 4009; *see also* Order No. 4032.

[92] *See, e.g.*, Docket No. ACR2016, *Analysis of the Postal Service's FY 2016 Annual Performance Report and FY 2017 Performance Plan*, April 27, 2017, at 28 (explaining that the Postal Service would introduce a new First-Class Mail Packages (FCMP) Composite performance indicator and set the FY 2017 on-time target at 94.80 percent); Docket No. ACR2017, *Analysis of the Postal Service's FY 2017 Annual Performance Report and FY 2018 Performance Plan*, April 26, 2018, at 17 (Docket No. ACR2017 FY 2017 Analysis (observing that on-time results and targets for certain Competitive products were filed under seal); Docket No. ACR2020 FY 2020 Analysis at 35 (observing that on-time results and targets for certain Competitive products were filed under seal); Docket No. ACR2017, Responses of the United States Postal Service to Questions 1-14 of Chairman's Information Request No. 9, February 1, 2018, question 1 (citing Docket No. ACR2017, Library Reference USPS-FY17-NP37, February 1, 2018, PDF file "USPS-FY17-NP37.Preface.pdf") (providing FY 2017 FCPS on-time results and targets); Docket No. ACR2020, Library Reference USPS-FY20-NP30, December 29, 2020 (revised May 14, 2021) (providing FCPS on-time results and targets for FY 2017 through FY 2020).

[93] Revised Library Reference USPS-LR-N2021-2/NP2.

results could improve by 1.95 to 5.74 percentage points. *See* Response to POIR No. 8, question 1.

Overall, the Postal Service projects that under its proposal approximately 31.2 percent of total volume will experience a longer service standard while approximately 4.8 percent of total FCPS volume will experience a shorter service standard.[94] Currently, the majority of FCPS volume (79.4 percent) is subject to the 3-day service standard.[95] Under the proposal, approximately 39.2 percent of FCPS volume currently subject to the 3-day service standard is expected to move to a 4- or 5-day service standard.[96] The Postal Service estimates that the percentage of FCPS volume subject to the 3-day service standard will decrease from approximately 79.4 percent to approximately 43.4 percent.[97] According to the Postal Service, the new 4-day service standard will include 16.8 percent of total FCPS volume while 14.3 percent of volume is projected to be subject to the new 5-day service standard.[98] The Postal Service further estimates that under the proposed changes, 99.8 percent of FCPS pieces currently subject to a 2-day standard will remain as 2-day, while 4.8 percent of 3-day volume will be upgraded to the 2-day service standard.[99] The Postal Service estimates that the

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[94] Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells E8 and E16.

[95] Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells D8:D11.

[96] Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells C8:C11. The Commission calculated this 39.2 percent figure as the sum of cells C10:C11 divided by the sum of cells C8:C11.

[97] Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells D8:D11 and E9; *see* Revised USPS-T-1 at 35 (reporting these figures as 79.4 percent and 43.5 percent, respectively).

[98] Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells E10 and E11; Revised USPS-T-1 at 35.

[99] Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cells F4 and E8.

percentage of FCPS volume subject to the 2-day service standard will increase from 20.6 percent to 25.4 percent. Revised USPS-T-1 at 35.

The data provided by the Postal Service show that historically service performance results have been better for FCPS pieces traveling on surface routes than for pieces traveling by air.[100] Although the Postal Service plans to leverage this increased reliability for the proposed service standard change, it acknowledges that meeting the 95 percent on-time target will depend on successful implementation of initiatives outside the scope of this advisory opinion – including hiring additional staff, installing additional processing equipment, and acquiring additional facility space for both logistics and processing operations.[101] Although the Postal Service intends to achieve its 95 percent on-time target by the end of FY 2022 (*see* August 12 Response to POIR No. 11, question 7.a.), the Postal Service does not expect to meet that target during FY 2022. *See* Response to POIR No. 4, question 9. As such, achievement of its 95 percent on-time target appears to be largely aspirational on the Postal Service's part. The Postal Service has not conducted an impact analysis[102] or calculated a confidence level for achieving its service target.[103] It acknowledges that "[t]he service standard change alone will not make the Postal Service capable of achieving the target." Response to POIR No. 4, question 9.b.i.

Impact of COVID-19 pandemic and CARES Act. As of April 17, 2020, and in response to issues regarding the COVID-19 pandemic, the Postal Service added 1 day to the service standards for all FCPS pieces. Revised USPS-T-1 at 1, n.4. In response to a POIR, witness Hagenstein states that, the Postal Service "intend[s] to eliminate the COVID+1 day in conjunction with the implementation of the new service standards, but

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[100] Docket No. ACR2020, Library Reference USPS-FY20-NP30; Library Reference USPS-LR-N2021-2/NP2.

[101] July 6 Response to POIR No. 1, question 4.a.; Response to POIR No. 4, questions 2.c.-2.e., 6.a; August Response to POIR No. 11, question 3.

[102] July 6 Response to POIR No. 1, question 4.a.

[103] Response to POIR No. 4, question 6; August 12 Response to POIR No. 11, question 7.a.ii.

[the Postal Service is] monitoring the pandemic conditions based upon the emergence of Delta and other variants, and [the Postal Service] will adjust [their] plans if necessary." August 19 Response to POIR No. 12, question 2.a. Therefore, this existing extension of the service standard remains in place for the foreseeable future, as the Postal Service states that it "cannot determine when the additional transportation day will be eliminated" and that the "decision to eliminate the COVID-19 day will depend on operational capability."[104] Moreover, the Postal Service "will consider adding a day to our service commitment in the future for the limited time period of peak season as we have in the past for certain Competitive products, given the volume realities and related constraints during that period which make operating conditions extraordinarily challenging." August 19 POIR No. 12, question 2.a. Consequently, the proposed changes have the potential to magnify the impact of the changes on those customers already experiencing a service standard extension.

Another pandemic-related factor affecting service standards is the CARES Act, which requires the Postal Service to prioritize the delivery of postal products for medical purposes during the COVID-19 emergency.[105] Pharmaceutical volume is a key component of FCPS, and the Postal Service estimates that roughly 16 percent of pharmaceutical volume would experience a slower service standard under the proposal.[106]

2. Commission Analysis

Using witness testimony, library references, responses to interrogatories, and data from past ACRs, the Commission evaluates the Postal Service's contention that

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[104] Response to POIR No. 4, question 12.b.ii; *see* August 17 Response to POIR No. 12, question 2.a.

[105] Pub. L. No. 116-136, § 6011(c)(1) (2020).

[106] Revised USPS-T-1 at 38. For pharmaceutical volume, the Postal Service estimates that 13.7 percent of volume would experience a service upgrade and 70 percent of volume would be unaffected by the proposed service standard changes. *Id.*

changing service standards provides the potential to improve service performance. In particular, the Commission analyzes the reliability of the estimated impact of the proposal, the impact of the COVID-19 pandemic and CARES Act, the Postal Service's ability to avoid service degradation of FCPS items sent for medical purposes, and other issues. The Commission finds that although the Postal Service's proposal targets volume that consistently fails to meet service performance goals, the proposal's estimated impact is not substantiated. In its analysis, the Commission attempts to identify assumptions or gaps that may not have been fully considered in the development of the proposal.

a. Expected Impact of the Proposed Changes on Achievement of FCPS Service Performance Targets

The Postal Service contends that the revised services standards, combined with shifting more FCPS volume to surface transportation, will improve the on-time service performance of FCPS. *Id.* at 3. Based on FCPS service performance indicators filed in past ACRs, the Commission observes that the Postal Service has failed to meet its FCPS targets since FY 2017.[107] Of note, FCPS service performance in FY 2020 did not improve from FY 2019 despite the inclusion of an additional day in response to the COVID-19 pandemic. However, the information provided under seal by the Postal Service shows that the service performance result was higher with the additional day than it would have been if the extended service standard had not been implemented. *See* August 17 Response to POIR No. 12, question 2.b.

The Postal Service notes that "[t]here is substantial room for improvement in service performance vis-à-vis the goals that the Postal Service has set for itself."

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[107] *See* Docket No. ACR2020, USPS-FY20-NP30; *see also* Docket No. ACR2020 FY 2020 Analysis at 35-36; Docket No. ACR2019, Analysis of the Postal Service's FY 2019 Annual Performance Report and FY 2020 Performance Plan, June 1, 2020, at 27; Docket No. ACR2018, Analysis of the Postal Service's FY 2018 Annual Performance Report and FY 2019 Performance Plan, May 13, 2019, at 25; Docket No. ACR2017 FY 2017 Analysis at 18, 22, n.30.

Revised USPS-T-1 at 1. The service performance data for FCPS from FY 2017 to FY 2020 appear in the Commission's non-public technical appendix to this Advisory Opinion. *See* Non-public Appendix.

The Postal Service also claims that surface transportation methods have better on-time performance than air transportation methods. To more fully evaluate the service performance issues with FCPS, several POIRs were issued requesting "root cause" service performance data for FY 2020 and the Postal Service provided that data.[108]

"Root Cause Analysis" is an analytical methodology that can be used to identify the root causes of problems in an effort to develop appropriate solutions. To perform root cause analysis for FCPS, the Postal Service uses a Package Processing Performance module within Informed Visibility (IV). *See* Response to POIR No. 7, question 2.a. "Root cause data" in this context are the results of the Postal Service's root cause analysis that are used as a means of determining the underlying issues contributing to service performance failures. "Root causes" are the categories the Postal Service uses in their analysis of service failures, and "root cause failures" are instances of failure where a FCPS piece misses its service standard due to one of these issues.[109] The root cause data refer to the amount (number of percentage points) by which on-time performance for FCPS decreased due to each specific root cause. *See* Response to POIR No. 10, question 1.c. The Postal Service assigns a single root cause indicator to a FCPS piece that is delivered after the applicable service standard.

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[108] *See* Responses to POIR No. 7, question 2; Library Reference USPS-LR-N2021-2/NP16, July 29, 2021, Excel file "POIR No7 Q2 - FCPS root cause failures - FY20 - NP.xlsx." Additional qualitative root cause indicator information was provided in response to a subsequent request by the Presiding Officer. *See* Response to POIR No. 10, questions 1, 2; Library Reference USPS-LR-N2021-2/NP20, August 10, 2021, Excel file "NP-POIR10-Root.Cause.FCPS.xlsx."

[109] *See* Response to POIR No. 10, questions 1.c.-1.e.; *see also* Docket No. ACR2019, *Annual Compliance Determination*, March 25, 2020, at 102-05 (Docket No. ACR2019 FY 2019 ACD) (discussing use of root cause analysis for FCM).

See Response to POIR No. 10, questions 1.d., 1.e. In its analysis, the Postal Service categorizes root causes for FCPS into four phases of service: Origin, Transit, Destination, and Delivery. The Postal Service also uses the categorization "Other" for 10 root causes.

The Excel file submitted by the Postal Service presents a distribution of 142 root causes categorized by phase of service.[110] The data reveal that there are a wide variety of service performance failures across each phase. Notably, the data provided by the Postal Service do not indicate that air transportation was a direct cause of service performance failures for FCPS in FY 2020.[111] While it is likely that various air and surface transportation issues contribute to service performance failures, the extent of the contribution of air or surface transportation issues to the final measured failure cannot be specifically identified due to the lack of granularity in the Postal Service's root cause analyses. The FY 2020 FCPS root cause data provided by the Postal Service does not disaggregate failures specific to either the air or surface mode of transportation, does not indicate whether the measured volumes were diverted from air to surface transportation,[112] and does not indicate how diversion from air to surface transportation impacted service performance. Further analysis of the non-public data

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[110] The root cause data provided by the Postal Service in Library Reference USPS-LR-N2021-2/NP16 is similar to the root cause data provided by the Postal Service for Market Dominant FCM letters and flats in Docket No. ACR2020, but several of the categorizations are not exact matches. The differences between the FCPS and FCM root cause data prevent the Commission from comparing and contrasting the service performance failures for these products.

[111] The non-public information filed by the Postal Service providing an explanation for not meeting the on-time percent target levels for FCPS service performance for FY 2017 through FY 2019 do not reference air transportation. *See* Docket No. ACR2017, Library Reference USPS-FY17-NP37, February 1, 2018, PDF file "USPS-FY17-NP37.Preface.pdf," at 2-3; Docket No. ACR2018, Library Reference USPS-FY18-NP30, December 28, 2018, PDF file "FY18-NP30.Preface.pdf," at 4; Docket No. ACR2019, Library Reference USPS-FY19-NP30, December 27, 2019, PDF file "NONPUBLIC FY19-NP30 Preface.pdf," at 3.

[112] The Postal Service states that over 1,800 lanes were shifted from air to surface transportation since April 2020. *See* August 17 Response to POIR No. 12, question 2.b.

provided by the Postal Service appears in the Commission's non-public technical appendix to this Advisory Opinion. *See* Non-public Appendix.

In Docket No. N2021-1 Advisory Opinion, the Commission stated:

> 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.

Docket No. N2021-1 Advisory Opinion at 99.

The FCPS service performance data provided by the Postal Service suggest that the same broad idea is also applicable to the FCPS proposal. While the Postal Service's proposal may increase the likelihood of improving on-time service performance, achievement at the 95 percent on-time target level will require across-the-board operational improvements.

As acknowledged by the Postal Service, other operational changes such as the transition of the NDCs to Regional Distribution Centers (RDCs) and the establishment of a coast-to-coast First-Class surface network must take place in conjunction with increasing the surface transportation of FCPS in order for service performance improvements to be realized. Revised USPS-T-1 at 4. The Postal Service did not provide details on how it intends to accomplish these goals. The surface transportation changes proposed in this docket are closely linked to the surface transportation changes for Market Dominant FCM letters and flats subject to Docket No. N2021-1. The Commission's Advisory Opinion in that docket outlined concerns about the ability of the Postal Service to achieve improved service performance results through increased

surface transportation capacity utilization. *See* Docket No. N2021-1 Advisory Opinion at 67-68, 145-46.

While relaxing expected service windows may put the Postal Service in a position to improve service performance results, achieving service reliability will require execution, which has not been tested. The Postal Service has not conducted a study or impact analysis to determine whether its service targets can be achieved. July 6 Response to POIR No. 1, question 4.a. The Commission notes that an additional day added to FCPS service standards during the COVID-19 pandemic did not lead to the Postal Service meeting its service performance target in FY 2020.[113] However, based on analysis of non-public data, the additional day added to FCPS service standards did help the Postal Service to achieve a higher on-time percent result than it would have without the additional day. August 17 Response to POIR No. 12, question 2.b.

The Postal Service acknowledges that other transportation and operational efficiencies will need to be realized in conjunction with the service standard changes in order to meet its FCPS target.[114] Initially, the Postal Service indicated that it did not plan to set an interim target for FY 2022;[115] however, a subsequent response from witness Hagenstein relayed his expectation that the Postal Service would set an interim target for FCPS. *See* August 16 Response to POIR No. 11, question 8. The Commission urges the Postal Service to set achievable interim targets and establish a timeline for when the Postal Service can meet its service targets under the proposed changes. Doing so will allow the Postal Service to identify challenges and improve customer experience. Additionally, the Commission encourages the Postal Service to pursue operational tests, even on a limited basis, if it chooses to implement the proposed FCPS changes on a national level to ensure that service improvements can

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[113] Docket No. ACR2020 FY 2020 Analysis at 35-36.

[114] *See* Response to POIR No. 1, question 4.a.; Response to POIR No. 4, questions 2.c.-2.e., 6.a.

[115] Response to POIR No. 4, question 9.b.ii.

be realized without sacrificing customer satisfaction. Although the Postal Service plans to continue monitoring processing delayed volumes and network delays (*see* Response to POIR No. 11, question 6.a.), the Postal Service has not identified a method to disaggregate the impacts of the multiple transportation and operational changes that it intends to implement simultaneously. *See id.* question 6.b. The Commission urges the Postal Service to develop a more refined measurement plan that identifies objective criteria to trigger coordinated corrective action in the event that any of the assumptions upon which the Postal Service relies fail to materialize.

b. Expected Impact of the Proposed Changes on Overall FCPS Volume

The Postal Service bases its estimates of the proportion of FCPS volume impacted by the proposal on volume data of two different time periods. Explaining that package-shaped volume did not stabilize until September and October of 2020 due to the COVID-19 pandemic, the Postal Service selected October 2020 as a representative month for package-shaped volume in the model.[116] However, the Postal Service selected March 2020 as a representative month to estimate the proposal's impact on service for all other FCPS volumes.[117] This baseline of using October 2020 for FCPS packages may not provide an accurate prediction of the service impact for existing 2-day and 3-day FCPS package volume because the volumes impacted by the COVID-19 pandemic may not be representative of the geographic distribution of future volumes.[118]

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[116] Response to POIR No. 6, question 4.a. The Postal Service adds that October 2020 was not a representative month for letter- and flat-shaped volumes due to the impact of the 2020 General Election. *See id.*

[117] Letter- and flat-shaped mail are generally FCM products. The Postal Service selected March 2020 as a representative month to estimate the proposal's impact on service for all FCM letters and flats volume in Docket No. N2021-1. *See* Docket No. N2021-1 Advisory Opinion at 117; *see also* Revised USPS-T-1 at 20.

[118] Non-public data provided in Library Reference USPS-LR-N2021-2/NP10 in Response to POIR No. 4, questions 2 and 13 suggest that the portion of 4-day and 5-day volume estimated by the model may be higher than the 31.2 percent estimate presented by the Postal Service. Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public_REV_7.13.21.xlsx," tab "3 Digit Impact," cell E16.

FY 2020 was an irregular year for FCPS due to the unforeseen growth in packages as a result of the COVID-19 pandemic.

The Commission is concerned that if the future distribution of FCPS volume is more geographically dispersed, that is longer distances between origin and destination, there may be a higher percentage of volume subject to longer service windows than that estimated by the Postal Service.

The Commission observes wide volume variations throughout FY 2020 based on comparisons of quarterly Revenue, Pieces & Weight Report data for FY 2019 and FY 2020. Table VII-1 illustrates the percentage change in quarterly volume for FCPS for FY 2019 and FY 2020.[119]

Table VII-1
Difference in Quarterly FCPS Volume for FY 2019 and FY 2020

	Q1	Q2	Q3	Q4	Total
FY 2019	382,294,336	341,196,880	339,239,094	334,956,922	1,397,687,232
FY 2020	371,690,894	339,963,281	601,361,619	534,767,175	1,847,782,969
Percent Change	-2.8%	-0.4%	77.3%	59.7%	32.2%

Source: FY 2020 Quarter 1 RPW Report, FY 2020 Quarter 2 RPW Report; FY 2020 Quarter 3 RPW Report; FY 2020 Quarter 4 RPW Report.

[119] Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarter 1, FY 2020, Compared with Corresponding Period of FY 2019, February 6, 2020 (FY 2020 Quarter 1 RPW Report); Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarter 2, FY 2020, Compared with Corresponding Period of FY 2019, May 8, 2020 (FY 2020 Quarter 2 RPW Report); Revenue, Pieces & Weight (RPW) Report by Rate Category and Special Services for Quarter 3, Fiscal Year 2020, August 7, 2020 (FY 2020 Quarter 3 RPW Report); Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 4, Fiscal Year 2020, November 13, 2020 (FY 2020 Quarter 4 RPW Report).

The Commission observes that FCPS volumes declined in FY 2021 quarters 2 and 3 compared to the volume in FY 2021 quarter 1. Table VII-2 illustrates the percentage change in quarterly volume for FCPS for FY 2020 and FY 2021.[120]

Table VII-2
Difference in Quarterly FCPS Volume for FY 2020 and FY 2021

	Q1	Q2	Q3	Q4	Total
FY 2020	371,690,894	339,963,281	601,361,619	534,767,175	1,847,782,969
FY 2021	584,592,537	508,991,608	502,029,964	N/A	N/A
Percent Change	57.3%	49.7%	-16.5%	N/A	N/A

Source: FY 2021 Quarter 1 RPW Report; FY 2021 Quarter 2 RPW Report; FY 2021 Quarter 3 RPW Report.

The Commission finds that estimates of impact on service performance derived from a model that is based on a year that experienced precipitous growth may be over-optimistic. The Commission observes that FY 2020 was not a representative year for FCPS volume and service performance due to the COVID-19 pandemic and questions the reliability of the Postal Service's estimated impact of the proposal based on its model.[121]

[120] Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 1, Fiscal Year 2021, February 9, 2021 (FY 2021 Quarter 1 RPW Report); Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 2, Fiscal Year 2021, May 7, 2021 (FY 2021 Quarter 2 RPW Report); Revenue, Pieces and Weight (RPW) Report by Rate Category and Special Service for Quarter 3, Fiscal Year 2021, August 9, 2021 (FY 2021 Quarter 3 RPW Report).

[121] Response to POIR No. 6, question 4.a.; August 12 Response to POIR No. 11, question 9; August 17 Response to POIR No. 12, question 4.

c. Expected Impact of the Proposed Changes on Pharmaceutical FCPS Volume

The Postal Service estimates that approximately 16 percent of pharmaceutical FCPS volume that currently receives 3-day service will receive 4-day or 5-day service. Response to APWU/USPS-T-1-12. According to the Postal Service, 13.7 percent of pharmaceutical FCPS volume will experience a service upgrade and 70 percent of pharmaceutical FCPS volume will be unaffected by the service standard change. Revised USPS-T-1 at 38. Given that pharmaceutical FCPS is identifiable by a special service code, the Commission urges the Postal Service to continue to prioritize the handling of such items and consider expanding the use of these codes to non-NSA customers.

The Postal Service bases its estimates of impacted pharmaceutical FCPS volume on its use of Special Service Code (SSC) 401 to identify pharmaceutical products and SSC 402 to identify medical supplies. Response to POIR No. 4, question 8. Authorized pharmaceutical shippers are allowed to apply SSC 401 and SSC 402 through a NSA with the Postal Service.[122] Although the Postal Service is required to prioritize the delivery of items sent for medical purposes pursuant to the CARES Act, and has the ability to identify pharmaceutical items and medical supplies flagged as SSC 401 and SSC 402, it does not plan to exclude pharmaceutical FCPS from the proposed service standard change. *See* Response to POIR No. 4 question 8; Response to POIR No. 6, question 5.a. The Commission observes that although the Postal Service did not consider excluding pharmaceutical FCPS from the proposed service standard change; it may be wise of the Postal Service to do so, particularly in light of the continuing COVID-19 pandemic. The Commission advises the Postal Service to work to enhance customers' use of these SSCs and if feasible explore expanding the customer base to whom such SSCs are available. The Commission also encourages the Postal Service to resume and expand its efforts to partner with shippers

[122] Response to POIR No. 2, question 14.b.; Response to POIR No. 4, question 8.

to identify FCPS volumes sent for medical purposes. *See* August 12 Response to POIR No. 11, question 10. The Commission recommends that the Postal Service implement the necessary cross-functional teams to identify and closely monitor FCPS containing medical items so as to handle these items as expeditiously as possible, notwithstanding the published service standard, given the extended duration of the COVID-19 emergency.

d. Expected Impact of the Proposed Changes on Surface Transportation Reliability

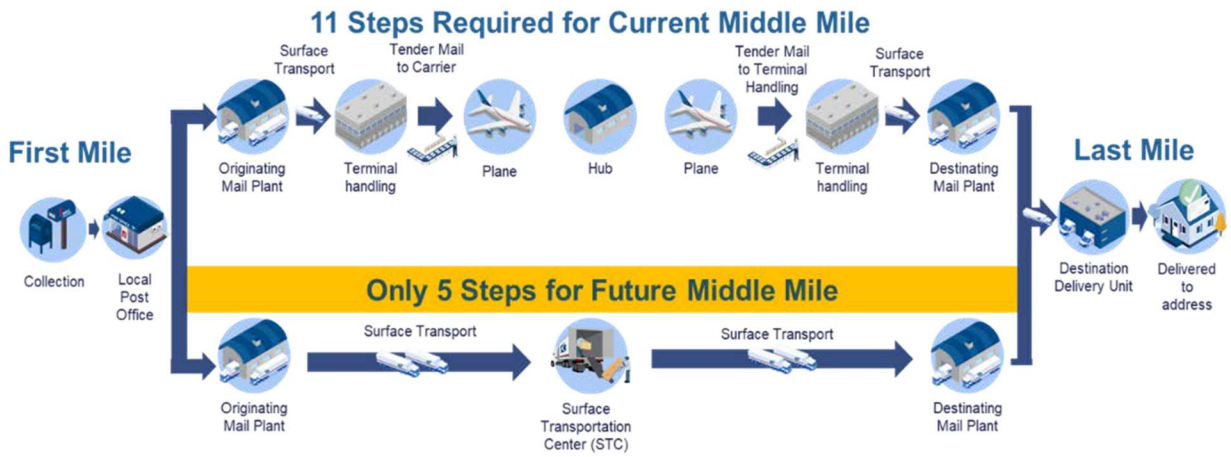
The Postal Service lists several factors that contribute to increased reliability of surface transportation relative to air transportation. First, it explains that "air carriers' flight schedules can be volatile and subject to last-minute changes based upon weather delays, network congestion, and air traffic control ground stops." Revised USPS-T-1 at 2. 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.* at 2-3. On an aggregate basis, service performance results for FCPS volumes transported by surface have better reported results than for volume transported by air.[123]

The Postal Service does not report detailed FCPS service performance data by transportation mode, disaggregated by 2-day and 3-day volume. Therefore, these data are not available for evaluating the service performance differences between transportation modes. Library Reference USPS-LR-N2021-2/NP2. However, the Postal Service states that "volume transported via surface modes has better on-time performance than volume transported by air." Revised USPS-T-1 at 2 (footnote omitted). The Postal Service further explains that the surface transportation network can be more reliable than air transit because it reduces the "total number of touch points" for FCPS volumes. *Id.* at 3. Essentially, the Postal Service contends that fewer

[123] *Id.* at 1; Library Reference USPS-LR-N2021-2/NP2.

touch points reduces the potential for delay in handling the item. Figure VII-1 illustrates the Postal Service's observed differences in touch points for air versus surface transportation.

Figure VII-1
Difference in Processing for the Air and Surface Networks



Source: Revised USPS-T-1 at 3.

However, 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.

Notwithstanding the reduced number of touchpoints, surface transportation can experience delays due to many factors, which among others include: delays in dispatching items to the trucks, disruptive events such as extreme weather and natural disasters, and underperforming contract trucker suppliers.[124] In addition to responding to these challenges that the Postal Service routinely faces, the COVID-19 pandemic

[124] *See, e.g.*, Docket No. ACR2019 FY 2019 ACD at 110; Docket No. ACR2020 FY 2020 Analysis at 47.

stressed surface logistic and shipping operations: increased package volume increased demand for tractor-trailer operators at the same time that these firms faced difficulties with worker absenteeism and hiring. *See* Docket No. ACR2020 FY 2020 ACD at 112, 117. The Postal Service acknowledges that its highway contract route (HCR) suppliers continue to face difficulty retaining and hiring truck drivers. *See* August 12 Response to POIR No. 11, question 2.a. The Postal Service asserts that proposed changes to the service standard will create buffer time that will better enable the Postal Service to absorb delays and allow the Postal Service to optimize its routing, thereby reducing trips and mileage. *See* August 12 Response to POIR No. 11, questions 4.a., 4.b., 5. While the Commission acknowledges that extending the service standard would allow for additional slack time in the network to mitigate delays, the Commission is concerned that the Postal Service's transportation plan remains directional rather than tactical in nature (similar to the limitations of the corresponding Postal Service's proposal applicable to Market Dominant FCM in Docket No. N2021-1[125]), as more fully detailed in Section VII.E.2.b., *infra*.

The Commission observes potential challenges for the Postal Service in acquiring surface transportation due to a truck driver shortage. *See* August 12 Response to POIR No. 11, questions 1, 2.a. In instances where driver shortages have caused scheduled surface trips to be cancelled, affected mail volume is rerouted to destination via alternate routings or additional unscheduled trips are contracted. Response to POIR No. 11, question 4. The Postal Service asserts that the proposed changes will afford them the ability to reduce network mileage and trips by increasing routing efficiencies thus providing a measure of mitigation against market conditions in the trucking industry. Response to POIR No. 11, questions 2, 4. The ongoing shortage of truck drivers creates another obstacle for the Postal Service to overcome in its attempts to realize the full financial and service performance benefits of its proposal.

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[125] *See* Docket No. N2021-1 Advisory Opinion at 145-46.

The stated goal of the Postal Service is to have more mail travel via surface transportation on fewer trucks. The Commission acknowledges that extending the service standard will give the Postal Service more flexibility to optimize routes in instances where driver shortages have caused scheduled trips to be cancelled. However, if the Postal Service is not able to achieve greater capacity utilization and decrease the number of trips, the ongoing driver shortage may increase the potential costs of additional trips.

3. Service Conclusion

The Commission notes that expanding the service standard window may allow the Postal Service to have more success in meeting its service performance targets. Additionally, shifting FCPS from air routes to surface routes has the potential to lead to more efficient transportation.

However, the Commission observes that the projected efficiency gains arising from the proposed changes appear to be minor. The Postal Service projects surface utilization to increase approximately 4 percent, from 18 percent to 22 percent. Response to POIR No. 4, question 3.b. Because the proposed changes would downgrade the service standard for about one third of total FCPS volume and roughly 16 percent of pharmaceutical FCPS volume, the Commission urges the Postal Service to carefully consider the value proposition being offered to its customers.

Although the proposal to shift FCPS pieces from air to surface transportation may reduce handling time within the processing network, with the additional buffer for processing added by adjusting the transit window, the target results cannot be achieved by the proposed changes alone. Instead, the Postal Service assumes that these changes will be paired with increases to staff, equipment, and space – and relies upon a smooth deployment for all of these changes in alignment with one another.[126]

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[126] *See* July 6 Response to POIR No. 1, question 4.a.; Response to POIR No. 4, questions 2.c-2.e., 6.a.

Therefore, the potential improvement to service performance results with less stringent windows for delivery time will rest largely on the Postal Service's execution, which is currently an unknown, as it has not conducted any operational testing or impact analysis for the changes. The Commission urges the Postal Service to closely monitor implementation to ensure that reliability and efficiency improvements are being realized.

Because so many operational improvements are needed, the Postal Service has acknowledged that it does not expect to meet or exceed the 95 percent target for FY 2022. *See* Response to POIR No. 4, question 9. The Postal Service has not calculated confidence levels for meeting the 95 percent target. *See id.* question 6. Furthermore, it initially declined to set an interim target for FY 2022,[127] although a subsequent response from witness Hagenstein relayed his expectation that the Postal Service would set an interim target for FCPS. *See* August 16 Response to POIR No. 11, question 8. The Commission advises the Postal Service to set realistic interim target(s) for service performance for FCPS and establish a timeline for when it will achieve its service performance target of 95 percent on-time delivery. This step would not only manage expectations for reliability among FCPS customers, it would also inform the Postal Service's strategy for implementing the changes past FY 2022. Doing so would also represent progress toward a goal identified by the Postal Service, "setting realistic expectations for timely and reliable mail delivery in today's environment."[128]

The Postal Service indicates that it plans to implement the proposed changes on or after October 1, 2021, which is the beginning of FY 2022. Request at 1. The Postal Service expects its processing and transportation changes to evolve and progress

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[127] Response to POIR No. 4, question 9.

[128] Postal Service Strategic Plan at 25; *see* Request at 12 (asserting that "[i]n order to remain viable and relevant, the Postal Service must implement operational and service changes consonant with realistic expectations balanced against the public's needs."); *see also* Revised USPS-T-1 at iii-iv (footnote omitted) (asserting that the proposal would "more realistically align[] the Postal Service's FCPS service standards with the Postal Service's operational capabilities.").

throughout FY 2022. *See* Response to POIR No. 4, question 9.b.i. Given the lack of operational testing[129] regarding the expansion of the service standards as well as the uncertainty of the actual impact of the proposal that adds an extra day above and beyond the extra transportation day already in place due to COVID-19,[130] the Commission urges the Postal Service to carefully evaluate its planned implementation timeframe. Particularly because the Postal Service indicated that by end of FY 2021 (September 30, 2021), it will have begun to model and analyze the NDC network more robustly, which will take approximately 4 to 6 months to complete. Response to POIR No. 5, question 7.b. Making use of these data prior to implementation of the proposed changes may put the Postal Service in a better position to achieve a more efficient transportation network. Because of the complex nature of this nationwide service adjustment, the Commission recommends that the Postal Service monitor and report actual service impact resulting from the implementation of the proposed changes.

It is also worth noting that the Postal Service's planned implementation of the changes will take effect just prior to the upcoming holiday season from approximately the end of November through December, during which the Postal Service regularly experiences peak demand for FCPS. *See* Response to POIR No. 6, questions 4.c.-4.d. During the holiday peak season in 2020, the Postal Service responded to a number of challenges above and beyond the typical holiday peak season due to the extreme strain that the COVID-19 pandemic placed on the entire shipping industry. *See* Docket No. ACR2020 FY 2020 ACD at 112, 117. The Postal Service indicates that its peak planners are working to identify opportunities to shift additional FCPS volumes from air to surface transportation. *See* August 12 Response to POIR No. 11, question 9.

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[129] Response to POIR No. 4, question 10. While the Postal Service intends to eliminate the extra transportation day due to COVID-19 at the time it implements the new service standards, the Postal Service is not able to identify when it will eliminate that extra transportation day due to COVID-19 or the precise conditions under which the Postal Service's Executive Leadership Team would consider it appropriate to do so. August 17 Response to POIR No. 12, questions 2.a., 2.c.; August 19 Response to POIR No. 12, question 2.a.

[130] Response to POIR No. 4, question 12.

Further, due to the "extraordinarily challenging" operating conditions during the peak season, the Postal Service "will consider adding a day to our service commitment in the future for the limited time period of peak season as we have in the past for certain Competitive products, given the volume realities and related constraints during that period which make operating conditions extraordinarily challenging." August 19 Response to POIR No. 12, question 2.a. The Commission is concerned that the Postal Service's planned timeframe may be too ambitious given that implementing processing and transportation changes at this time of the year would be difficult under typical circumstances and may face additional challenges due to the continuation of the COVID-19 emergency and the industry-wide stress.

D. Financial/Cost-Savings Analysis

1. Overview

The Postal Service claims that the proposed changes, when implemented in conjunction with the changes proposed in Docket No. N2021-1,[131] will reduce overall transportation costs. Revised USPS-T-2 at 4-9. The Postal Service attempts to quantify the cost savings of shifting FCPS pieces from air to surface routes to create a more efficient transportation network.[132]

Witness Kim's testimony relies on the modeling testimony of witness Hagenstein to develop estimates of transportation cost savings. Specifically, witness Kim estimates

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[131] *See* Docket No. N2021-1 Advisory Opinion.

[132] *See* Request at 6; Revised USPS-T-2 at 5; Library Reference USPS-LR-N2021-2/NP1; Library Reference USPS-LR-N2021-2/NP2; Library Reference USPS-LR-N2021-2/1.

net cost savings of approximately $42 million[133] on an annual basis, using the modeled transportation operational changes and witness Foti's estimate that the initiative will have no net impact on volume. *See* Revised USPS-T-2 at 9-10. This figure only considers the additional transportation savings that are generated by the expansion of the transportation window for FCPS in conjunction with FCM, as compared to the results of only expanding the transportation window for FCM and end-to-end Periodicals (as presented in Docket No. N2021-1). Request at 8.

Table VII-3 shows the disaggregated and combined transportation cost savings for FCM and FCPS.

[133] This figure represents the *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1). *See* Revised USPS-T-1 at 37; Revised USPS-T-2 at 9. The Postal Service's model for estimating the cost savings of the FCPS service standard change includes both FCM and FCPS volumes. The Postal Service does not provide a model that isolates the operations of only FCPS; nor does it provide any estimates of FCPS costs in isolation. A key aspect of the Postal Service's proposal, as described throughout this Advisory Opinion, is that implementing the proposed changes to FCPS service standards would allow the Postal Service to improve the efficiency of its operations for products besides FCPS. For example, the Postal Service model projects that changing the FCPS service standards would allow additional FCM volume to divert from air transportation to surface transportation. This reflects projected cost savings on FCM transportation that would be created by implementing the changes proposed to FCPS in Docket No. N2021-2. Therefore, throughout this section, the references to the cost savings that the Postal Service estimates would result by implementing the changes proposed to FCPS in Docket No. N2021-2 are not limited to merely cost savings that would result for the FCPS product.

Table VII-3
Combined Transportation Cost Changes by Mode
($ in millions)

	Cost Change from Change in Service Standards		
Mode	**Both FCM and FCPS**	**FCM**	**FCPS**
Air	$(304)	$(196)	$(108)
Highway	$(10)	$(76)	$66
Total	**$(314)**	**$(272)**	**$(42)**

Note: As explained in n.133, *supra*, the values appearing in the "FCPS" column represent *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1). Witnesses Hagenstein and Kim explain that if the Postal Service implemented the proposed changes to FCPS only, without implementing the changes proposed to FCM in Docket No. N2021-1, then the cost savings projected to result from the instant proceeding (appearing in the "FCPS" column) would not occur. *See* Revised USPS-T-1 at 37; Revised USPS-T-2 at 9. They elaborate that creating a more efficiently-routed surface network is based upon implementing the proposed changes to FCM and FCPS service standards in tandem. *See* Revised USPS-T-1 at 37; *see also* Revised USPS-T-2 at 5, 9.

Thus, the values appearing in the "FCM" column represent the cost savings due to implementing the changes proposed to FCM in Docket No. N2021-1 only. Finally, the values appearing in the "Both FCM and FCPS" column represent the *total* cost savings estimated to result from implementing the changes proposed to FCM in Docket No. N2021-1 and the changes proposed to FCPS in Docket No. N2021-2.

Source: Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21_(1)," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary," cells B6:B8, E6:E8, H6:H8.

Witness Hagenstein states that "Postal management deems the implementation of the service changes described in this filing as necessary to assure that the Postal Service remains a viable, financially healthy institution that can continue to play a vital role in serving the changing communications and delivery needs of the American people well into the 21st century." Revised USPS-T-1 at 42.

a. Air Transportation

Witness Hagenstein estimates the reduction in pounds flown in the non-public Library Reference USPS-LR-N2021-2/NP2.[134] Witness Kim uses this total 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, and Federal Express Corporation (FedEx) Day Turn). *See* Library Reference USPS-LR-N2021-2/NP1. She states that the "reductions will be spread across multiple carriers," each of which charges a different rate per pound or per cubic foot flown. *See* Revised USPS-T-2 at 3. She explains that "for the most part"[135] air transportation costs vary in proportion with volume, due to the nature of the contracts with the carriers. *See* Revised USPS-T-2 at 4.

The Postal Service calculates the cost savings resulting from the reduction in air capacity for each carrier by multiplying the percent change in units flown by the carrier's total cost. Revised USPS-T-2 at 4-7. It estimates that it will obtain annual gross air transportation savings of $304 million from the proposed changes in service standard for both FCM and FCPS. Revised USPS-T-2 at 4. The portion of the annual gross savings estimated to result from the changes proposed to the FCPS service standards

[134] The model appearing in Library Reference USPS-LR-N2021-2/NP2 contains pounds flown for both FCM and FCPS.

[135] "The exception – payments to FedEx and UPS for failure to meet minimum volume commitments – is treated as an institutional cost and accounts for only a 0.4-percentage point diminution in what is otherwise a 100-percent volume variability ratio. Moreover, there is sufficient lead time until implementation to adjust the network appropriately and meet new planned minimums." Revised USPS-T-2 at 4 n.6 (internal citation omitted).

is $108 million.[136] This portion is calculated by subtracting the savings estimated to result from the changes proposed to FCM service standards only ($196 million) from the combined annual gross savings estimate ($304 million).[137]

b. Highway Transportation

The Postal Service calculates the expected savings from the proposed changes by estimating the change in required capacity for each type of purchased highway contract (inter-Area, inter-Cluster, and inter P&DC), multiplied by the cost to capacity variability,[138] further multiplied by base costs for each contract type. Revised USPS-T-2 at 7. 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 the expected reduction in highway transportation costs. This calculation yields an expected total reduction in annual purchased highway transportation costs of $10 million for FCPS and FCM combined, which are detailed in Table VII-4.

The Postal Service explains that the proposed service standards will increase required capacity by 2.1 percent and increase costs by $21 million on inter-Area contracts. *Id.* at 7. It expects a decrease in required capacity of 10.7 percent and 4.9

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[136] Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21" Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary." Of the additional $108 million in savings on air transportation that the Postal Service estimates would result from implementing the changes proposed in the instant docket, approximately half of these estimated savings are attributable to diverting FCPS volume from the air to surface network. The remaining estimated savings are attributable to the Postal Service's expectation that implementing the changes proposed in the instant docket would enable the Postal Service to divert *additional* FCM volume from the air to surface network (*i.e.*, diverting FCM volume above and beyond that projected by the FCM Only Model presented in Docket No. N2021-1).

[137] Library Reference USPS-LR-N2021-2/1, PDF file LR.1.Preface.Rev.7.2.21.Cost Changes_Public.pdf," Table "Comparison of Original vs Revised Estimates."

[138] Variability of cost with respect to capacity used to determine the levels of attribution for purchased highway transportation expenses in Cost Segment 14. *See* Docket No. RM2014-6, Library Reference USPS-RM2014-6/1, June 20, 2014, folder "Prop.Six.Updat.Hwy.Variab (1)," file "Tech.Append.Hwy.Variab.Updat.docx."

percent within inter-Cluster and inter-P&DC contracts, resulting in a cost decrease of $24 million and $7 million. *Id.* The Postal Service estimates that highway cost savings of $76 million would result from implementing the proposed service standard changes for FCM only. The Postal Service estimates that implementing the proposed FCPS service standard change (along with the proposed changes to FCM) would increase total highway costs by $66 million, resulting in the net cost saving of $10 million.

Table VII-4
Combined Highway Transportation Cost Changes by Contract Type
($ in millions)

	A	B	C = A * B	D	E = C * D	F	G = E - F
Contract Type	**Percent Change in Required Highway Capacity from Library Reference USPS-LR-N2021-2/4**	**Cost to Capacity Variability from Docket No. RM2014-6, Library Reference USPS-RM2014-6/1**	**Percentage Change in Costs**	**Baseline Cost from Docket No. ACR2020, Library Reference USPS-FY20-32**	**Change in Highway Transportation Costs**	**Cost Change for FCM**	**Cost Change for FCPS**
Inter-Area	2.1%	89.9%	1.9%	$ 1,091	$ 21	$ (65)	$ 85
Inter-Cluster	-10.7%	89.1%	-9.5%	249	(24)	(8)	(16)
Inter-P&DC	-4.9%	85.0%	-4.2%	174	(7)	(4)	(3)
Total				**$ 1,514**	**$ (10)**	**$ (76)**	**$ 66**

Note: As explained in n.133, *supra*, the values appearing in the "G" column represent *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1). Witnesses Hagenstein and Kim explain that if the Postal Service implemented the proposed changes to FCPS only, without implementing the changes proposed to FCM in Docket No. N2021-1, then the cost savings projected to result from the instant proceeding (appearing in the "G" column) would not occur. *See* Revised USPS-T-1 at 37; Revised USPS-T-2 at 9. They elaborate that creating a more efficiently-routed surface network is based upon implementing the proposed changes to FCM and FCPS service standards in tandem. *See* Revised USPS-T-1 at 37; *see also* Revised USPS-T-2 at 5, 9. Thus, the values appearing in the "F" column represent the cost savings due to implementing the changes proposed to FCM in Docket No. N2021-1 only.

Source: Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21_ (1)," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Highway," cells B30:B32, C30:C32, D30:D32 E30:E32, F30:F32; Excel file "FCM Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Highway," cells F29:F31.

c. Combined Transportation Cost Savings

Estimated cost savings from a change in service standards should take into account the impact of any expected loss in volume due to the change in service standard. Witness Foti estimates no loss in volume. Revised USPS-T-3 at 9. The additional annual net financial gain estimated to result from implementing the proposed

service standard changes in the instant docket (above and beyond the changes proposed in Docket No. N2021-1), was originally projected at $55 million.[139] This projection was subsequently revised to $42 million.[140]

d. Additional Transportation Cost Savings

The Postal Service estimates additional savings from reducing the capacity of charter carriers and optimizing the NDC network. Revised USPS-T-2 at 9. As shown in Table VII-5, witness Kim asserts that the further cost savings would range from $77 to $214 million. Revised USPS-T-2 at 10.

Table VII-5
Overall Transportation Cost Changes
($ in millions)

	Range of Cost Savings		**Savings from Change in Service Standard**
Additional Cost Savings	**Low**	**High**	**FCPS**
Reduction in Charter Carriers	$(15)	$(98)	
Optimization of NDC Network	$(62)	$(116)	
Total	**$(77)**	**$(214)**	**$(42)**

Note: As explained in n.133, *supra*, the values appearing in this table represent *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1).

Source: Docket No. N2021-2, Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary," cells B13:B14, C13:C14, H8.

[139] USPS-T-2 at 2 (providing the Postal Service's initial projection of $55 million). As explained in n.133, *supra*, this projection represents the *additional* cost savings and/or increases due to implementing the proposed changes for FCM and FCPS together, (*i.e.*, the cost changes above and beyond those projected in Docket No. N2021-1).

[140] *See* Revised USPS-T-2 at 9 (revising the Postal Service's projection to $42 million).

(1) Charter Carriers

The Postal Service assumes a range of percent reduction in the capacity of charter carriers.[141] The Postal Service multiplies the percent reduction[142] by the total cost for all charters to calculate the additional savings from the reduction of charter carriers. *See* USPS-T-2 at 4. It estimates additional savings ranging from $15 to $98 million from the reduction in charter carrier usage. *Id.* at 9.

(2) NDC Network

Witness Hagenstein estimates a reduction in capacity on the inter-NDC and the intra-NDC network ranging from 6 to 8 percent and 14 to 28 percent, respectively. Revised USPS-T-1 at 4-5. Witness Kim computes additional cost savings ranging from $62 to $116 million from the optimization of the NDC network.[143]

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; Consolidated National Trial Balances; FY 2017-FY 2020 Forms 10-K and FY 2021 1st, 2nd and 3rd Quarters Forms 10-Q to analyze the Postal Service's claim that the proposed service standard changes will reduce purchased transportation costs.

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[141] *See* Library Reference USPS-LR-N2021-2/NP1.

[142] This percent reduction excludes the portion of the percent change in charter carrier capacity, related to the proposed change in service standards, included in the calculation of air transportation cost savings of $108 million.

[143] *See* USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21_ (1)," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Potential-NDC Network."

a. Cost Savings and Methodology

Similar to Docket No. N2021-1, the Commission finds that although theoretically 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 several potential issues. The use of FY 2020 as a base year for cost savings is problematic due to the extraordinary nature of postal operations in FY 2020. Additionally, the inclusion of FY 2020 charter costs, when these costs were at their highest compared to the last five years (*see* Figure VII-2) due to the limited availability of Commercial Air, is problematic. Further, the Postal Service does not account for additional costs necessary to optimize its network in the calculation of cost savings resulting from the optimization of the NDC network.

b. Base Year

FY 2020 was not an ordinary year for the Postal Service with regard to costs. The 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…."[144]

(1) Charter Carriers

Unlike Docket No. N2021-1, the Postal Service's cost savings estimates include savings from a reduction in charter flights. The Postal Service confirms that "[t]he baseline costs include all costs of charter flights occurring in FY 2020" and the cost savings from shifting FCPS volumes from air to surface were reduced to correspond "to

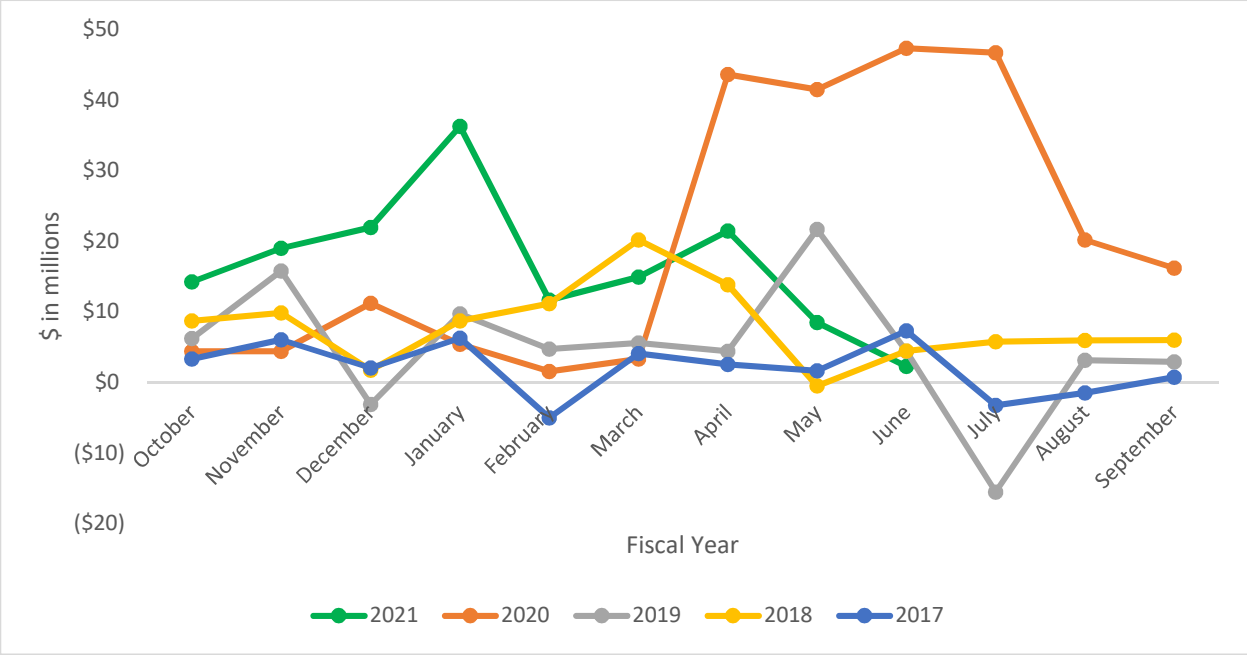
[144] United States Postal Service, 2020 Report on Form 10-K, November 13, 2020, at 44, available at *https://www.prc.gov/docs/115/115086/2020%2011-13%2010-K.pdf* (Postal Service FY 2020 Form 10-K).

the reduction in capacity on FedEx Day Turn, which is the cost pool that includes the charter flight costs". Response to POIR No. 4, question 21. It goes on to state that "although FY 2020 saw a higher use of charters as compared to prior fiscal years, it was still reasonable to use FY 2020 costs as the baseline. This is because charters would continue to be required to handle the higher level of network package volume." *Id.* question 21.a. Further, "[t]he pre-pandemic lower charter costs, when averaged together with the peak-pandemic charter costs, represent a reasonable approximation of what the post-pandemic charter costs would be, in the absence of the proposed changes." *Id.*

Figure VII-2 presents the total charter costs by month. As seen in Figure VII-2, the monthly cost in April FY 2020 of FedEx charters increased almost tenfold from April FY 2019 and is double the monthly cost in April FY 2021. FedEx charter costs make up ten percent of total air transportation costs. The Postal Service FY 2021 Quarter 3 Form 10-Q states that air transportation costs decreased 4.4 percent for the three months ending on June 30, 2021 "due to the shift of certain volume to highway transportation and the greater availability of commercial air flights in the current quarter, when compared to the onset of the pandemic last year."[145]

[145] United States Postal Service, Quarterly Report on Form 10-Q for Quarterly Period Ended June 30, 2021, August 6, 2021, at 32, available at *https://www.prc.gov/docs/119/119458/2021%2008-05%20Form%2010-Q.pdf* (Postal Service FY 2021 Quarter 3 Form 10-Q).

Figure V-2
Historic Trend in FedEx Charter Costs, by Month, FY 2017–June FY 2021
($ in millions)



Note: For 5 of the 60 months in Figure VII-2, the monthly charter costs are negative. Charter costs are recorded as debit entries or positive amounts to the Postal Service's general ledger to three accounts: 53719000 Domestic Air-Charter Linehaul (Excise Taxable), 53721000 Domestic Air-Charter Non Linehaul and 53722000 Domestic Air-Charter Fuel (Excise Taxable). Credit entries or negative amounts are adjustments to previously recorded amounts.

Source: National Trial Balance, Statement of Revenue and Expenses Reports for Sept 2020, November 13, 2020; National Trial Balance, Statement of Revenue and Expense Reports for Nov 2020, December 22, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for December 2020, February 9, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for January 2021, February 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for February 2021, March 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for March 2021, May 7, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for April 2021, May 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for May 2021, June 24, 2021; National Trial Balance, Statement of Revenue and Expenses Reports for June 2021, August 6, 2021; National Trial Balance and Statement of Revenue and Expenses, October 2019, November 25, 2019; National Trial Balance and Statement of Revenue and Expenses, November 2019, December 23, 2019; National Trial Balance and Statement of Revenue and Expenses, December 2019, February 6, 2020; National Trial Balance and Statement of Revenue and Expenses, January 2020, February 24, 2020; National Trial Balance and Statement of Revenue and Expenses, February 2020, March 23, 2020; National Trial Balance and Statement of Revenue and Expenses, March 2020, May 8, 2020; National Trial Balance and Statement of Revenue and Expenses April 2020, May 26, 2020; National Trial Balance and Statement of Revenue and Expenses, May 2020, June 24, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for June 2020, August 7, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for July 2020, August 24, 2020; National

Trial Balance, Statement of Revenue and Expenses Reports for August 2020, September 24, 2020; National Trial Balance, Statement of Revenue and Expenses Reports for Sept 2020, November 13, 2020; National Trial Balance and Statement of Revenue and Expenses, October 2018, November 26, 2018; National Trial Balance and Statement of Revenue and Expenses, November 2018, December 26, 2018; National Trial Balance and Statement of Revenue and Expenses, December 2018, February 8, 2019; National Trial Balance and Statement of Revenue and Expenses, January 2019, February 22, 2019; National Trial Balance and Statement of Revenue and Expenses, February 2019, March 22, 2019; National Trial Balance and Statement of Revenue and Expenses, March 2019, May 10, 2019; National Trial Balance and Statement of Revenue and Expenses. April 2019, May 24, 2019; National Trial Balance and Statement of Revenue and Expenses, May 2019, June 24, 2019; National Trial Balance and Statement of Revenue and Expenses, June 2019, August 9, 2019; National Trial Balance and Statement of Revenue and Expenses, July 2019, August 23, 2019; National Trial Balance and Statement of Revenue and Expenses, August 2019, September 25, 2019; National Trial Balance and Statement of Revenue and Expenses, September 2019, November 14, 2019; National Trial Balance and Statement of Revenue and Expenses, October 2017, November 24, 2017; National Trial Balance and Statement of Revenue and Expenses, November 2017, December 26, 2017; National Trial Balance and Statement of Revenue and Expenses, December 2017, February 9, 2018; National Trial Balance and Statement of Revenue and Expenses, January 2018, February 23, 2018; National Trial Balance and Statement of Revenue and Expenses, February 2018, March 23, 2018; National Trial Balance and Statement of Revenue and Expenses, March 2018, May 10, 2018; National Trial Balance and Statement of Revenue and Expenses, April 2018, May 24, 2018; National Trial Balance and Statement of Revenue and Expenses, May 2018, June 25, 2018; National Trial Balance and Statement of Revenue and Expenses, June 2018, August 9, 2018; National Trial Balance and Statement of Revenue and Expenses, July 2018, August 22, 2018; National Trial Balance and Statement of Revenue and Expenses, August 2018, September 24, 2018; National Trial Balance and Statement of Revenue and Expenses, September 2018, November 14, 2018; National Trial Balance, October 2016 (FY 2017); and Statement of Revenue and Expenses, October 2016 (FY 2017), November 23, 2016; National Trial Balance, November 2016 (FY 2017); and Statement of Revenue and Expenses, November, 2016 (FY 2017), December 23, 2016; National Trial Balance, December 2016 (FY 2017); and Statement of Revenue and Expenses, December 2016 (FY 2017), February 9, 2017; National Trial Balance, January 2017 (FY 2017); and Statement of Revenue and Expenses, January, 2017 (FY 2017), February 24, 2017; National Trial Balance, February, 2017; and Statement of Revenue and Expenses, February, 2017, March 21, 2017; National Trial Balance and Statement of Revenue and Expenses, March 2017, May 10, 2017; National Trial Balance and Statement of Revenue and Expenses, April 2017, May 24, 2017; National Trial Balance and Statement of Revenue and Expenses, May 2017, June 23, 2017; National Trial Balance and Statement of Revenue and Expenses, June 2017, August 10, 2017; National Trial Balance and Statement of Revenue and Expenses, July 2017, August 24, 2017; National Trial Balance and Statement of Revenue and Expenses, August 2017, September 22, 2017; National Trial Balance and Statement of Revenue and Expenses, September 2017, November 14, 2017.

As shown in Figure VII-2, at the start of the pandemic, charter carrier costs were the highest in April FY 2020. Air transportation cost savings projected from this higher charter cost base may be overstated because the cost of charters comprise almost 10 percent of total air transportation costs in FY 2020 and their cost increased notably at the start of the pandemic and remain comparatively higher than the cost of charters in FY 2021. Therefore, charter cost savings using FY 2020 as a base year may not be representative of future charter costs savings.

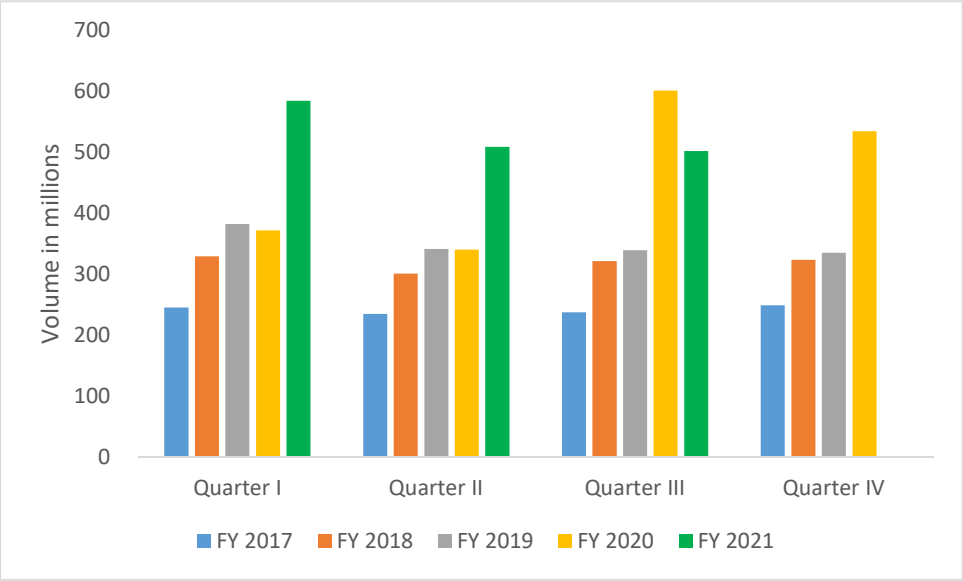
(2) Commercial Air Carriers

In addition, the Postal Service expects its transportation costs to decrease with the increased availability of lower cost commercial air carriers and the slowing growth in packages as the "the surge in e-commerce has begun to abate as the economy continues to recover." Postal Service FY 2021 Quarter 3 Form 10-Q at 27.

(3) FCPS Volume

Figure VII-3 shows FCPS volume by quarters from FY 2017 through the latest published quarter, the 3rd Quarter of FY 2021. As seen in Figure VII-3, FCPS quarterly volume decreased from its pandemic high in the same period last year, which supports the Commission's concern that projecting the charter costs included in the FY 2020 base year forward annually may not be representative.

Figure VII-3
FCPS Volume, by Quarters, FY 2017-3rd Quarter FY 2021



Source: Revenue, Pieces & Weight (RPW) by Classes of Mail and Special Services for Quarters 1-4 YTD, FY 2018, Compared with Corresponding Period of FY 2017 – Mailing Services (Market Dominant Products) and Shipping Services (Competitive Products), folder "RPW_FY2018_Q1-4_Summary," Excel files "FY2018Q1_RPWsummaryreport_public_eoy," "FY2018Q2_RPWsummaryreport_public_eoy," "FY2018Q3_RPWsummaryreport_public_eoy," "FY2018Q4_RPWsummaryreport_public_eoy;" FY 2020 Quarter 1 RPW Report, FY 2020 Quarter 2 RPW Report; FY 2020 Quarter 3 RPW Report; FY 2020 Quarter 4 RPW Report; FY 2021 Quarter 1 RPW Report; FY 2021 Quarter 2 RPW Report; FY 2021 Quarter 3 RPW Report.

The Postal Service acknowledges that the decline in FCPS volume is "reflective of the economy continuing to recover and growing market competition." Postal Service FY 2021 Quarter 3 Form 10-Q at 27. Additionally, NALC claims that "the potential damage to the Postal Service's brand of reducing the quality of service ["……"], could be significant and could trigger greater volume losses than those suggested by price elasticities calculated many years ago." NALC Statement at 2. The Postal Service concluded based on survey results that it will experience no net volume loss resulting from the reduction of service. The lack of econometric analysis to determine the impact of the service standard changes on consumer demand could result in the loss of volume negatively impacting the Postal Service's financial condition. Although the "expanded

[rate] authority" to which NALC refers applies to Market Dominant products rather than to Competitive products such as FCPS,[146] the Postal Service will increase prices for FCPS from October 3, 2021 through December 26, 2021,[147] and has not provided any estimates of volume loss as a result of this price change. The intense competition for packages may indicate that the expected growth projected in the instant case may not be realized, and the ability to find the correct fit for products in the marketplace becomes more important. Damage to its brand would exacerbate this problem. Therefore, it would be prudent for the Postal Service to include such package growth projections in its calculations, particularly for Competitive products for which customers have alternatives in the marketplace.

(4) Highway Transportation

For highway transportation cost savings, the Postal Service projects a cost increase of $66 million to result from implementing the proposed service standard change for FCPS (*see* Table VII-4, *supra*), which would represent a 4 percent increase of baseline highway transportation costs.[148] Additionally, witness Hagenstein states that in response to the pandemic, the Postal Service has included an additional 1 day in the service standard for FCPS effective April 17, 2020. *See* Revised USPS-T-1 at 1.

However, based on the recent cost data provided by the Postal Service, it appears that the highway transportation cost increase in FY 2021 is higher than the base year, and as such the estimated annual cost increase when the proposed

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[146] *See* NALC Statement at 2. The Postal Service's ability to set rates for its Market Dominant products are subject to limitations that do not apply to its Competitive products, such as a cap on price increases and limitations related to workshare discounts. *Compare* 39 U.S.C. § 3622(d)(1)(A) and (e), *and* 39 C.F.R. part 3030 (regulation of rates for Market Dominant products), *with* 39 U.S.C. §§ 3632-3633 *and* 39 C.F.R. part 3035 (regulation of rates for Competitive products).

[147] Docket No. CP2021-127, Order Approving Price Adjustments for Domestic Competitive Products, August 31, 2021, 1, 3 (Order No. 5973).

[148] This percent increase is based on baseline highway transportation costs of $1,514 (Inter-Cluster $249 million + Inter P&DC $174 million + Inter Area $1,091 million) divided by $66 million. *See* Revised USPS-T-2 at 7.

standards are implemented in FY 2022 may be understated. The Postal Service's latest financial results indicate that even with the additional 1 day of transportation time and a 16.5 percent decrease in FCPS volume, highway transportation expenses increased by 16.2 percent in the 3 months that ended on June 30, 2021, and 12.8 percent in the 9 months that ended on June 30, 2021, compared to the same periods in FY 2020. The Postal Service claims that the primary reason for the increases was an increase in the number of miles driven. The Postal Service states, "[e]xpenses grew at a greater rate during the three-month period as we shifted package volume from air to highway transportation when more economical." Postal Service FY 2021 Quarter 3 Form 10-Q at 32.

In contrast to the projected highway transportation cost increase, witness Kim estimates cost savings ranging from $62 to $116 million based on an estimate of a further reduction in capacity on the inter-NDC and intra-NDC network provided by witness Hagenstein. Revised USPS-T-2 at 8. In Response to POIR No. 9, the Postal Service states that "savings in the NDC network reflect the potential annual savings in the Intra- and Inter-NDC transportation network once the optimization is complete." Response to POIR No. 9, question 1.c. The Postal Service provides the total approved investment cost for the optimization of the network as "$209 million in infrastructure funding for acquiring additional space in up to 46 locations and $240 million in funding for additional package sorting machines." *Id.* question 1.a. The Postal Service clarifies that the savings included in the instant case are expected to be realized "once the optimization is complete" and confirms that the costs for optimizing the network are not included in the cost savings. *Id.* question 1.c.

The Commission's analysis reveals that the estimated additional cost savings of $62 to $116 million – derived from efficiencies based on the optimization of the intra- and inter-NDC network – are not reduced by costs affecting the cost savings, in the amount of $449 million in costs necessary to optimize the network. Additionally, the Commission notes that the Postal Service has not included any portion of the $550,000

necessary for systems updates to implement the proposal in its cost calculations for the instant case. As such, it appears that the cost savings calculated by the Postal Service are significantly lessened by a number of factors that it has not presented in its proposal.[149]

c. Other Issues

Witness Hagenstein states that "Postal management deems the implementation of the service changes described in this filing as necessary to assure that the Postal Service remains a viable, financially healthy institution that can continue to play a vital role in serving the changing communications and delivery needs of the American people well into the 21st century." Revised USPS-T-1 at 42. The ability of the Commission to meaningfully evaluate this judgment is limited by the lack of the Postal Service's presentation of a robust analysis of its potential cost savings that corresponds with the complexity of the Postal Service's operations. For instance, the Postal Service has not identified a method to meaningfully estimate the total additional costs that would have been incurred to meet the existing FCPS service standards at the 95 percent on-time target level for FY 2017 through FY 2020. *See* Response to POIR No. 4, question 1.b.

In order to balance the realization of cost savings with maintaining quality of service and customer satisfaction, the Commission advises the Postal Service to develop meaningful metrics aimed at measuring its implementation of its proposal. Examples of such metrics would include operating plan compliance and delayed volumes. *See* August 12 Response to POIR No. 11, question 6. Additionally, the Postal Service, before implementation, should consider whether any potential loss in volume caused by the proposed changes would negate the level of potential savings to be realized.

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[149] Docket No. N2021-1, Response of the United States Postal Service to Questions 1-14 & 16-20 of Presiding Officer's Information Request No. 2, May 21, 2021, question 9 and accompanying Docket No. N2021-1, Library Reference USPS-LR-N2021-1/15, May 21, 2021.

The Public Representative "cannot conclusively say that the projected cost savings analysis is accurate" and "[s]he notes that, historically, not all Postal Services projected cost savings estimates have materialized." PR Brief at 23. The Commission agrees that the accuracy of the projected cost savings cannot be verified from the data submitted by the Postal Service. The Commission also shares the Public Representative's cautious appraisal of the cost savings estimates and the mathematical errors presented by the Postal Service, which led to an initial overstatement of the expected cost savings figure. *See id*. The Commission acknowledges that the advisory opinion process is designed to allow for public vetting of the Postal Service's proposal and that this organically may prompt the Postal Service to refine earlier filings. However, to improve public confidence in the Postal Service's cost savings analysis and elevate the level of public discourse in N-dockets, the Commission recommends that the Postal Service audit their filings before publishing them for the public.

3. Financial/Cost Savings Conclusion

The Commission finds that the potential cost savings calculated by the Postal Service rest on a number of unproven assumptions. As such, it is unlikely that the Postal Service would achieve cost savings from the proposed changes at the level projected. In particular, the Postal Service's use of FY 2020 as the base year for calculating savings is likely to lead to overestimation of annual cost savings. Although the Postal Service includes annual charter costs in its base year, FY 2020 was an anomaly for charter costs because of the increased cost due to the impact of the COVID-19 pandemic.

In addition, the projected cost savings may be further reduced by costs incurred by the Postal Service to optimize its network and make it more efficient, such as costs for contracted facilities, additional workers for processing packages, and package sorting equipment. It is therefore unclear whether the net cost savings from the proposed changes would outweigh these additional costs.

Although the advisory opinion process is designed to allow for public input into the Postal Service's service changes, the Commission recommends that the Postal Service implement a process of auditing their filings before making them public. This docket contained multiple errata and revisions to the original request for an advisory opinion, which diminished the transparency into the Postal Service's original cost-benefit analysis.

The cost savings estimates provided by the Postal Service are a calculation of a change in estimated capacity usage multiplied by the historical cost of transportation. This calculation does not incorporate the nuance of postal operations or workload. The materials provided by the Postal Service suggest that it will measure success of the plan by comparing the air and surface transportation costs before and after implementation. That is, at some point in the future, be it at the end of FY 2022 or FY 2023, the Postal Service will compare the air and surface transportation costs with the FY 2020 costs and determine if its actions led to cost savings. This method will not result in a meaningful estimate of the success (or failure) of these changes and is not rigorous enough to match the complexity of the Postal Service's operations. Before embarking on such a major change in operations, the Commission recommends the Postal Service develop a rigorous method to identify the changes in cost that will result from this plan. Without a rigorous method, publicly provided, postal stakeholders will not be able to understand if this change was positive, or necessary from a costing perspective.

E. Transportation Modeling Analysis

1. Overview

The Postal Service's transportation model, developed for the instant proceeding, assumes the implementation of the proposed service standard changes for both FCM[150] and FCPS volumes (FCM/FCPS Model). Revised USPS-T-1 at 31. The Postal Service's transportation model developed for Docket No. N2021-1 included service standard changes only for FCM volumes (FCM Only Model).[151] The Postal Service emphasizes that the projected transportation network efficiencies achieved in the FCM/FCPS Model cannot be viewed in isolation from the proposed changes to the FCM service standards. Revised USPS-T-1 at 37.

The purpose of the Postal Service's transportation model is to create surface routings that would transport modeled volumes in the most efficient manner (within the allotted transportation windows for products), and to determine which air FCM and FCPS volumes can be diverted to the surface network in a cost-effective manner. Revised USPS-T-1 at 19, 22. The FCM/FCPS Model projects greater FCM volumes to divert from the air to the surface network, and it projects a smaller reduction in surface network mileages than the FCM Only Model. The FCM/FCPS Model projects greater FCM volumes to shift out of the air network because the combined FCM and FCPS volumes were sufficient to determine the cost-effectiveness of adding surface lanes to

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[150] *See generally* Docket No. N2021-1 Advisory Opinion. The Commission refers to the transportation model that was presented in the Docket No. N2021-1 proceeding as the "FCM Only Model." The Commission refers to the transportation model that is subject of the instant proceeding, which includes both FCM and FCPS volumes under the proposed service standards, as the "FCM/FCPS Model."

[151] *See* Docket No. N2021-1 Advisory Opinion at 114-46 for the analysis of transportation modeling results yielded from the FCM Only Model. Considering the proposed service standards for both FCM and FCPS are included in the modeled network analyzed in the instant proceeding, the Commission's analysis of the Postal Service's FCM/FCPS Model results summarizes the impact of the implementation of the proposed changes in FCM and FCPS service standards on both products' volumes.

the network.[152] Added surface transportation capacity in turn allowed more FCM volumes to divert to the surface network, compared to the FCM Only Model. Even with the newly-added long-distance transportation for air-to-surface lanes, the FCM/FCPS Model projects a reduction in the overall network mileages, although a much smaller reduction than was projected by the FCM Only Model.

The FCM/FCPS Model projects an estimated decrease in FCPS volume transported via the air network from 37 percent to 27 percent. Revised USPS-T-1 at 37. Additionally, the Postal Service projects that 61 percent of FCM[153] weight, currently transported by air, would shift out of the air network.[154] This represents a 12 percentage point increase in FCM capacity projected to divert to the surface network, compared to the diverted FCM capacity that was projected in the FCM Only Model.[155]

The Postal Service's modeling results further indicate that the diverted FCM and FCPS volumes will increase surface network mileages for long-distance inter-Area

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[152] Revised USPS-T-1 at 31. By contrast, the FCM volumes only were not sufficient to justify the cost of long-distance transportation in the FCM Only Model. Consequently, only FCM volumes that could be placed on the existing surface routings, or on a combination of existing routings and legs, created exclusively for the diverted volumes, were determined to divert from the air to the surface network in the FCM Only Model. Docket No. N2021-1 Tr. 1/175.

[153] The estimate of 61 percent of FCM weight currently transported by air that is shifted to surface transportation network is provided by the Postal Service in Library Reference USPS-LR-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Calculate Air Change Lbs Flown," cell C21. This 61 percent estimate includes some remittance volume. The Postal Service explains that it prioritizes a minority of remittance mail, such that this volume is delivered more quickly than is required under the current FCM service standards. Docket No. N2021-1 Tr. 1/340. More specifically, the Postal Service states that 15 percent of remittance volumes are currently assigned to air transportation in the same lanes where other FCM is transported by surface. *Id*. 1/335.

[154] Library Reference USPS-LR-N2021-2/4, folder "LR4.Revised.Files.7.2.21," Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Air_Finance_Summary." Excluding remittance mail, 56 percent of FCM volume, corresponding to 55 percent of FCM weight flown, is assigned to shift to the surface network in the FCM/FCPS Model.

[155] Docket No. N2021-1, Library Reference USPS-N2021-1/3, April 21, 2021, folder "USPS-LR-N2021-1_3," subfolder "N2021-1-3," Excel file "3_SSD_5D_Vol_Impacts_CONUS.xlsx," tab "Air_Finance_Summary." This corresponds to a decrease in FCM volume flown from the current 21 percent to 9 percent. *Id*. tab "FCM_Contigous_Impact."

transportation, without increasing overall surface network mileages. More specifically, as the volumes transported via the surface network increase from 63 to 73 percent for FCPS, and from 79 to 91 percent for FCM, mileages for inter-Area transportation are projected to increase by 2 percent, while the overall inter-SCF surface network mileages are projected to decrease by less than 1 percent.[156]

The Postal Service estimates a $304 million decrease in annual air transportation costs due to a reduction in FCM and FCPS capacity flown.[157] This represents an additional $108 million cost savings on air transportation, compared to the air transportation cost savings that were presented by the Postal Service using the FCM Only Model. *Id*.

In addition, the Postal Service calculates $10 million in savings on surface transportation, associated with the projected 1 percent reduction in overall surface network mileages. *Id*. This represents a $66 million reduction in surface transportation savings, compared to the surface transportation cost savings that were presented by the Postal Service using the FCM Only Model. *Id*.

As for its transportation impact analysis, the Postal Service cautions that the transportation modeling results will require significant post-processing work by transportation planners prior to implementation, in order to refine the modeled routings into "actual routings that can be implemented." Revised USPS-T-1 at 32.

The Postal Service further describes continuing adjustments to the surface transportation network, as well as the planned merger of the modeled network with the

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[156] *See* Revised USPS-T-1 at 37; Docket No. N2021-1, Library Reference USPS-N2021-1/3, folder "USPS-LR-N2021-1_3," subfolder "N2021-1-3," Excel file "3_SSD_5D_Vol_Impacts_CONUS.xlsx," tab "FCM_Contigous_Impact." Library Reference USPS-LR-N2021-2/4, folder "LR4.Revised.Files.7.2.21," Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface."

[157] Library Reference USPS-N2021-2/1, folder "LR.1.FCPS.Trans.Costs.Savings.Rev.7.2.21," Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary."

inter-NDC network and its volumes. Response to APWU/USPS-T-1/6; Revised USPS-T-1 at 37.

2. Commission Analysis

In the sections that follow, the Commission analyzes the modeled baseline and final network scenarios. Additionally, the Commission compares the efficiencies estimated to be achieved in the final modeled network against the baseline network and the actual FY 2020 inter-SCF network. The Commission then compares the projected transportation efficiencies achieved in the FCM Only Model to those achieved in the FCM/FCPS Model, and addresses the potential impacts of the model's limitations on the estimated efficiency gains upon implementation. Lastly, the Commission discusses the timeline for the implementation of surface transportation network changes. Overall, the Commission's analysis highlights the limited utility of the analyzed results in the context of the Postal Service's planned consolidation of the coast-to-coast surface transportation network modeled in the instant proceeding and the inter-NDC network.

a. Modeled Network Scenarios

The FCM/FCPS Model was developed using daily volumes with 3-Digit ZIP Code origin and destination information and the corresponding OD Pairs within the contiguous United States.[158] The Postal Service modeling results contain—both under the current and proposed service standards—the mode of transportation applicable to each OD Pair.

The Postal Service clarifies that "[e]ach [OD Pair] might represent one or more routings between Origin and destination SCF," while some of the OD Pairs might

[158] The publicly filed data also include information on the current and proposed FCPS service standards. The results data filed under seal include additional information on the current and proposed transportation mode assignments. Library Reference USPS-LR-N2021-2/4, Excel file "10_3digit_FCPS_Public(REV7.2.21).xlsx;" Revised USPS-LR-N2021-2/NP2, Excel file "10_3digit_FCPS_Private(REV7.2.21).xlsx."

overlap onto the same routings. Response to POIR No. 4, question 19.a. The Postal Service did not map the provided OD Pair data to either the existing routings or the optimized routings produced in each modeled network scenario, neither did the Postal Service provide transportation modes for the existing/modeled routings.

The summary level information provided by the Postal Service did not address the complexities of postal operations. For example, the volume in each OD Pair is identified as being transported via air or surface. This information alone is not sufficiently descriptive of how the Postal Service plans to implement changes in transportation lanes. For example, stating that the volume in an OD Pair will be transported by surface does not capture possible hub operations at an STC, any detail on multi-stop trips, or the merging of mail shapes processed at separate facilities. Without this level of information, network operations cannot be fully understood. A more complete presentation of these data would have allowed participants and the Commission to analyze the existing and modeled routings and the comparative complexities of the current and modeled networks in a meaningful fashion.

In response to a POIR, the Postal Service provides aggregate values for the number of average daily trips and mileages that correspond to modeled routings for OD Pairs for each of the modeled network scenarios and the actual FY 2020 inter-SCF network.[159] The Commission analysis that follows pertains to the modeled baseline and final networks and the actual FY 2020 inter-SCF network, using the corresponding number of trips and mileages, as provided by the Postal Service. These networks have been adjusted to remove transportation outside the scope of the model.[160]

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[159] Response to POIR No. 2, question 4. The Postal Service provides number of trips and mileages for each inter-SCF contract category (*i.e.*, inter-Area, inter-Cluster, and inter-P&DC). As for the actual FY 2020 inter-SCF network, the Postal Service provides these values for the actual network adjusted to remove transportation outside the scope of the model, and for the actual network not adjusted to remove outside-the-scope transportation.

[160] The Commission will refer to the actual FY 2020 inter-SCF network, adjusted to remove outside-the-scope transportation, as the "actual (adjusted) FY 2020 inter-SCF network."

Baseline network. The Commission finds that the baseline network may not accurately portray the current operating environment and therefore may not be a reasonable reference point for calculating the impact of the proposed changes. The baseline network assumes optimized routings would be used to transport inter-SCF network volumes[161], currently served by surface transportation and subject to the existing service standards, rather than the routings currently used that are not optimized. Therefore, the baseline model assumes mail will be transported in the most efficient way that minimizes trips and mileages.[162] The Postal Service used the TMOD software with the same set of optimization instructions to generate the baseline network's routings as it did to generate FCM/FCPS Model routings.[163] In other words, the transportation model was not constrained to optimize existing routings, but rather created new, efficient routings for the modeled OD Pairs. Docket No. N2021-1 Tr. 1/213.

The Postal Service compares the baseline network mileages with the surface transportation network mileages resulting from the implementation of the proposed FCM and FCPS service standards. The Postal Service calculates the associated change in surface transportation costs by multiplying the projected change in mileages by FY 2020 surface costs[164] and compares these to the actual FY 2020 surface transportation costs.

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[161] The Postal Service states that the modeled volumes are representative of an average period of the year and align with transportation requirements the Postal Service expects to experience "most of the time." Response to POIR No. 6, questions 4.a., 4.c.

[162] Revised USPS-T-1 at 22. The modeled volumes include FCM and FCPS, inbound and outbound international mail (letters, flats, and packets), USPS Marketing Mail and Periodicals identified as being transported via the FCM network, and priority parcels and flats. Docket No. N2021-1, Tr. 1/175, 214. The products that are transported in the current inter-SCF network and were not included in the modeling, on the basis of being outside the scope, include Priority Mail Express and mail transport equipment (MTE). *Id.* at 187.

[163] Trips in the baseline network were built using optimal departures from origin and included stops at multiple origins, multiple destinations, aggregation sites, or STCs. Response to POIR No. 4, questions 19.d.-19.e.; Docket No. N2021-1 Tr. 1/182-83.

[164] This further adjusts for applicable variability factors.

Thus, for the purposes of estimating the impact of the proposal, the Postal Service assumes that the modeled baseline network is an accurate representation of the actual (adjusted) FY 2020 inter-SCF network. The Commission evaluates whether the baseline network is an accurate representation of the actual (adjusted) FY 2020 inter-SCF network below.[165]

Table VII-6 compares the proportions of total FY 2020 inter-SCF transportation costs, total actual (adjusted) FY 2020 inter-SCF network mileages, and total baseline network mileages, accounted for by each of inter-Area, inter-Cluster, and inter-P&DC transportation. This table shows that transportation costs are exactly correlated with actual (adjusted) FY 2020 inter-SCF network mileages, and that the modeled baseline network mileages are materially different than the actual (adjusted) FY 2020 inter-SCF network mileages.

Table VII-6
Percentages of Total FY 2020 Surface Transportation Costs, Actual (Adjusted) FY 2020 Inter-SCF Network Mileages, and Modeled Baseline Network Mileages, in Each of the Inter-SCF Contract Categories

	FY 2020 Inter-SCF Transportation Costs	Actual (Adjusted) FY 2020 Inter-SCF Network Mileages	Baseline Network Mileages*
Inter-Area	72%	72%	75%
Inter-Cluster	16%	16%	22%
Inter-P&DC	12%	12%	4%

Note: * The values in this column do not add up to 100 percent due to rounding.

Source: Library Reference USPS-LR-N2021-2/1, Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Highway;" Response to POIR No. 2, question 4; Library Reference USPS-LR-N2021-2/4, Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface."

[165] The actual FY 2020 surface transportation costs include costs for contracted regular and emergency inter-SCF transportation, *i.e.*, they are adjusted to exclude costs for contracted exceptional and "Christmas" transportation.

As detailed in Table VII-6, the differences between the actual (adjusted) FY 2020 inter-SCF network mileages and the baseline network mileages are most apparent for the inter-Cluster and inter-P&DC mileages. Only 4 percent of the mileage in the baseline network involves inter-P&DC transportation, but inter-P&DC transportation accounted for 12 percent of mileages in FY 2020.

In response to an information request, the Postal Service provides two main factors to explain the discrepancy between the actual (adjusted) FY 2020 inter-SCF mileages and baseline network mileages, accounted for by inter-Area, inter-Cluster, and inter-P&DC transportation. First, it states that the baseline network includes a "different trip distribution" than the actual (adjusted) FY 2020 inter-SCF network. Response to POIR No. 4, question 17.b. More specifically, the Postal Service explains that the baseline network includes multi-origin to single-destination routings and single-origin to multi-destination routings. *Id.* The Postal Service explains that such routings combine inter-P&DC routings as trip legs, which are part of inter-Cluster and inter-Area trips, and may have resulted in more baseline network trips and mileages assigned to inter-Cluster and inter-Area transportation. *Id*. Second, the Postal Service clarifies that the baseline network does not include outside-the-scope transportation, listing mailer pick-ups, trips to move volumes to and from Terminal Handling Services sites, transportation to move Priority Mail Express and MTE between facilities, or inter-P&DC shuttle trips to transfer volumes based on processing responsibilities, among outside-the-scope transportation.[166]

The explanations provided by the Postal Service do not contain quantitative information sufficient to justify the magnitude of difference between the actual (adjusted) FY 2020 inter-SCF network mileages and the baseline network mileages. The Postal Service has not provided evidence to indicate that the use of FY 2020 surface transportation costs to calculate savings associated with the change in mileages

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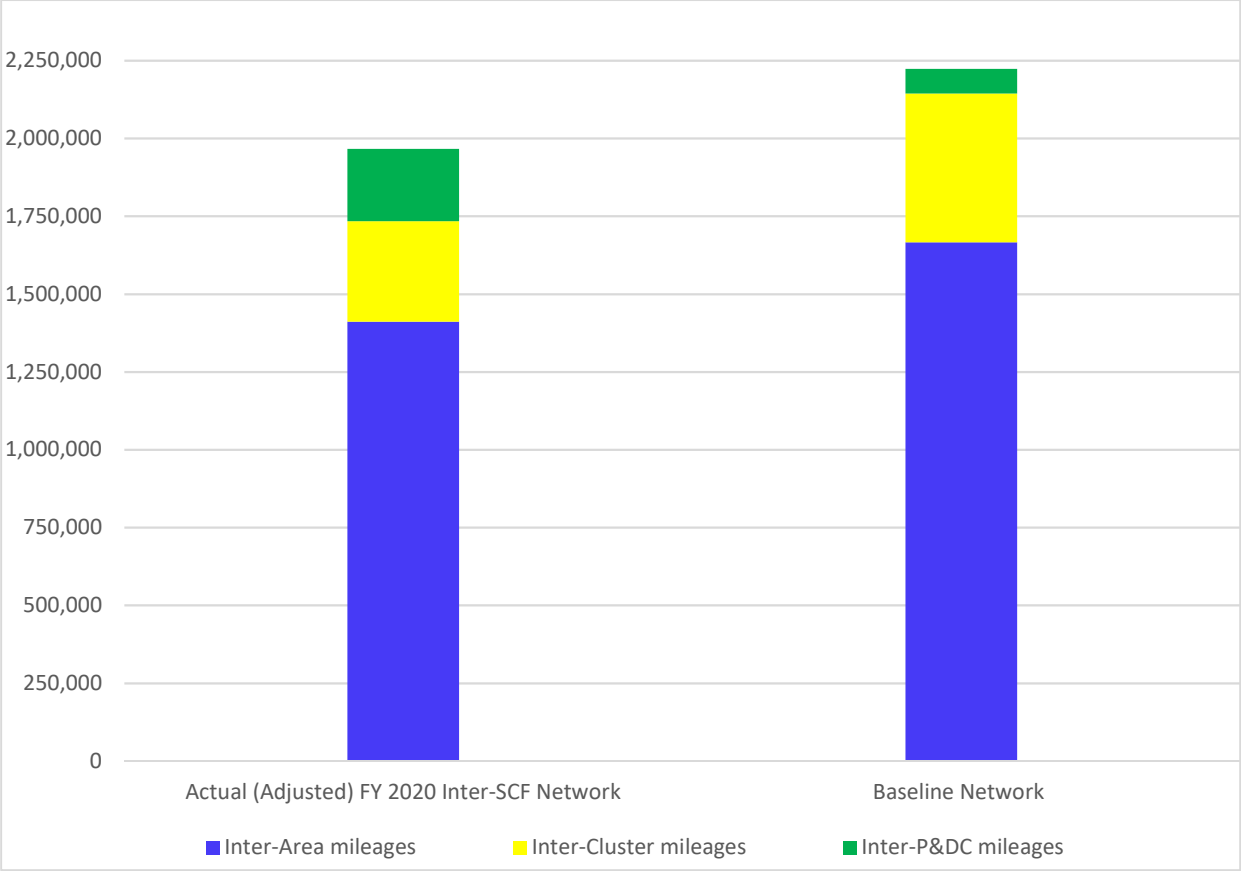
[166] *See* Response to POIR No. 2, question 7; Response to POIR No. 4, question 17.b.; Docket No. N2021-1 Tr. 1/187.

between the baseline and the final networks is accurate. The Postal Service did not demonstrate that FY 2020 surface transportation costs would have been incurred had the baseline network's "different trip distribution" been in place in FY 2020.

As discussed in the following section, the Commission concludes that the baseline network model is not an accurate reflection of FY 2020. If all aspects of transportation were considered within the scope of the model, and all of the Postal Service's operational realities were accounted for as they were in the actual (adjusted) FY 2020 inter-SCF network, the baseline network's "different trip distribution" would not have been accomplished. Next, the Commission examines the difference between the baseline and the actual (adjusted) FY 2020 inter-SCF networks.

Figure VII-4 compares the daily mileages in the baseline and the actual (adjusted) FY 2020 inter-SCF network.

Figure VII-4
Daily Mileages in the Actual (Adjusted) FY 2020 Inter-SCF Network and in the Modeled Baseline Network, by Contract Category



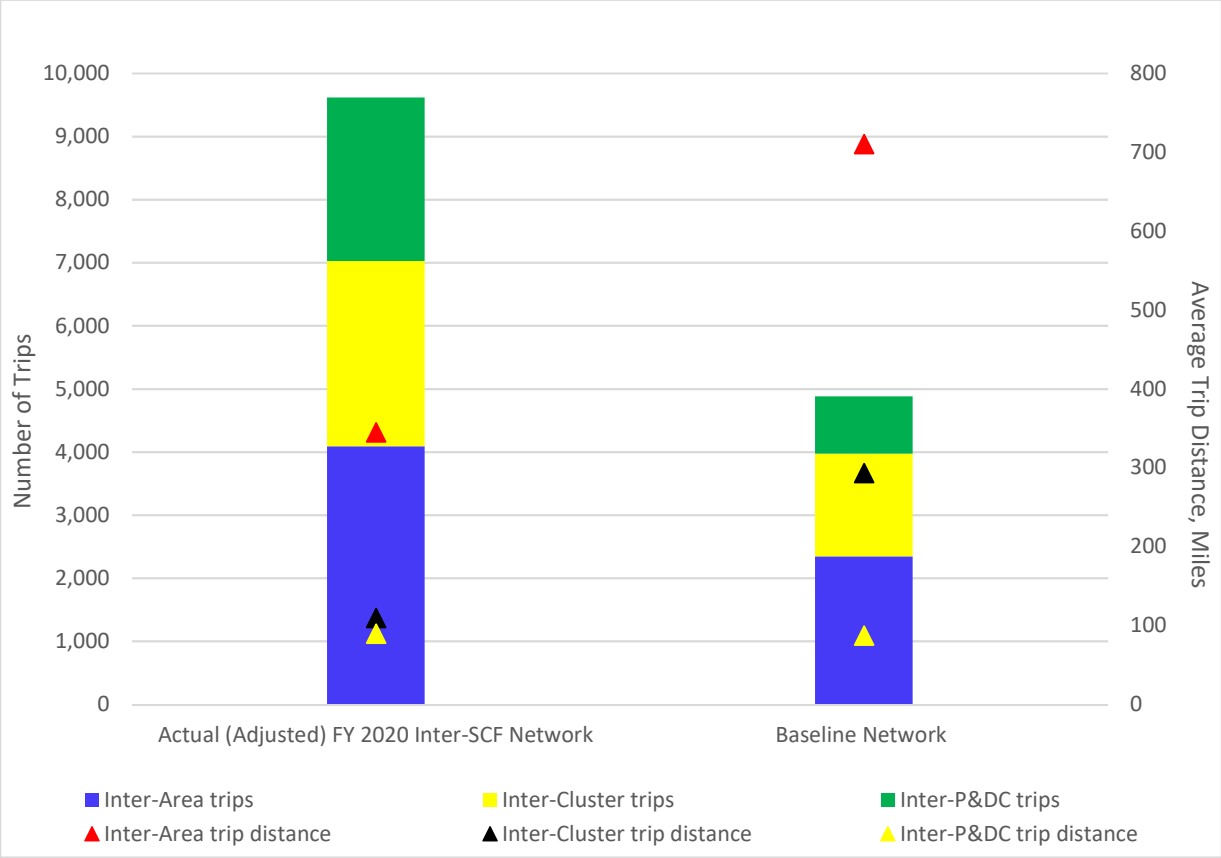
Source: Library Reference N2021-2/4, Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;" Response to POIR No. 2, question 4.

As depicted in Figure VII-4, the modeled baseline network includes more mileages than the actual (adjusted) FY 2020 inter-SCF network. The baseline network, which represents an optimized solution and was built using a different trip structure, includes more inter-Area and inter-Cluster mileages and fewer inter-P&DC mileages than the actual (adjusted) FY 2020 inter-SCF network.[167]

Figure VII-5 shows the number of daily trips and the average trip distances in the modeled baseline network and the actual (adjusted) FY 2020 inter-SCF network.

[167] More specifically, the modeled baseline network includes 18 percent more inter-Area mileages, 48 percent more inter-Cluster mileages, and 66 percent fewer inter-P&DC mileages than the actual (adjusted) FY 2020 inter-SCF network, for 13 percent more overall mileages in the baseline network than in the actual (adjusted) FY 2020 inter-SCF network.

Figure VII-5
Daily Trips and Average Trip Distances (Miles)
in the Actual (Adjusted) FY 2020 Inter-SCF Network and
in the Modeled Baseline Network, by Contract Category



Source: Library Reference N2021-2/4, Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;" Response to POIR No. 2, question 4.

Figure VII-5 illustrates that the modeled baseline network includes substantially fewer trips. Its trips are notably longer, on average, for the modeled inter-Area and inter-Cluster transportation.[168]

The Commission interprets the significantly reduced frequency of baseline network trips as associated with the model building multi-stop trips (*i.e.*, trips picking up or dropping off volumes along the way to destination) or adding trip stops at aggregation sites/STCs. Such trips are longer because they combine inter-P&DC trips as trip legs on inter-Cluster and inter-Area trips. The baseline model containing such multi-stop trips would explain the comparatively higher inter-Cluster and inter-Area mileages, and the lower inter-P&DC mileages, contained in the baseline network as compared to the actual (adjusted) FY 2020 inter-SCF network. Efficient trips, such as these, would also lead to improved utilization of transportation capacity and to elimination of redundant transportation.[169]

The Commission notes that it is both the efficient trip structure and the model's numerous limitations that may have enabled the optimal baseline network routings. As detailed in Figure VII-5, the baseline model routes the network's volumes using half of the actual (adjusted) FY 2020 inter-SCF network's trips.

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[168] More specifically, the baseline network includes 43 percent fewer inter-Area trips, 44 percent fewer inter-Cluster trips, and 65 percent fewer inter-P&DC trips. Overall, the baseline network includes 49 percent fewer trips than the actual (adjusted) FY 2020 inter-SCF network. At the same time, baseline network trips are approximately two times longer for inter-Area transportation and approximately three times longer for inter-Cluster transportation than in the actual (adjusted) FY 2020 inter-SCF network.

[169] Capacity utilization is 21 percentage points higher in the modeled baseline network (66 percent) than in the actual (adjusted) FY 2020 inter-SCF network (45 percent). Response to POIR No. 2, question 4; Docket No. N2021-1 Tr.1/175.

The model's limitations include:

- reduced complexity of business rules;
- lack of accounting for site-specific operational constraints;
- lack of accounting for relationships with transportation deemed outside the scope of the model;
- potentially inadequate average speed assumptions to properly account for the U.S. Department of Transportation (DOT)-required breaks for longer-distance transportation;
- potentially inadequate assumptions to properly account for volume transfers at aggregation sites/STCs; and
- only one-way trips being modeled.[170]

Revised USPS-T-1 at 22-24, 31-32.

To summarize, the modeled baseline network is responsive to reduced or simplified business/operational obligations; assumes smooth processing and docking operations, timely departures from origins, volume pairings at origins or aggregation sites/STCs, and timely processing and volume transfers at STCs; is not hindered by bottlenecks;[171] and assumes no transportation delays. The cumulative effect of these simplifications could have contributed to the notable consolidation of transportation in the baseline network.

As discussed in the Docket No. N2021-1 Advisory Opinion, the Postal Service has previously pursued initiatives to improve capacity utilization and reduce network trips. Docket No. N2021-1 Advisory Opinion at 121-22. These efforts were hindered by time constraints and by the inability to eliminate trips needed for other purposes, both of which necessitate maintaining certain trips at particular times. *Id*. The same obstacles

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[170] Docket No. N2021-1 Tr. 1/187. The Public Representative also points to the Postal Service's model being "susceptible to errors, flaws and other deficiencies." PR Brief at 17 n.33.

[171] Docket No. N2021-1 Tr. 1/309-10.

that the Postal Service has faced in the past, trying to optimize the network, might impede implementation of the modeled routings.[172]

The analysis presented above highlights that if all transportation was deemed within the scope of the model,[173] and all of the Postal Service's operational realities were accounted for as they were in the actual (adjusted) FY 2020 inter-SCF network, the baseline network's "different trip distribution" would not have been accomplished. This leads the Commission to conclude that it is inaccurate to assume that the FY 2020 surface transportation costs correspond to the baseline network model.

Furthermore, it is potentially concerning that, as illustrated in Figures VII-4 and VII-5, even with only half of the actual (adjusted) FY 2020 inter-SCF network's trips, the baseline network's overall mileages are 13 percent higher.

In the next section, the Commission examines mileages, daily trips, and average trip distances in the final network scenario for the FCM/FCPS Model (final network), and compares them to mileages, daily trips, and average trip distances in both the baseline and the actual (adjusted) FY 2020 inter-SCF networks.

Final network. The proposed service standards for FCM and FCPS were introduced to the modeled baseline network analyzed above. Following two iterations and a final determination of cost-effectiveness, the resulting final surface network includes efficient routings to move both volumes currently in the surface network, with

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[172] This would be due to disregarding certain operational realities in the modeling.

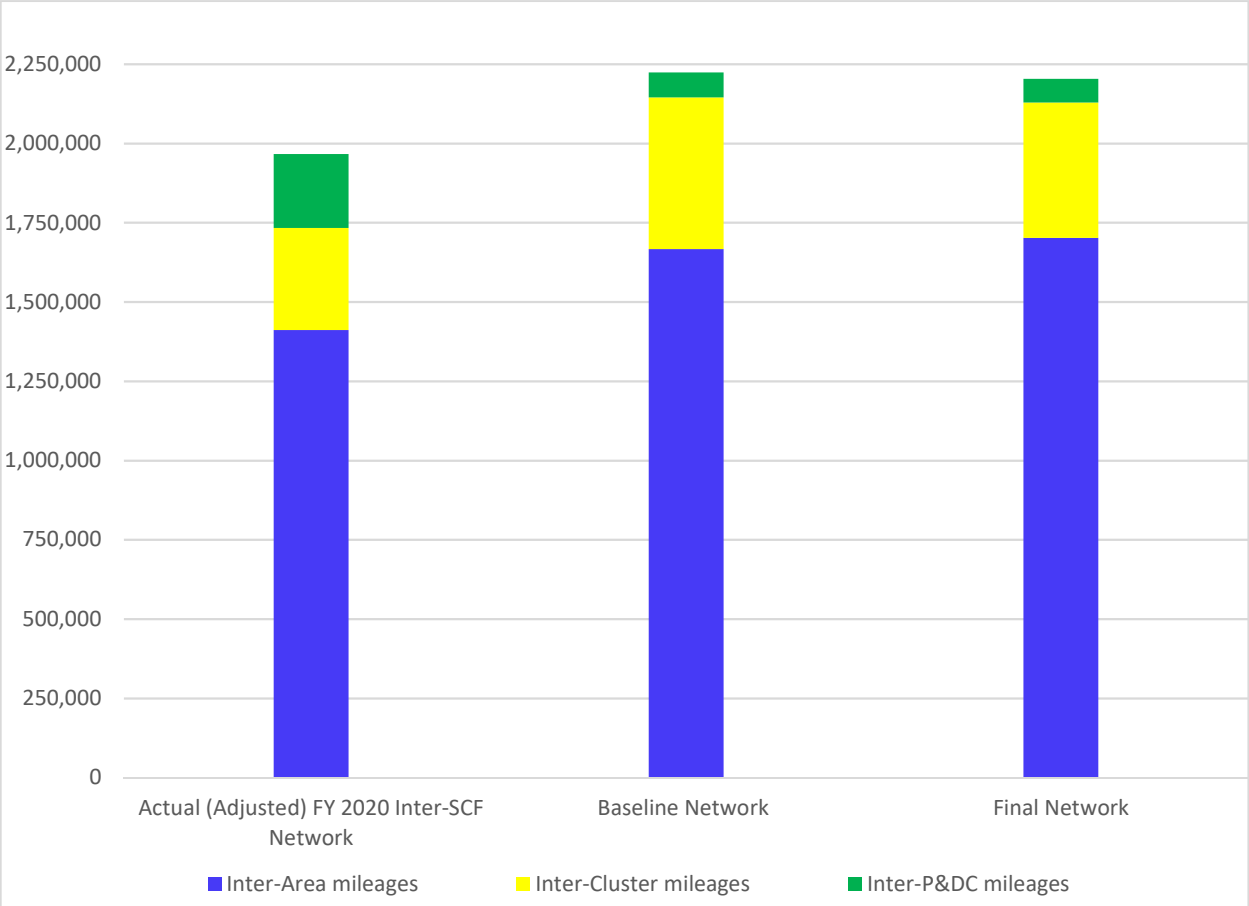
[173] As observed by the Postal Service Office of Inspector General, while some routes can be adjusted, and the number of trucks changed, "…there may be some trips that cannot be eliminated without putting the network in jeopardy." United States Postal Service, Office of Inspector General, Report No. RARC-WP-19-002, What's Driving Postal Transportation Costs?, March 18, 2019, at 10, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2019/RARC-WP-19-002.pdf* (OIG Report No. RARC-WP-19-002).

FCM and FCPS subject to the proposed service standards, and FCM and FCPS volumes projected to shift from the air to the surface transportation network.[174]

Figure VII-6 shows final network mileages next to the baseline and the actual (adjusted) FY 2020 inter-SCF network mileages.

[174] As described in Section IV.B., the modeling was an iterative process, which first created optimized routings for the current surface OD Pairs using the proposed service standards (first iteration), then introduced current air OD Pairs into the model (second iteration), and finally analyzed the cost-effectiveness of the model's routing results for the current air OD Pairs, resulting in the final network that combined optimized routings for the current surface OD Pairs and for air OD Pairs, determined to be cost-effective (final network).

Figure VII-6
Daily Mileages in the Actual (Adjusted) FY 2020 Inter-SCF Network, in the Modeled Baseline Network, and in the Final Network, by Contract Category



Source: Library Reference N2021-2/4, Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;" Response to POIR No. 2, question 4.

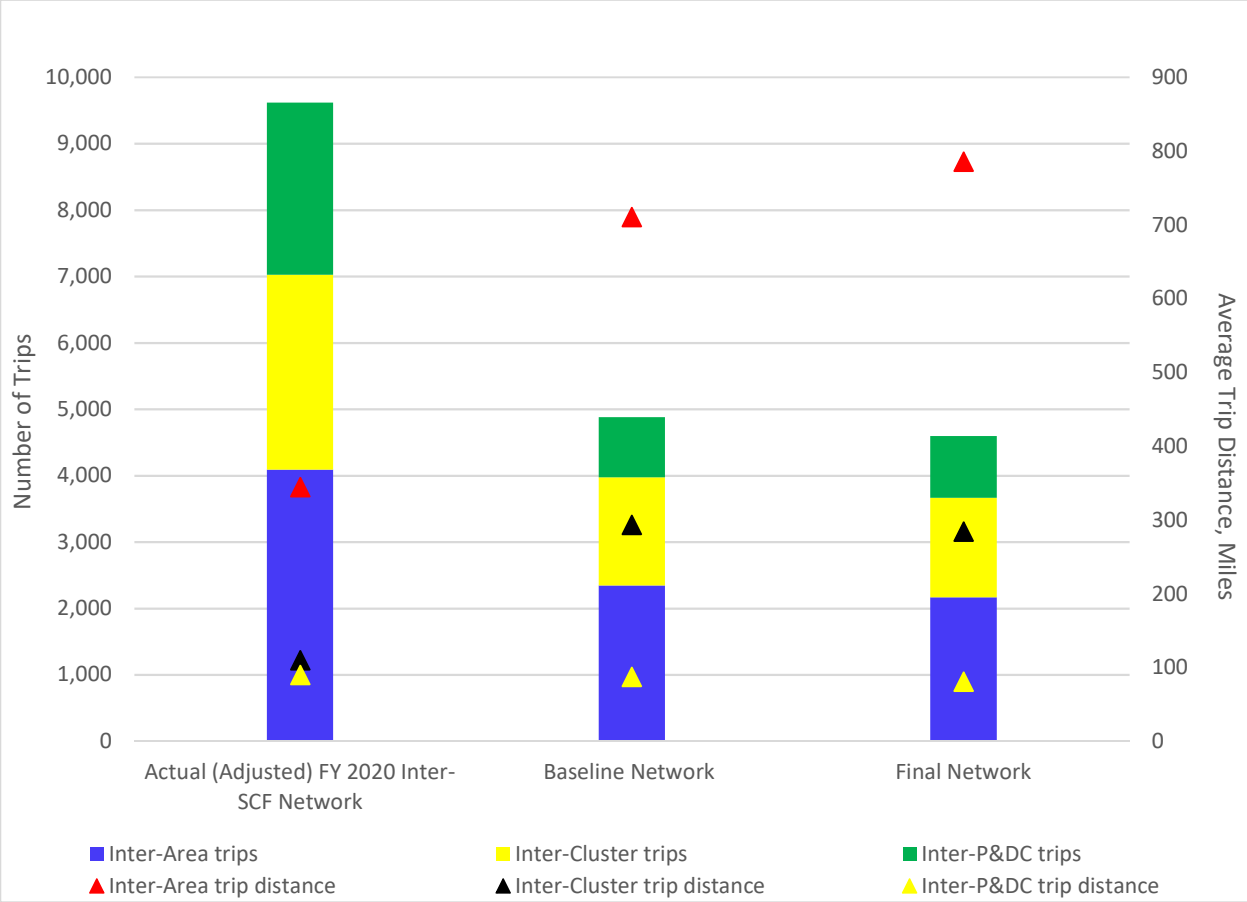
The data underlying Figure VII-6 detail that the Postal Service's FCM/FCPS Model projects 1 percent fewer surface network mileages in the final network than in the modeled baseline network.[175] Compared to the actual (adjusted) FY 2020 inter-SCF network, the final network includes 12 percent more mileages.[176]

Figure VII-7 includes daily trips and average trip distances in the final, baseline, and the actual (adjusted) FY 2020 inter-SCF networks.

[175] The final network includes 2 percent more inter-Area mileages, 11 percent fewer inter-Cluster mileages, and 5 percent fewer inter-P&DC mileages than the baseline network.

[176] The final network includes 21 percent more inter-Area mileages, 33 percent more inter-Cluster mileages, and 68 percent fewer inter-P&DC mileages than the actual (adjusted) FY 2020 inter-SCF network.

Figure VII-7
Daily Network Trips and Average Trip Distances (Miles)
in the Actual (Adjusted) FY 2020 Inter-SCF Network,
in the Modeled Baseline Network, and in the Final Network, by Contract Category



Source: Library Reference N2021-2/4, Excel file "14_SSD_5D_Vol_Impacts_CONUS_Public(REV7.2.21).xlsx," tab "Finance_Summary Surface;" Response to POIR No. 2, question 4.

The data underlying Figure VII-7 indicate that the final network includes 6 percent fewer trips than the baseline network and 52 percent fewer trips than the actual (adjusted) FY 2020 inter-SCF network.[177] The figure also illustrates the differences between the networks in terms of average trip distance. In the final network, the average trip is 5 percent longer than in the baseline network, and it is 134 percent longer than in the actual FY 2020 network.[178]

The Postal Service explains that the proposed changes to FCM and FCPS service standards would allow more efficient surface routings.[179] It asserts that the changes would enable volume shifts from the more costly and less reliable air transportation network, since they significantly extend the surface transportation reach capability for 4-day and 5-day volumes. Revised-USPS-T-1 at 16-17.

Figure VII-7 indicates that the final network includes significantly fewer trips than the actual (adjusted) FY 2020 inter-SCF network, with much longer inter-Cluster and inter-Area trips. However, as shown in Figure VII-6, the extended surface transportation reach would lead to an increase in mileages in the final network, even with half of the actual network's trips eliminated.

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[177] By HCR contract category: the final network includes 8 percent fewer inter-Area trips, 8 percent fewer inter-Cluster trips, and 3 percent more inter-P&DC trips than the baseline network. Compared to the actual (adjusted) FY 2020 inter-SCF network, the final network includes 47 percent fewer inter-Area trips, 49 percent fewer inter-Cluster trips, and 64 percent fewer inter-P&DC trips.

[178] By HCR contract category: average Inter-Area trip distance increases from 711 miles in the baseline network to 786 miles in the final network. This represents an 11 percent increase in inter-Area trip distance, on average, from the baseline network to the final network with expanded surface reach, moving long-distance volumes diverted from air. For comparison, average inter-Area trip distance in the actual (adjusted) FY 2020 inter-SCF network is 345 miles. As for inter-Cluster transportation, average trip distance decreases from 293 miles in the modeled baseline network to 284 miles in the final network; actual (adjusted) FY 2020 inter-SCF network's inter-Cluster trip is 110 miles long, on average. Average inter-P&DC trip distance decreases from 87 miles in the modeled baseline network to 81 miles in the final network. Average inter-P&DC trip is approximately 90 miles long in the actual (adjusted) FY 2020 inter-SCF network.

[179] This phrase is used to refer to routings that would require fewer network mileages traveled and fewer network trips performed to transport both current network volumes and the diverted air FCM and FCPS volumes.

Figures VII-6 and VII-7 illustrate an observable difference between the actual (adjusted) FY 2020 inter-SCF network and each of the baseline and the final networks. However, the difference between the baseline and final networks is not as significant.

The Commission reiterates its concerns with the baseline network and notes that most of the final network efficiencies have already been accomplished in the modeled baseline network. For example, the Postal Service explains that in the current network, surface volume reach is only 38 hours or less of drive time for FCPS and 28 hours or less for FCM.[180] With the expanded transit windows, surface transportation reach would be extended to 50 hours or more of drive time for FCPS and to 41 hours or more for FCM. Docket No. N2021-1 USPS-T-1 at 17; Revised USPS-T-1 at 26. These expanded transit windows mean that the future network can contain routes that are much longer than the current network.[181] Comparing the actual (adjusted) FY 2020 inter-SCF network and the final network in Figure VII-7 reveals a large increase in inter-Area and inter-Cluster trip distances. However, Figure VII-7 also reveals that trips in the baseline network (*i.e.*, network with the surface transportation reach limited by the existing transit windows) have virtually the same average distance as in the final network.

NALC reiterates the Commission's concerns regarding the Postal Service's transportation model from the Docket No. N2021-1 Advisory Opinion and warns that the projected impacts on volumes and on the transportation network presented by the Postal Service in the instant proceeding are questionable. NALC Statement at 2-3.

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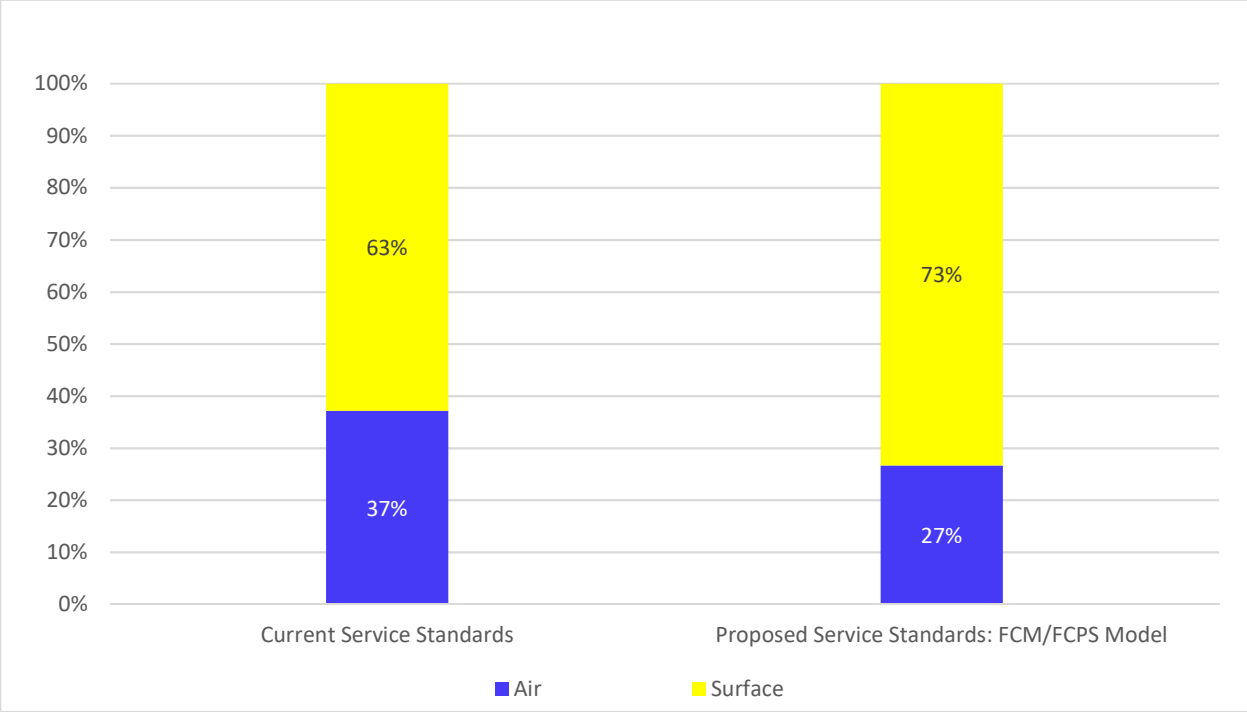
[180] Docket No. N2021-1, Direct Testimony of Robert Cintron on Behalf of the United States Postal Service (USPS-T-1), April 21, 2021, at 19 (Docket No. N2021-1 USPS-T-1); Revised USPS-T-1 at 16.

[181] If the Postal Service implements the network routings as designed in the modeling exercise, the future network will have long coast-to-coast routings. The expanded windows allow the Postal Service the flexibility to include these long trips but offer no guarantee that such long-distance routes will be feasible from a service and cost perspective.

Comparison of the projected transportation efficiencies achieved in the FCM Only Model and in the FCM/FCPS Model. The Postal Service notes that the transportation efficiencies projected by the FCM/FCPS Model are based on the implementation of service standard changes to both FCM and FCPS. It states that the changes to FCPS service standards would lead to $42 million in additional transportation savings as compared to savings estimated from the FCM Only Model. Revised USPS-T-1 at 37.

The following two figures summarize the Postal Service's projected impact of the implementation of FCM and FCPS service standard changes on the volume in the air and surface transportation networks. Figure VII-8 shows proportions of FCPS volumes assigned to air and surface transportation modes under the current service standards and under the proposed service standards in the FCM/FCPS Model.

Figure VII-8
Percent of FCPS Volume Assigned to Transportation Modes Under Current Service Standards and Under Proposed Standards in the Final Network from the FCM/FCPS Model

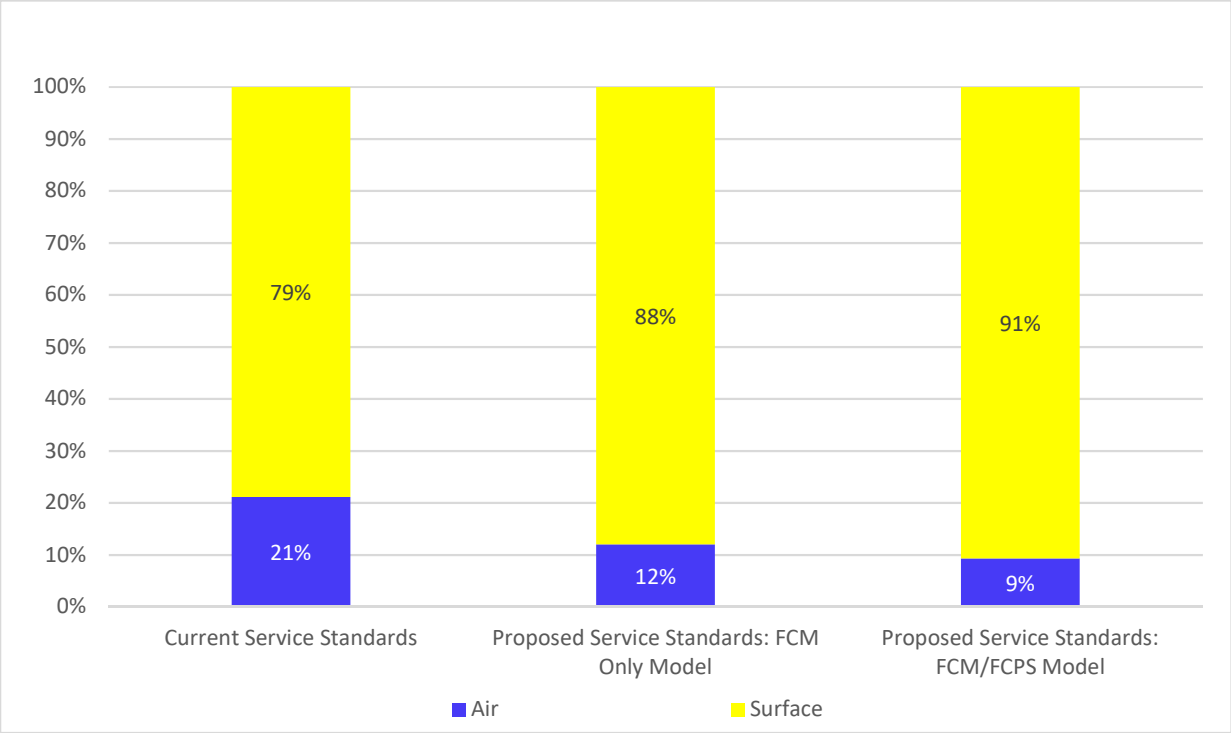


Source: Library Reference USPS-LR-N2021-2/NP10, July 23, 2021, Excel file "POIR No.4 Q18 Final.xlsx."

The Postal Service projects that the percentage of FCPS volume that is transported in the air network will decrease 10 percentage points after the implementation of the change in service standards and concurrent changes to transportation assignments. Revised USPS-T-1 at 37.

Figure VII-9 summarizes the proportions of FCM volumes assigned to air and surface transportation modes in the current transportation network in the FCM Only Model and in the FCM/FCPS Model.

Figure VII-9
Percent of FCM Volume Assigned to Transportation Modes
Under Current Service Standards,
Under Proposed Standards in the Final Network from the FCM Only Model, and
Under Proposed Standards in the Final Network from the FCM/FCPS Model



Source: Docket No. N2021-1, Library Reference USPS-LR-N2021-1/3, April 21, 2021 (Docket No. N2021-1 Library Reference USPS-LR-N2021-1/3), Excel file "3_SSD_5D_Vol_Impacts_CONUS.xlsx;" Library Reference USPS-LR-N2021-2/NP10, Excel file "POIR No.4 Q18 Final.xlsx."

As illustrated in Figure VII-9, the introduction of both the FCM and FCPS service standards to the network would enable more FCM volumes to shift from air to surface transportation than was projected in the FCM Only Model.[182]

The Commission notes that of the total combined FCM and FCPS weight assigned in the FCM/FCPS Model to divert to the surface transportation network, FCM weight represents 87 percent.[183]

The Postal Service projects the corresponding increase in volume served by surface transportation to lead to a 1 percent increase in overall mileages in the final network, with inter-Area mileages projected to increase and inter-Cluster and inter-P&DC mileages projected to decrease, as shown in Figure VII-6.

The Postal Service calculates that the combination of projected mileage increase for inter-Area transportation and projected mileage decreases for inter-Cluster and inter-P&DC transportation will amount to $10 million in savings on surface transportation costs. Library Reference USPS-LR-N2021-2/1, Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Highway."

Table VII-7 summarizes changes in surface network mileages projected in the FCM Only Model and in the FCM/FCPS Model, as compared to the baseline model.

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[182] The Commission notes that the FCM Only Model determined that the diverted FCM and remittance volumes were insufficient to add expensive, long-distance transportation to the surface network in a cost-effective manner, placing them either on existing surface routings or on a combination of existing routings and legs created exclusively for the diverted volumes. Docket No. N2021-1 Tr. 1/175.

[183] As for the calculated $304 million in savings on air transportation, diverted FCM accounts for 80 percent of the estimated savings. Library Reference USPS-LR-N2021-2/NP1, Excel file "FCPS Transportation Savings-NonPublic.Rev.7.2.2021.xlsx."

Table VII-7
Comparison of Surface Network Mileage Changes in the FCM Only Model and the FCM/FCPS Model, Against the Baseline Network, by Contract Category

	Modeled Mileages			Projected Change in Mileages*	
Contract Category	**Baseline Network**	**Final Network FCM Only Model**	**Final Network FCM/FCPS Model**	**Final Network FCM Only Model vs. Baseline Network****	**Final Network FCM/FCPS Model vs. Baseline Network**
Inter-Area	1,666,328	1,556,645	1,701,538	-7%	+2%
Inter-Cluster	478,193	461,998	427,254	-3%	-11%
Inter-P&DC	79,109	76,861	75,213	-3%	-5%
TOTAL	**2,223,630**	**2,095,504**	**2,204,005**	**-6%**	**-1%**

Notes:

* In Docket No. N2021-1, surface transportation costs were projected to decrease by $83.5 million. Docket No. N2021-1 Advisory Opinion at 100-01. The Postal Service revised this estimate to $76.3 million. *See* Library Reference USPS-LR-N2021-2/NP1, file "Calculating Transportation Cost Changes, REVISED.pdf."

** On July 2, 2021, the Postal Service filed revised values for network mileages. The revision applied to the baseline and the final network mileages that were initially filed in the instant proceeding on June 17, 2021, that appear in Library Reference USPS-LR-N2021-2/4 and in Library Reference USPS-LR-N2021-2/NP2. The revision also applies to baseline and final network mileages, as well as the projected change in final modeled network mileages, which were filed in Docket No. N2021-1 Library Reference USPS-LR-N2021-1/3. The revision added "feeder to aggregate" mileages to the modeled networks. The Postal Service explains that "feeder to aggregate" mileages were estimated outside the model and were inadvertently omitted from the analysis. Response to POIR No. 2, question 2.b.

Source: Library Reference USPS-N2021-2/4, July 2, 2021, Excel file "14_SSD_5D_Vol_Impacts_CONUS_NP(REV7.2.21).xlsx," tab "Finance_Summary Surface."

The data in Table VII-7 show that the Postal Service estimates greater mileage reductions in the FCM/FCPS Model for inter-P&DC and inter-Cluster transportation as compared to the FCM Only Model. Table VII-7 also demonstrates that the Postal Service estimates an increase in inter-Area mileages in the FCM/FCPS Model from the baseline model, whereas the FCM Only Model projected a reduction in inter-Area mileages as compared to the baseline model.

The Postal Service describes an overall different distribution of trips in the FCM/FCPS Model versus the FCM Only Model. It explains that the differences in projections between the two models are because the FCM/FCPS Model contains more optimal trips and more STC usage. *See* Response to POIR No. 2, question 2.a. The Postal Service elaborates that the FCM/FCPS Model also contains more long haul trips, which are associated with volume being shifted from the air to the surface network. *See id.*

The Postal Service projects a reduction in surface network mileages and consolidation of trips because of increased opportunities to pair network volumes. The Postal Service asserts that combined implementation of the proposed FCM and FCPS service standards will lead to increased opportunities for efficiency. Revised USPS-T-1 at 15-17; *see* Docket No. N2021-1 Advisory Opinion at 125.

The Postal Service clarifies that the determination to pair different products' volumes onto the same transportation is based on products' CETs, locations where products are processed, and cubic foot space requirements. Response to POIR No. 4, questions 19.a.-19.b.

The Commission is concerned that the Postal Service may experience operational difficulties associated with combining mail shapes and achieving additional efficiencies.[184] The data provided by the Postal Service indicate that 43 percent of FCPS and 46 percent of FCM volume is currently processed at the same origin P&DC facility,[185] which means that the majority of FCPS and FCM volumes are processed at separate origin facilities. The Postal Service will have to pair FCM and FCPS volumes at origin aggregation sites or at STCs in order to put this mail on the same trucks, because this mail is not processed at the same location. The Commission notes that the Postal Service has not provided an operational test to show the strengths and weaknesses of this approach. The Commission also observes that the modeling provided by the Postal Service was not designed to capture the complexity of this mail aggregation operation.

The Postal Service concludes that the more efficient routings created by the FCM/FCPS Model would result in $42 million in additional savings as compared to the FCM Only Model. Revised USPS-T-1 at 37. These additional savings comprise an additional $108 million in savings on air transportation and $66 million in added surface transportation expenses.[186]

The Public Representative expresses concern with the implementation date for FCPS service standard changes coinciding with that for FCM service standards

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[184] Parcel-shaped products will continue to have 12 additional hours available in their transit window. The destination CETs are based on product and shape. For letters and flats, the destination CET used in the model is 8:00 the day prior to the scheduled delivery day; for parcels, the model uses 20:00 CET the day prior to the scheduled delivery day. Revised USPS-T-1 at 29. The Postal Service adds that while destination CET for FCPS is 20:00, the CET for Priority Mail is 22:00. Response to POIR No. 13, question 1.

[185] Library Reference USPS-LR-N2021-2/NP10, Excel file "POIR No.4 Q18 Final.xlsx." The referenced data include 148 unique origin P&DCs for FCM volumes and 137 unique origin P&DCs for FCPS volumes. Of those, 85 origin P&DCs process both FCM and FCPS volumes.

[186] Library Reference USPS-LR-N2021-2/1, Excel file "FCPS Transportation Savings-Public.Rev.7.2.2021.xlsx," tab "Summary." Of the additional $108 million in savings on air transportation, approximately half is attributable to diverted FCPS volume, and the other half is attributable to additional FCM volume diverted from the air network in the FCM/FCPS Model, compared to the FCM Only Model.

changes. PR Brief at 12. She notes that the projected impact of changes to FCPS service standards "are predicated on the implementation of service standard changes proposed in Docket No. N2021-1," asserting that the implementation of FCM service standards changes has no record of success and that both products' proposed changes were not subject to operational nor pilot testing, thus, presenting risks to the Postal Service. *Id*. at 12-13.

The modeling results were produced by the Postal Service using simplified assumptions and subject to limitations. The Postal Service acknowledges that implementation will require review and refinements. The potential impacts that the model's limitations may have on the presented results are discussed in the following section.

b. Other Modeling Issues

The Postal Service acknowledges that the modeling results are subject to final review by transportation planners, who will need to consider both the modeled routings and existing transportation lanes, accommodate all products served in the network, and ensure that the transportation network is responsive to all of its complexities, prior to implementation. Docket No. N2021-1 Tr. 1/333. Consequently, the Postal Service considers its transportation model a "decision-supporting" rather than a "decision-making" tool. Revised USPS-T-1 at 32.

This form of presentation used by the Postal Service significantly limits the Commission's ability to meaningfully assess the foundation of the Postal Service's proposal. The Postal Service states that "Postal management deems the implementation of the service changes described in this filing as necessary to assure that the Postal Service remains a viable, financially healthy institution that can continue to play a vital role in serving the changing communications and delivery needs of the American people well into the 21st century." Revised USPS-T-1 at 42. Because the

Postal Service has not provided an implementation plan, the Commission cannot verify the accuracy of the Postal Service's claim.

In this section, the Commission discusses the modeling assumptions and the model's limitations, in an effort to evaluate their potential impacts on the projected transportation network changes.

Site-specific operational nuances. In Docket No. N2021-1, the Postal Service described general processing issues as not being accounted for in the FCM Only Model. Docket No. N2021-1 Advisory Opinion at 140. In the instant proceeding, the Postal Service states that "[o]utside of timing limitations, the model was not restricted in any way that would prevent products from routing together."[187]

However, a significant reduction in network trips was achieved in both the modeled baseline and the final networks, as compared to the actual (adjusted) FY 2020 inter-SCF network. *See* Figure VII-7. The consolidation of trips in the modeled network (as compared to the actual FY 2020 data) may be partly attributed to the model not accounting for operational issues, such as staffing issues and employee errors. The Postal Service also describes capacity constraints associated with the significant increase in package volume in recent years[188] and states that these constraints currently lead to separate routings for mail and packages in many instances.[189]

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[187] Response to POIR No. 4, question 19.b. The Commission interprets the Postal Service's reference to timing limitations to mean the drive times between origin P&DC – destination ADC – destination SCF facilities, using a 46.5 mph average speed assumption, including the 2 hours for volume transfers at STCs and accounting for the differing CETs for different products.

[188] *See* United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021, at 9-10, available at *https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf*; Docket No. N2021-1 Tr. 1/312, 331.

[189] Docket No. N2021-1 Tr. 1/312, 331; Response to POIR No. 4, question 19.b. The capacity constraints also lead to large increases in air transportation charter costs.

While the Postal Service states that the expanded transportation windows will allow it to better absorb origin delays, the Postal Service also describes acquiring additional spaces and deploying new package processing equipment to accommodate package growth.[190] The Postal Service expects its processing and transportation changes to evolve and progress throughout FY 2022. *See* Response to POIR No. 4, question 9.b.i. Because the Postal Service anticipates a transition period throughout FY 2022, this would also include adjustments to help sites be successful. Without such adjustments in place, the Postal Service's projections of trip consolidation may not be realized.

Volume transfers at STCs. A key component of the Postal Service's proposal is the efficient usage of STCs to aggregate mail and consolidate trips. The Postal Service states that the combined implementation of service standard changes for both FCM and FCPS will result in even more volume transferring via STCs than it projected in its FCM Only Model. Response to POIR No. 2, question 2.a. In Docket No. N2021-1, the Commission expressed concern regarding the method of implementation for expanded operations at STCs. *See* Docket No. N2021-1 Advisory Opinion at 134-38. Here, the Postal Service uses the same assumptions regarding STC operations. The Postal Service allots the same 2 hours for shipments routed through STCs as in the FCM Only Model and states that the expected increase in STC transfers in the FCM/FCPS Model is "not expected to significantly impact any STCs ability to meet [the 2 hour processing time] constraint." Response to POIR No. 2, question 6.c.i.

While the Postal Service does not expect a significant impact to timely processing at the STCs, it also clarifies that it monitors only the time from trip arrival to trip unload and does not monitor the total cycle time, which includes trip unload, processing, and loading of volumes onto outbound transportation, at individual sites. *Id.*

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[190] Docket No. N2021-1 Tr. 1/312; Response to SH/USPS-T1-5. The Postal Service states that it has acquired additional space in 46 locations to accommodate package growth, purchased 138 package sorting machines, and added more than 14,000 permanent positions to its workforce, all to facilitate timely processing and delivery operations. Docket No. N2021-1 Tr. 1/309.

question 6.c.iii. The Postal Service states that it currently takes 4.14 hours, on average, to transfer volumes at STCs. Docket No. N2021-1 Tr. 1/199.

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. In the past, the Postal Service has acknowledged difficulty finding hub locations that could handle volume transfers. The Postal Service has also acknowledged the possibility that volume transfers through the STCs that experience workload constraints could be limited until these sites are evaluated and adjusted. *Id.* at 372-73. Despite this, the Postal Service has not provided evidence to show that this operational component will not be a hurdle to successful implementation.

In addition to concerns related to timely operations at STCs, the Postal Service Office of Inspector General (OIG) described challenges associated with recent implementation of the STC redesign observed at origin processing sites.[191] Specifically, the report states that the STC redesign negatively impacted some origin aggregation sites' processing and dock operations. OIG Report No. 21-047-R21 at 12. The challenges include lack of dock space to process the increased mail volumes scheduled for consolidations at STCs. *Id*. The report also describes an associated increase in the number of trailers at sites, transporting mail for further consolidation, which leads to dock congestions, transportation delays, and volumes missing scheduled transportation. *Id*.

The Commission notes that these challenges were observed in the existing network, *i.e.*, network in which STC volume transfers are still limited by the existing service standards and lower mail volumes routed via the surface network than in the modeled network. Delayed transportation from originating facilities could lead to

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[191] *See* United States Postal Service, Office of Inspector General, Service Performance – First-Class Single Piece Letter Mail, September 3, 2021, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2021/21-047-R21.pdf* (OIG Report No. 21-047-R21).

delayed outbound STC trips, or it could lead to increased frequency and decreased utilization of outbound STC trips, both resulting in diminished surface network efficiencies than those modeled. As the Postal Service has emphasized, its modeling relies on assumptions that presume sufficient additional space will be secured to alleviate the existing congestion and handle the anticipated shifts in volume that would result from implementing the proposed changes;[192] however, the Postal Service also acknowledges that this process will progress into and throughout FY 2022.[193]

The Commission recommends that the Postal Service test its plan to expand STC operations and evaluate the collective impact of the proposed network changes on processing, transportation, and delivery operations before implementing the proposed FCM and FCPS changes. Doing so would better ensure that these challenges will not be an operational hurdle that jeopardizes the success of the Postal Service's planned operational changes.

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 OD Pairs up to 1,000 miles and 55 mph for OD Pairs longer than 1,000 miles. Revised USPS-T-1 at 26. The Postal Service acknowledges that the referenced average speed assumptions, used in its model, may not have accounted for the DOT-required breaks for the modeled long-distance transportation. Docket No. N2021-1 Tr. 1/187.

The redesigned transportation network will require contract modifications for existing HCR transportation to be implemented. 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 1/183. However, for contract modifications with existing trips in a

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[192] *See, e.g.,* Response to POIR No. 1, questions 4.a., 4.c.; Response to POIR No. 4, questions 2.c., 2.d.

[193] *See* Response to POIR No. 4, question 9.b.i.; *see also* Response to POIR No. 11, question 3.

specific lane, on-time performance and other issues are taken into account, and transit times may be recalculated based on a different average speed assumption. *Id*.

As a result, some of the modeled routings may require longer transit times and may not be possible to implement as modeled. The trips that would be most impacted are longer-distance trips, due to longer distances traveled and more of the transit time impacted. The Commission emphasizes that in the final network, 80 percent of trips and 97 percent of projected mileages are in the longer distance inter-Area or inter-Cluster categories.[194] This renders the vast majority of transportation in the modeled network vulnerable to potential transit time adjustments.

New HCR contracts and existing HCR contracts' modifications. As noted earlier, restructured trips covered by existing contracts would require contract modifications, which the Postal Service explains may lead to increased rate per mile. Docket No. N2021-1 Tr. 1/212. Moreover, while modified HCR contracts may lead to rate-per-mile increases, newly purchased long-distance transportation will be subject to market rates upon implementation and will reflect difficulties HCR suppliers face hiring and retaining drivers. Response to APWU/USPS-T1-4. However, the cost savings associated with reduced mileages and the cost increases associated with added inter-Area mileages were calculated assuming the rate per mile that applied to contracted inter-SCF transportation in FY 2020.

Potential for new inefficiencies. The Postal Service explains that should volumes on long-distance surface lanes decline and no longer warrant surface transportation, such lanes would be routed via the air network.[195] The Commission describes two

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[194] The final network includes inter-Area trips that are more than two times longer and inter-Cluster trips that are almost three times longer than the inter-Area and inter-Cluster trips in the actual (adjusted) FY 2020 inter-SCF network, on average.

[195] Response to POIR No. 2, question 1.b.; Docket No. N2021-1 Tr. 1/194. The Commission notes that it was the combined FCM and FCPS volumes that constituted sufficient volume to warrant adding long-distance transportation in the modeled network.

possible scenarios that could lead to volume declines on long-distance surface lanes and volumes being routed via the air network.

One scenario could involve continued decrease in FCM letter- and flat-shaped volumes and continued increase in FCPS package-shaped volumes, as anticipated by the Postal Service. Docket No. N2021-1 USPS-T-1 at 19-21. If these trends are not equally distributed across the network, the revisions to transportation modes may be product- and lane-specific. This would potentially lead to new inefficiencies associated with low-volume lanes.

An additional scenario could involve changes to mailers' behavior in an attempt to ameliorate the impact of concurrent price increases and diminished service standards. This scenario could involve FCM and FCPS volumes traversing the postal network over reduced distances due to mailers entering their mail closer to destination.

The two examples described above highlight the possibility of new inefficiencies as the mailing system changes. Consequently, the transportation network will need to adapt to changes in mailer behavior if the Postal Service pursues its stated goal to use contracted surface transportation more efficiently. *See* Response to POIR No. 11, question 2.a.

The Postal Service mitigates operational issues, such as those imposed by current or future network inefficiencies, by relying on costly, exceptional service transportation.[196] In Docket No. N2021-1, the Postal Service explained that while it hoped to start capturing savings by eliminating expensive exceptional service

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[196] 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 an extra trip ranges from $2.70 to $7.49. Docket No. N2021-1 Tr. 1/171. Regularly scheduled surface transportation costs in the transportation analysis were evaluated at $2.50 per mile. USPS-T-1 at 19 n.16. As for expenses associated with late and cancelled trips, the Postal Service states that no system tracks these. Docket No. N2021-1 Tr. 1/173.

transportation, the ability to do so would depend on the ability of regularly scheduled transportation to adjust departure time and to have sufficient capacity to accommodate more volume. Docket No. N2021-1 Tr. 1/212. The Commission reiterates its concern that the projected trip frequency for the efficiently routed modeled network may be inadequate. Should the modeled routings and trip frequencies prove unrealistic, once implemented, the Postal Service will be forced to continue relying on expensive exceptional transportation to move volumes outside the operating plan window.

c. Future Transportation Network Improvements and Difficulty Assessing Modeled Outcomes

The Postal Service plans to implement the proposed changes to service standards "on or after October 1, 2021." Response to POIR No. 12, question 1. As for the modeled changes to the transportation network, the Postal Service alludes to three implementation stages. *Id*. First, the Postal Service describes immediate changes to the surface network to support the 4.8 percent of FCPS volumes shifting from the current 3-day to the proposed 2-day service standard. *Id*. For the remaining changes to the transportation network, the Postal Service refers to the before-peak and the after-peak season implementation stages, with the after-peak season period lasting through FY 2022. *Id*.

However, the Postal Service states that the surface network will continue to evolve after the service standard changes are implemented, adding that additional future changes are currently being evaluated. Response to APWU/USPS-T1-6.a. These future changes are associated with the planned consolidation of the NDC-to-NDC network and the fully established coast-to-coast First-Class surface network and will include different trip structure.[197] Different trip structure will likely be associated with

[197] The Postal Service alludes to origin STCs, destination STCs, and central STCs. *See* Response to APWU/USPS-T1-6.a.

a shift toward shape-based mail processing operations[198] and with the assumed ability to support current NDC products. The transportation requirements placed on the surface network under such conditions would increase due to: an increase in volume and change in product mix; added complexity of processing, docking, and transportation operations; and increases in touch points and chances for errors.

It is not clear how HCR contractual obligations will accommodate such a continually evolving surface network, with changing trip structures and increasing complexity, during the years leading up to the consolidation of the coast-to-coast First-Class network and the inter-NDC network.[199] The Postal Service also fails to project the length of this transition period[200] and what changes, other than those modeled in the instant proceeding, it will involve. An evolving surface transportation network may render the modeling results analyzed in this proceeding of temporary relevance and limited utility.

The OIG cautioned that an understanding of what truly drives transportation costs, especially relevant for the modeled inter-SCF network, is key to containing those costs in the future. OIG Report No. RARC-WP-19-002 at 16. The Commission emphasizes that the Postal Service's analysis does not provide an in-depth discussion of what drives inter-SCF transportation costs, how such factors were incorporated into its proposal to change FCM and FCPS service standards, and how the proposed service standard changes will address these factors.

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[198] This appears to contemplate letter and flat products processed at P&DCs, and packages processed at RDCs. *See* USPS-T1 at 4.

[199] The Postal Service states that "[a]dditional modeling will be initiated later as the planning around the NDC to RDC develops." Response to POIR No. 4, question 16.

[200] The Postal Service states that the timeline for transitioning from NDCs to RDCs is in development, while the timeline for consolidation of the two networks has not yet been established. *See* PR/USPS-T1-9.a.-9.b.

The Postal Service provided the modeling results to the Commission with a caveat that they are not final and are subject to refinements. The modeled network did not account for the actual network's complexities and created routings using only time and distance constraints.[201] The modeled network disregarded processing and delivery operations,[202] excluded certain transportation from modeling,[203] and included other issues described in this section.

Such limitations were not imposed only on the modeled network scenarios under the proposed service standards but also were incorporated into what should have represented the current inter-SCF network to the extent possible. Consequently, the Commission considers the modeled results, achieved by implementing service standard changes to a non-existent and unachievable baseline network, of limited use.

More importantly, considering the limited time available to the Commission to analyze the Postal Service's proposal, the Postal Service did not provide relevant data that would best facilitate timely review of such complex changes. As discussed previously, the modeling results data filed for Commission's review include OD Pairs and volumes, as well as the current and the proposed service standards. The data filed by the Postal Service reveal no information on routings, trips per modeled routings,

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[201] Docket No. N2021-1 Tr. 1/183, 374, 444. To determine cost-effectiveness for the routings created exclusively for air OD Pairs, during the model's second iteration, the change from air to surface method was determined based on cost. Docket No. N2021-1 Tr. 1/383.

[202] The success of the transportation system depends on the success of the mail processing and delivery system. *See* United States Postal Service, Office of Inspector General, Report No. 20-144-R20, Transportation Network Optimization and Service Performance, June 5, 2020, at 5, available at *https://www.uspsoig.gov/sites/default/files/document-library-files/2020/20-144-R20.pdf* (OIG Report No. 20-144-R20).

[203] As described earlier, the efficiencies achieved in the modeled baseline and the final networks include significant reduction in network trips. *See* Figure VII-4. The large trip reduction might result in part from the Postal Service's determination to exclude certain transportation from the model, on the basis of it being outside of the scope. However, in the highly inter-connected transportation network, most transportation is "within scope." The Commission considers only the transportation that cannot be scheduled in advance, since the need for it arises in response to unanticipated disruptions to processing or transportation network operations, an outside-the-scope transportation, for modeling purposes such as those that are the subject of the instant proceeding. For the purpose of the instant proceeding, this would include exceptional and emergency transportation.

volume pairings, transit time adjustments for added trip stops, volume transfers at aggregation sites or STCs, breaks required by the DOT for long-distance trips, and other modeling details. The Postal Service did not map current network routings to the corresponding OD Pair data. The Postal Service also did not identify existing issues that drive current inefficiencies nor highlight how these would be addressed with the implementation of the proposed changes.

The actual network has the potential to be a more reasonable point of reference to evaluate projected trips and mileages and to assess changes to the inter-SCF network, including transportation cost changes, after implementation. However, the different values for the daily trips and mileages included in the actual network provided by the Postal Service in separate filings further highlight the difficulty with assessing projected results and tracking them throughout implementation. Response to POIR No. 4, question 15.

3. Transportation Modeling Conclusion

The Commission reiterates its concerns with the transportation modeling discussed at length in the Docket No. N2021-1 Advisory Opinion. There, the Commission found that the Postal Service had not effectively demonstrated that the baseline model reflected the current operational reality, which impeded the Postal Service's ability to accurately calculate cost savings from the potential new surface transportation network. Docket No. N2021-1 Advisory Opinion at 145. The Commission noted that instead of providing a detailed plan for actual surface transportation routes, the Postal Service provided a directional model. *Id.* at 145-46.

In Docket No. N2021-2, the Postal Service has again failed to demonstrate that it has a detailed plan to implement an efficient and reliable surface transportation network, which is a necessary condition for achieving operational efficiency. In addition, the Postal Service discussed an additional initiative that will require extensive modeling and planning for implementation—the NDC redesign—but did not include it in its

transportation modeling for this docket. As such, the Commission finds that the projected cost savings from the Postal Service's transportation models are of limited utility.

A major component of the Postal Service's plan is aggregation of FCPS and FCM volumes on surface transportation. The data provided by the Postal Service show that the majority of FCPS and FCM volumes are processed at separate origin facilities. The Postal Service will have to pair FCM and FCPS volumes at origin aggregation sites or at STCs in order to put this mail on the same trucks. The Commission notes that the modeling provided by the Postal Service was not designed to capture the complexity of this mail aggregation operation.

As discussed above, the operational changes planned for STCs are a discrete and important aspect of this proposal, and a major operational change from the status quo that has not been stress-tested. If the Postal Service determines to implement its proposal, the Commission recommends that the Postal Service test the expanded STC operations before making the FCM and FCPS changes to ensure that this aspect will not be an operational hurdle that could jeopardize the success of the proposed operational changes.

F. Customer Satisfaction Analysis

1. Overview

The Postal Service claims that the proposed service standard changes for FCPS will have no net impact on FCPS-Commercial and FCPS-Retail volumes due to competitive pricing and improved reliability in meeting service expectations. Revised USPS-T-3 at 8-9. Additionally, witness Foti suggests that by improving service reliability through the proposed service standard changes for FCPS, the Postal Service may gain market share in this consistently growing business segment. *Id.* at 5.

2. Commission Analysis

Using witness testimony and library references, the Commission considered the competitive marketplace in which the FCPS products are offered. The Commission also evaluated whether the market research provided by the Postal Service demonstrates that FCPS 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. 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.

a. Competitive Landscape

The Postal Service offers three lightweight, less-than-1-pound shipping offerings: FCPS-Retail, FCPS-Commercial, and Parcel Select Lightweight (PSLW). Revised USPS-T-3 at 3. FCPS-Retail services are available at Post Offices to retail customers that wish to ship packages weighing less than 13 ounces. *Id.* FCPS-Commercial services are available to commercial and online customers shipping packages weighing less than 16 ounces. *Id.* Retail services are oriented towards consumers as they often include window transactions and on-average are 30 percent heavier and travel longer distances. Response to POIR No. 7, question 5. The FCPS-Commercial product is oriented towards more sophisticated shippers that can weigh and print their own postage labels, and is used by a wide variety of customers, including small businesses and individuals. The Postal Service will assess a fee upon customers unless shippers' FCPS items comply with the Intelligent Mail package barcode (IMpb) requirements.[204] For this reason, the Postal Service designates several communication channels to

[204] *See, e.g.*, United States Postal Service, Notice 123 (Price List), effective August 29, 2021, available at *https://pe.usps.com/text/dmm300/Notice123.htm#_c037* (Postal Service Price List) (listing fee for FCPS Commercial-Parcels that are not compliant with IMpb); United States Postal Service, *Postal Pro: IMpb Fact Sheet*, January 25, 2021, at 1, available at *https://postalpro.usps.com/shipping/impb/impbfactsheet* (same).

address the needs of these larger customers. *See* August 12 Response to POIR No. 11, question 17. While the two FCPS offerings are end-to-end services, the PSLW offering is primarily designed for large- and medium-sized shippers that can enter their lightweight packages into the postal network close to their ultimate destination but are looking for a last-mile delivery solution. Revised USPS-T-3 at 4. The Postal Service also offers the Priority Mail product for shipping packages at retail locations. The Postal Service notes that this product is more expensive and will provide a "faster delivery time" than FCPS-Retail after the proposed service standard change.[205]

The Postal Service and its competitors saw large volume growth in package demand due to the pandemic. Comparing FY 2020 to FY 2019, the Postal Service experienced an 18.8 percent increase in total volume and a 25.3 percent increase in total revenue for its Shipping and Packages category.[206] UPS reported 13.1 percent growth in its total average daily package volume and 15.1 percent growth in total revenue from Calendar Year (CY) 2019 to CY 2020 in its U.S. Domestic Package Operations, as well as a 0.9 percent increase in average revenue per package.[207] Similarly, FedEx saw 23 percent growth in its total average daily package volume and 59 percent growth in operating income from FY 2020 to FY 2021 for its FedEx Ground

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[205] Revised USPS-T-3 at 8. Priority Mail products only will provide a faster delivery time if the proposed service standard change is enacted. Currently, the shipping time that the Postal Service advertises for both Priority Mail and FCPS is 1 to 3 days. *See, e.g.*, United States Postal Service, Mail & Shipping Services, available at *https://www.usps.com/ship/mail-shipping-services.htm* (noting shipping times for its various products).

[206] *See* Postal Service FY 2020 Form 10-K at 27. For purposes of Postal Service reporting, FY 2020 covers October 1, 2019 through September 30, 2020; FY 2019 covers October 1, 2018 through September 30, 2019. *See id.* at 2.

[207] *See* United Parcel Service, Inc., 2020 Report on Form 10-K, February 22, 2021, at 28, available at *https://www.sec.gov/ix?doc=/Archives/edgar/data/0001090727/000109072721000013/ups-20201231.htm* (UPS CY 2020 Form 10-K). For purposes of UPS reporting, CY 2020 covers January 1, 2020 through December 31, 2020; CY 2019 covers January 1, 2019 through December 31, 2019. *See, e.g.*, *id.* at 21.

Segment, as well as a 9 percent increase in revenue per package.[208] All three of these organizations attribute the significant growth in their revenues and volumes in part to the changing consumer preference for e-commerce, which was spurred by the pandemic.[209]

Historically, FCPS-Retail and FCPS-Commercial have demonstrated consistent volume growth. For example, the Postal Service noted that "FCPS [Commercial and Retail] volumes have increased by 10.6 percent in FY 2018, 9.2 percent in FY 2019, and 32.2 percent in FY 2020." Revised USPS-T-3 at 5. Moreover, "[d]uring the pandemic, the package market has experienced significant e-commerce growth due to changes in consumer behavior and expectations." *Id.* at 4. Consequently, the Postal Service projects modest growth in both FCPS-Retail and FCPS-Commercial volumes driven by "consistent, reliable service and price competitiveness."[210]

While the FCPS-Retail and FCPS-Commercial segments have grown consistently in the past, the Postal Service projects that package markets are tightening due to the dissipation of COVID-19-related volume surges, increased competition, and increased prices. *See* Postal Service FY 2021 IFP at 3-4. PSLW volumes are projected to decline due "primarily to increased competition and previously announced insourcing strategies by large users of Parcel Select." *Id.* at 4. Overall, package volumes are expected to decline by 1.4 percent from 7.3 to 7.2 billion pieces as the surge in volume generated by the COVID-19 pandemic is anticipated to dissipate in 2021, as well as due to "increased competition and price increases." *Id*. While the Postal Service expects the "new normal" of customer reliance on the safety and

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[208] *See* FedEx Corporation, 2021 Report on Form 10-K, July 19, 2021, at 58, available at *https://www.sec.gov/ix?doc=/Archives/edgar/data/1048911/000156459021037031/fdx-10k_20210531.htm* (FedEx FY 2021 Form 10-K). For purposes of FedEx reporting, FY 2021 covers June 1, 2020 through May 31, 2021; FY 2020 covers June 1, 2019 through May 31, 2020. *See id.* at 4.

[209] *See* Postal Service FY 2020 Form 10-K at 27; UPS CY 2020 Form 10-K at 29; FedEx FY 2021 Form 10-K at 58.

[210] United States Postal Service, Integrated Financial Plan, Fiscal Year 2021, November 24, 2020, at 4, available at *https://www.prc.gov/docs/115/115156/FY2021%20IFP%20FINAL.pdf* (Postal Service FY 2021 IFP).

convenience of e-commerce due to the pandemic to "sustain package volumes at elevated levels relative to prior-year trends," the market environment of increased competition could dampen the Postal Service's ability to maintain current FCPS-Commercial and FCPS-Retail volumes after the service standard change. *See* Revised USPS-T-3 at 4. However, the Postal Service is confident in its competitive positioning in its end-to-end FCPS-Retail and FCPS-Commercial products due to its competitive pricing and reliable service.

The market for parcels has seen tremendous growth due to a shift in consumer preferences towards e-commerce due to the pandemic. The Postal Service does not believe that its package volumes will return to pre-pandemic levels. While large-sized customers have begun diverting some volume from the postal network and aggressively pricing their products to fill their own networks, the shippers that use the end-to-end FCPS service appear to be satisfied with its offerings and pricing. The Postal Service believes that the proposed service standard change will reinforce the value of FCPS as a reliable choice for end-to-end shippers.

b. Expected Impact of the Proposed Changes on Customers

The Postal Service retained the Colography Group to conduct primary survey research titled the First-Class Package Service Transit Commitment Survey (FTC Survey) to evaluate the impact of the proposed changes to FCPS service standards on current users of FCPS-Commercial services. Revised USPS-T-3 at 6-7. The Commission commends the Postal Service's goal to directly survey populations affected by the proposed FCPS service standard change. However, issues exist relating to the representativeness of the survey for commercial users. In addition, the Postal Service did not specifically survey other populations of FCPS users and stakeholders such as online marketplaces, recipients of either FCPS-Commercial or FCPS-Retail, and rural shippers or recipients about their views on this proposal. *See* Response to POIR No. 11, questions 13-15. The Commission understands that because the user base of FCPS is diverse, developing a survey that is fully representative is difficult.

The survey compiles results from 458 respondents that currently use FCPS-Commercial from samples of the Colography Group's CY 2020 National Survey of U.S. Expedited Cargo and current Postal Service First-Class shippers. Revised USPS-T-3 at 7. A sample of Postal Service FCPS shippers was used to supplement the study. *Id.* The survey stratification is designed to encompass FCPS shippers across industrial divisions and average daily shipping frequency. *Id.*

FTC Survey results show that the majority of the sampled FCPS-Commercial shippers stated that they would maintain their volumes with these proposed changes, assuming that the Postal Service could reach its 95 percent on-time service performance targets. *Id.* at 7-8. The survey also indicates that the impact on commercial volumes would be "relatively insignificant." *Id.* at 8. The Postal Service further suggests that the FTC Survey's estimates may be conservative due to additional opportunities to capture market share through enhanced reliability due to the service standard. *Id.* To support this claim, it references external market research, which shows that the most important driver of satisfaction for its shipping customers is reliability. *Id.* at 5. The FTC Survey also highlights the fact that FCPS-Commercial respondents most frequently cited price as the primary reason they use FCPS. *Id.* at 7. The Postal Service extrapolates this finding to FCPS-Retail, and it claims that it will be able to maintain current FCPS-Retail volumes given its competitive pricing, as well as convenience of access and improved reliability. *Id.* at 7-8.

The Commission commends the Postal Service for retaining a third-party expert to conduct the FTC Survey and for its efforts to include meaningful portions of its customer base via directly sampling those shippers that will be affected by the proposed service standard changes. In addition, the Commission acknowledges that the FTC Survey was stratified to encompass FCPS customers of various industries and sizes. Small- and medium-sized businesses are among the stakeholders that will be affected by the proposed service standard changes. The FTC Survey attempted to include some small- and medium-sized businesses in its scope by designing its survey

stratification to encompass FCPS shippers with different average daily shipping frequencies. *Id.* at 7. By including respondents with shipping frequencies of fewer than 20 pieces per day and 20 to 49 pieces per day over a variety of industries, the Postal Service captured a sample of small- and medium-sized business responses to the proposal. *See* Response to POIR No. 12, question 7. Specifically, 56 percent of responses to the FTC Survey reflect the impact on businesses that ship fewer than 50 parcels per day. *Id.* question 8. The survey also captured customers from diverse industries through its stratification. For example, 68 of the 458 respondents constituted pharmaceutical customers, including small-, medium-, and large-sized companies. *Id.* questions 7.d.-7.f.

While the Commission recognizes the FTC Survey's representation of various types of shippers, including small- and medium-sized businesses and pharmaceutical companies, it also identifies several technical areas of concern relating to the survey. First, the Postal Service notes that the survey sample was configured using sources from the Colography Group's CY 2020 National Survey of U.S. Expedited Cargo and supplemented by a sample of Postal Service First-Class shippers; but the Postal Service does not provide information pertaining to the methodology by which these sources were combined, why they were combined, and whether or not there may have been selection bias in the participants chosen for the survey. *See* Revised USPS-T-3 at 7. Second, with respect to the potential representativeness and external validity of the FTC Survey, the volume attributed to the FTC Survey responses comprised a small proportion of measured FY 2020 FCPS-Commercial volume, yet it is applied to estimate the volume impact for the entirety of the segment.[211] Third, it is unknown even to the Postal Service whether the majority of its top 10 FCPS-Commercial customers by

[211] *See* Library Reference USPS-LR-N2021-2/NP9, July 15, 2021, file "FCPS POIR No.3_Item 1b Sample Volume (client).xlsx," cell B2 and file "FTC Survey.N2021-2-NP3.FINAL_Revised.ppt" (Revised FTC Survey), slide 9.

volume were represented in the FTC Survey in any capacity.[212] For the few top 10 customers that were directly surveyed, responses were only received for a small proportion of accounts. *See* Library Reference USPS-LR-N2021-2/NP18, Non-Public Response to POIR No. 8, question 5.b. On the other hand, while the survey response rate for its largest customers is low, the majority of all respondents completed the question concerning how their use of FCPS would change in response to the proposal. *See* Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slides 5, 9. Putting the technical issues of the survey aside, conceptually, the FTC Survey cannot accurately measure the volume impact of the proposed service standard changes because it only considers the impact on shippers (rather than recipients) of FCPS and only surveyed FCPS-Commercial customers and did not sample any FCPS-Retail customers. *See* August 12 Response to POIR No. 11, questions 13.b., 14.a. The Commission recognizes that the vast majority of FCPS pieces are FCPS-Commercial pieces and only a small percent falls under the FCPS-Retail category. *See id.* question 14.b.ii.

Another shortcoming of the FTC Survey is that it ignores the recipient side of the volume demand. *See id.* question 13.b. The FTC Survey poses the question to commercial shippers whether they would change their use of FCPS after the proposed service standard changes. *See* Revised USPS-T-3 at 8. However, another important driver of shippers' decisions to use FCPS is the preference of the recipient. *See* August 12 Response to POIR No. 11, question 13.b.ii. Specifically, the FTC Survey shows that 37 percent of respondents indicated that "customer-driven decision" (*i.e.*, recipients) was the primary reason for using FCPS, making it the second most determining factor for FCPS use after price.[213] It makes sense that recipients in many cases will drive the choice of shipping because two of the Postal Service's main customer segments for

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[212] *See* Library Reference USPS-LR-N2021-2/NP18, August 5, 2021, "NP18.Preface.Foti.NP.Responses.POIR.8.pdf" (Non-Public Response to POIR No. 8), question 5.b.

[213] *See* August 12 Response to POIR No. 11, question 13; Revised USPS-T-3 at 7; *see also* Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slide 11.

FCPS-Commercial are pharmaceutical companies and online marketplaces. Revised USPS-T-3 at 6. These customer segments have an end-customer (recipient) that in many cases can indicate directly to the business shipper the desired type of shipment; for instance, the business fulfilling the order may present options for speed of delivery (along with the corresponding pricing) to the recipient at the time of making the transaction. *See* August 12 Response to POIR No. 11, questions 13.b.ii., 13.e.

Package recipients care about the reliability and speed of service they receive from the Postal Service.[214] The downgraded service standards proposed by the Postal Service may cause some recipients to value FCPS less and substitute other shipping services, whether they be Priority Mail or those offered by a competitor. On the other hand, the opposite result—that recipients could value the increased reliability and lower price of FCPS and choose it more often—may occur as well. The Postal Service insists that shippers are "well-attuned to the needs and preferences of their end-customers," evidenced by the fact that a significant number of the respondents cited "customer-driven decision" as their primary reason for using FCPS in the survey. August 12 Response to POIR No. 11, question 13.e. While it is possible that the commercial shippers that took part in the FTC Survey may have accounted to a limited extent for the change in preferences of their recipients, it is not clear that survey respondents have foresight into their end-customers' preferences in the context of this specific proposed service standard change. For example, the Postal Service may consider itself well-attuned to the needs and preferences of its customers, but it nevertheless felt it necessary to conduct the FTC Study to gauge the impact of the proposed service standard change on its customers. Similarly, the Commission expects that many of the shippers would require additional time and information than what was provided to complete the FTC Study survey question to gauge end-customer reactions. Therefore,

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[214] *See* Docket No. N2021-1, Advisory Opinion at 146-55. In the Docket No. N2021-1 Advisory Opinion, the Commission discussed the top drivers of customer satisfaction for mail according to the Postal Service. Speed of service and reliable mail delivery were top five drivers of satisfaction from FY 2017 through FY 2021. *Id.* at 148.

the Commission encourages the Postal Service to consider methods to evaluate the impact of the proposal on recipients, as they will influence volumes indirectly through their preferred shipping options.

The Postal Service counters that FCPS-Commercial shippers are "the most relevant source of information" because they "make the final decision on which product or service to use for a given shipment."[215] It suggests that many other factors, such as "the size and contents of a shipment, the cost of shipping services, recipient preferences, ease of access, and other factors" must be balanced by the shippers in determining their shipping needs." August 12 Response to POIR No. 11, question 13.d. Notwithstanding these other listed factors, and as stated above, the FTC Survey demonstrated that recipient preference is among the top determining factors for many shippers when choosing FCPS. The Postal Service also suggests that "[i]n many cases, recipients are not aware that they are utilizing FCPS services to receive their shipments." *Id.* Although 37 percent of shippers noted that recipient preferences were the *primary* determinant for choosing FCPS, a larger percentage likely consider recipient preference for FCPS an important secondary or tertiary factor for choosing FCPS. The Commission maintains that recipients are a relevant source of information, which the Postal Service should have and should now consider when determining the impact of the proposal on volumes and customer satisfaction.

On behalf of FCPS recipients, particularly with respect to items sent for medical purposes, the participants in this docket have raised concerns. The States and Cities express concerns regarding diminishing the speed of delivery for highly specialized medications that may not be locally available, medications that may be sensitive to temperature changes and/or require refrigeration, medications for individuals whose incomes may limit their ability to pay more for a faster delivery service, medications that would be subject to the extended drive time ranges, and medications for individuals at a

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[215] August 12, 2021 Response to POIR No. 11, question 13.b.ii.; *see* Library Reference USPS-LR-N2021-2/NP8, July 15, 2021, file "NP8.Preface.Response.Foti.PR Interrogs.pdf," question 4.b.

higher risk for COVID-19 (such as older and immunocompromised individuals) who may rely on the Postal Service to receive their medications and minimize their exposure to COVID-19. *See* States and Cities Statement at 10-11. NALC, acting in its capacity as administrator of the NALC Health Benefit Plan, contends that its members depend on the prompt delivery of prescription medications. NALC Statement at 1-2. Multiple individuals emphasize their reliance on the Postal Service's speed of delivery to receive items for medical purposes.[216] Given these statements, the Commission advises that the Postal Service, in addition to its ongoing outreach to pharmaceutical companies, include in its outreach the owners and operators of mail-order pharmacies (such as pharmacy benefits managers representing health plan sponsors). Engaging in such outreach would better equip these entities to understand, plan, and adjust their practices and customer communications to account for the Postal Service's proposed changes (*e.g.*, increase the lead-time to allow for additional day(s) to ship affected FCPS items, substitute a different product where faster delivery is needed, and educate end-recipients regarding these circumstances). Overall, such action could thereby facilitate a smoother experience for the end-recipients with regard to the Postal Service's proposed changes.

Relatedly, the Commission believes that the impact of the proposed service standard change has been understudied for online marketplaces. The Postal Service identifies online marketplaces and pharmaceutical companies as two of its largest customer segments for FCPS. Revised USPS-T-3 at 3. According to witness Foti: "Marketplaces make multiple products available to shoppers by consolidating merchants on their platform…[and] are a key conduit for small and medium-sized businesses to access [the Postal Service's] FCPS product." *Id.* Pharmaceutical companies are identified as "another key customer segment that use[s] FCPS to ship packages (generally prescriptions) weighing less than a pound." *Id.*

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[216] *See, e.g.,* Taussig Statement; Fellows Statement; Bruce Statement; Ladd Statement; Wolfe Statement; Hamersley Statement.

Despite identifying both online marketplaces and pharmaceutical companies as "key" customer segments for the FCPS product, the Postal Service only provides segmented impact analyses on the impact of the proposal for pharmaceutical companies and not for marketplaces. Notwithstanding the importance of marketplaces,[217] the Postal Service believes that "modeling the impact of the proposed changes to FCPS service standards on this market segment individually would not yield insightful, helpful market information given parcel market dynamics. Whether, and to what degree, the proposed changes impact each individual shipper requires an intensive inquiry unique to each shipper." Response to POIR No. 7, question 3; *see* August 12 Response to POIR No. 11, question 15. The Commission commends the Postal Service for its decision to "engage in conversations with several key customers and manage[ ] accounts on the proposed changes." August 12 Response to POIR No. 11, question 15. In a similar vein, while the Commission appreciates that it may be unnecessary to model the impact on the marketplace segment individually, given that marketplaces are a key customer segment and portal for small- and medium-sized businesses, the Postal Service would benefit from a better understanding of how this customer segment will be affected by the proposed service standard change before implementing such a change.

Another shortcoming of the Postal Service's methodology for understanding the impact of the proposal is that it focuses exclusively on commercial shippers and omits retail consumers. *See id.* question 14.a. The FTC Survey did not sample FCPS-Retail customers, yet the Postal Service attempts to extrapolate findings for FCPS-Commercial customers to claim that FCPS-Retail volumes will be unaffected by the service standard change given its competitive pricing, as well as its convenience and improved reliability. Revised USPS-T-3 at 8. Namely, the FTC Survey found that respondents most frequently cited price as the reason they use FCPS, and the Postal

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[217] *See* Library Reference USPS-LR-N2021-2/NP17, July 29, 2021, "NP17.Preface.Foti.NP.Responses.POIR7.pdf," at 2.

Service uses this finding to imply that the competitive pricing in the FCPS-Retail segment will allow the Postal Service to maintain its FCPS-Retail volume. *See id.* at 7-8. There is no evidence on this record to controvert the Postal Service's assertion that FCPS prices remain highly competitive. *See id.* at 7. Additionally, it may be true that price is the reason most retail shippers choose FCPS. *See id.* at 7-8. However, this conclusion is not supported by the results in the FTC Survey, because the FTC Survey only sampled commercial shippers. *See* August 12 Response to POIR No. 11, question 14.a. The Postal Service makes a similarly unsubstantiated claim that convenience of access will allow the Postal Service to maintain its FCPS-Retail volume.[218]

In terms of reliability, the Postal Service cites the USPS Market Research & Insights Q1 FY21 Brand Health Tracker – Shipping Services (BHT Shipping Survey) to assert that greater reliability due to the service standard change will improve FCPS-Retail and FCPS-Commercial shipper satisfaction and help the Postal Service maintain current FCPS-Retail and FCPS-Commercial volumes. *See* Revised USPS-T-3 at 5, 8; *see also* Response to POIR No. 8, question 3. First, the Commission notes that the BHT Shipping Survey is not focused specifically on lightweight shipping, FCPS, or the proposed changes.[219] Therefore, it is unclear how applicable the results are to the characteristics of the Postal Service's current FCPS customers. Second, according to the BHT Shipping Survey, reliability is the top driver of shipper satisfaction, while speed of delivery is third. Revised USPS-T-3 at 5; *see* SH/USPS-T3-1-5, question 1. The FTC Survey appears to present conflicting results, however, as more FCPS-Commercial shippers cite speed of delivery than on-time reliability as their reason for using FCPS.[220] Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slide 11; *see* Library Reference USPS-LR-N2021-2/NP18,

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[218] *See* Revised USPS-T-3 at 8; *see also* Response to POIR No. 8, question 3.a.; August 12 Response to POIR No. 11, question 14.b.ii.

[219] *See* Library Reference USPS-LR-N2021-2/NP4, July 6, 2021, question 1.

[220] Library Reference USPS-LR-N2021-2/NP9, Revised FTC Survey, slide 11; *see* Library Reference USPS-LR-N2021-2/NP18, "NP18.Preface.Foti.NP.Responses.POIR8.pdf," at 2.

"NP18.Preface.Foti.NP.Responses.POIR8.pdf," at 2. Thus, while informative, the BHT Shipping Survey is not particularly probative as to the proposal's impact on satisfaction.

Furthermore, it is not clear that FCPS customers will be satisfied by the proposed service standard changes even if reliability is the top driver of shipper satisfaction. The proposed service standard change has the stated goal of increasing reliability at the cost of lowering service standards for certain portions of the FCPS product. The Postal Service states that, "[g]iven no changes other than the proposed service standard change, a service improvement ranging from 1.95 points to 5.74 points could be expected to FCPS." Response to POIR No. 8, question 1. At the lower end, the improvement in reliability due to the proposed service standard change could be minimal, and the Postal Service's ability to achieve its stated reliability targets with the proposed service standard change has not been clearly demonstrated. *See* Section V.II.C.2., *supra* (discussing the Postal Service's ability to meet the proposed service standards in the near future). On the other hand, witness Hagenstein estimates that the proposed service downgrade for FCPS volume is upwards of 30 percent. Revised USPS-T-1 at 38. The Commission similarly discussed the Postal Service's failure to address the tradeoff between improved reliability and slower speed of service in the case of FCM in Docket No. N2021-1 and found there was insufficient evidence to determine the proposal's effect on customer satisfaction. *See* Docket No. N2021-1 Advisory Opinion at 151. Again in this proceeding, the Commission finds that there are insufficient bases to allow the Commission to definitively comment on how the proposed service standards will affect customer satisfaction for either FCPS-Commercial or FCPS-Retail customers. Additionally, the Postal Service does not present sufficient evidence to allow the Commission to ascertain whether opportunities truly exist for the Postal Service to use increased reliability to maintain or gain market share.

The Postal Service justifies its exclusion of FCPS-Retail shippers from its study by explaining that "[t]he majority [91 percent] of FCPS volume is driven by the FCPS-Commercial price category." Revised USPS-T-3 at 5; *see also* August 12 Response to POIR No. 11, question 14. It also argues that, "[i]f FCPS-Retail customers seek a faster delivery time, they have the option of choosing our Priority Mail product, and thus able to readily substitute at one of our retail locations."[221] The Commission accepts that these services may be substitutable in theory, but Priority Mail is more expensive.[222] Moreover, the substitution could pose difficulties for consumers that could be more sensitive to price changes, such as rural residents and shippers that may be older and/or have low-incomes.[223]

A review of the Postal Service's testimony in its direct case, as well as its responses to POIR questions, indicates that the Postal Service did not present any data or analysis comparing the proposal's impact on urban and rural customers of FCPS, such as surveying rural senders or recipients about their views. *See* Response to POIR No. 11, questions 13-15. Nor did the Postal Service specifically address the effects of the proposal on rural or retail customers, although it had the data to estimate the expected change in volume for FCPS that originates from, and/or is destined to, rural and urban ZIP Codes. *See* Response to POIR No. 7, question 1. Such data were filed by the Postal Service under seal after the issuance of POIR No. 7, question 1. The Postal Service states that "[n]o changes were implemented to the proposal based on the rural versus urban impact analysis." Response to POIR No. 13, question 2. Instead, the Postal Service asserts that "[t]he results of the analysis did not necessitate a change" because "[t]he percent impact, both from origin and destination perspective, was very

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[221] Revised USPS-T-3 at 8. *See* Library Reference USPS-LR-N2021-2/NP9 and Library Reference USPS-LR-N2021-2/NP4 at 10 for the Postal Service's explanation regarding the substitutability of Retail services with Priority Mail services.

[222] *See, e.g.*, Postal Service Price List (comparing the price of FCPS with Priority Mail).

[223] These concerns are reflected in some of the participant's filings. *See* States and Cities Statement at 5-6, 11-12; *see also* Bruce Statement at 1; Ladd Statement at 1; Oshatz Statement at 1.

similar, and 3-digit ZIP Code areas categorized as rural showed more volume upgrades and fewer downgrades." *Id.* question 2.b. Additionally, as discussed below, the Postal Service also did not reach out to sample such populations to understand the impact of the proposed service standard changes and/or to discuss potential ways to address such impacts.

c. The Postal Service's Communication Plan

Witness Hagenstein notes that the proposed service standard change would have operational impacts on retail customers and shippers. He states:

> The proposed changes would impact retail and commercial customers by, in some instances, increasing the amount of time it would take to deliver a package to a recipient. Therefore, for FCPS that must be received by a certain date, shippers would sometimes have to enter the packages into the system earlier than under the previous standards. In order to mitigate any harm from this change, the Postal Service will work to inform retail customers about the service changes, so that they can set appropriate expectations for delivery times. This is discussed in the testimony of witness Foti.

Revised USPS-T-1 at 38. Witness Foti, in his testimony, did not mention any form of communication or mitigation strategies with postal and public stakeholders. The Postal Service also confirmed that it had not made any changes to the proposal in response to stakeholder feedback. August 12 Response to POIR No. 11, question 16. In a later response to a POIR question, the Postal Service explains that it "will develop a communications plan to inform both commercial and retail shippers of the proposed changes [when the Postal Service plans to implement its proposal]." August 12 Response to POIR No. 11, question 17. The Commission commends the Postal Service for planning to use a variety of portals, including Industry Alert, DMM Advisory/PC Weekly, email messaging to industry leadership, USPS Service Alerts website, PostalPro, Push messaging to Customer Care Centers, Sales and Business Service Network contacts, Retail Sales Associates, and a reprogrammed Service Delivery Calculator to inform its customers and stakeholders of the proposed service

standard change. *Id.* The Commission also encourages the Postal Service to maintain "regular communication and collaboration with related Pharmaceutical customers and field operations." *See* Response to POIR No. 12, question 9.a. However, the Commission recommends that the Postal Service streamline its communication strategy and begin communicating via the described channels with customers and other stakeholders as soon as possible so that they can understand, prepare for, and respond to the FCPS service standard changes and their impact on their businesses and lives. The Postal Service's decision to conduct the FTC Survey shows responsiveness to the needs of its FCPS-Commercial clients, but the Commission urges the Postal Service to do the same for FCPS-Retail shippers, FCPS-Retail recipients, and FCPS-Commercial recipients, each of whom influence the Postal Service's FCPS volumes. It also would be wise for the Postal Service to consider the effects of its proposed changes on discrete segments of FCPS stakeholders and discuss potential ways to address those impacts.

3. Customer Satisfaction Conclusion

In Docket No. N2021-1, the Commission criticized the Postal Service for relying on over-generalized research on consumer preferences to predict the impact of the proposed service standard changes on customer satisfaction and volumes. *See* Docket No. N2021-1 Advisory Opinion at 153. The instant proposal represents an improvement over the Docket No. N2021-1 proposal because the Postal Service commissioned the FTC Survey to sample its FCPS-Commercial shipper customers in order to gauge the impact of the proposal directly. However, the FTC Survey has shortcomings, namely that it ignores how recipients will affect volume demand and omits FCPS-Retail customers. Other than the survey of FCPS-Commercial customers, the Postal Service also fails to model the specific impact of the proposal on discrete populations of stakeholders. Although other populations may make up a small proportion of total volume, their views might be masked in surveys of high-volume, commercial mailers. The Commission recognizes that it is very difficult to develop a survey that is fully

representative of a user base as diverse as the users of FCPS. However, it appears that the FTC Survey may not be fully representative. Going forward, the Commission recommends that Postal Service monitor the impact of the proposal on customer demand and satisfaction and consider ways to address the potential impacts on discrete groups of stakeholders, such as recipients, pharmaceutical companies, marketplaces, rural residents, shippers that are older and/or low-income, and small businesses.

G. Statutory Considerations

1. Statutory Policies of Title 39, United States Code

The Commission reviews the proposed changes to FCPS service standards for consistency with the 39 U.S.C. § 3661(a), setting forth the requirement for the Postal Service to "develop and promote adequate and efficient postal services." *See* 39 U.S.C. § 3661(a); *see also id.* § 403(a). The Commission also reviews the arguments presented by the parties concerning whether the proposed changes comport with the postal policies set forth in 39 U.S.C. § 101(a)-(b), (e)-(f). The relevant language in section 101 provides:

> (a) The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.
>
> (b) The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining. No small post office shall be closed solely for operating at a deficit, it being the specific intent of the Congress that effective postal services be insured to residents of both urban and rural communities.

> ….
> (e) In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.
> (f) In selecting modes of transportation, the Postal Service shall give highest consideration to the prompt and economical delivery of all mail and shall make a fair and equitable distribution of mail business to carriers providing similar modes of transportation services to the Postal Service. 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(a)-(b), (e)-(f).

Unlike the service standard changes proposed in Docket No. N2021-1 for Market Dominant FCM and end-to-end Periodicals, the proposed changes in the instant proceeding pertain to FCPS, which is a Competitive product. Consequently, certain statutory provisions that apply to Market Dominant FCM and end-to-end Periodicals do not apply to FCPS. Among them are: the objectives and factors governing the Postal Service's revision of its service standards for Market Dominant products set forth in 39 U.S.C. § 3691(b) and (c); the requirement that the Postal Service publish revised service standards for Market Dominant products in the Code of Federal Regulations pursuant to 39 U.S.C. § 3691(a); and the requirement that the Postal Service measure and report quality of service for each Market Dominant product pursuant to 39 U.S.C. § 3652(a)(2).

2. Parties' Positions

The Postal Service asserts that "increasing volume confirms that customers already consider FCPS to be more than adequate under the current standards." Postal Service Brief at 22. Additionally, the Postal Service contends that the improved reliability, which it claims will result from its proposal, added to competitive pricing, will lead to additional FCPS volume increases. *Id.* The Postal Service states that its

proposed changes are "likely to improve the already more than adequate FCPS in accordance with the policies of the title 39 of the United States Code." *Id.*

The Postal Service maintains that it gave the highest consideration to the balance of prompt and economical mail delivery as required by 39 U.S.C. § 101(f). *Id.* at 19. It states that "the proposed service standard changes will promote more reliable and economical FCPS transportation" by shifting air transportation routes onto more reliable surface transportation, and by achieving annual cost savings of $42 million. *Id.* The Postal Service also contends that "for package transportation as opposed to letter mail, 'prompt' does not mean as fast as possible." *Id.* at 20. It argues that Congress made an explicit distinction between the requirement for "the most expeditious collection, transportation, and delivery *of important letter mail*" in section 101(e) and the requirement to provide for "prompt and economical delivery" of all other mail in section 101(f). *Id.* (emphasis in original) (quoting 39 U.S.C. § 101(e)). It goes on to state that:

> Given the distinct application of "most expeditious" exclusively to important letter mail, "prompt" as applied to package mail must mean something less. Moreover, with respect to the required and necessary balance between speed and cost, the Postal Service offers a range of package products for customers to choose from. FCPS provides a particular balance, while other package products exist for those who would want faster delivery.

Id. at 20-21.

The States and Cities contend that the Postal Service's proposal violates sections 101(a) and (b) due to the disproportionate impact the lengthened service standards would have on rural communities and veterans. States and Cities Statement at 12. With respect to veterans, the States and Cities assert that the U.S. Department of Veterans Affairs fulfills 80 percent of prescriptions via mail, with some 90 percent of those prescriptions shipped through the Postal Service. *Id.* It maintains that the proposed changes "will require millions of veterans to adjust or pay nearly twice as much (or more) for faster alternatives—if that option is even available to them." *Id.* As for rural communities, the States and Cities cite the APWU rebuttal testimony noting

that many large and heavily rural states will be disproportionally impacted by the service standard changes. *Id.* at 6 (citing APWU-RT-1 at 3).

The States and Cities express concern that "although the Postal Service's modeling and financial analysis presents First-Class Mail and FCPS as moving together in [the] surface network, the Postal Service's proposed business rules for FCPS in the contiguous United States diverge substantially from the business rules it recently finalized for First-Class Mail in the same geographic area[.]" *Id.* at 7 (internal footnotes omitted). They characterize the Postal Service's proposal as "mov[ing] FCPS packages between 1.2 and 2.7 times farther than First-Class Mail in the same period of time." *Id.* They assert that "prioritizing packages above First-Class Mail cannot be squared with the statutory requirement that the Postal Service 'give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.'" *Id.* (quoting 39 U.S.C. §101(e)).

As an alternative to implementing the proposed changes, the States and Cities suggest that the Postal Service seek reimbursement from Congress for public service costs incurred by providing a maximum degree of effective and regular postal service nationwide pursuant to 39 U.S.C. § 2401(b)(1). *Id. a*t 9.

The States and Cities urge the Commission to recommend the Postal Service issue a notice of proposed rulemaking and accept public comment on the proposal. *Id.* at 13-14. They also request that the Commission extend the 90-day timeline to give itself adequate time to evaluate the Postal Service's proposed changes. *Id.* at 15-16.

3. Commission Analysis

Sections 101(a)-(b), (e)-(f) and 3661(a) require the Postal Service to consider speed, efficiency, economy, and reliability in all aspects of its operations. Therefore, the Postal Service must balance these often competing qualitative provisions. Moreover, the Postal Service's FCPS offering competes directly with private sector firms in the market for lightweight parcels. Unlike Market Dominant products, the Postal Service's

Competitive product prices are not capped and quality of service is subject to less regulatory oversight because market competition is expected to serve as the primary guarantor of discipline with respect to price and quality.[224] As described below, the Commission does not find the proposal to be facially inconsistent with these policies.

FCPS exists within a competitive market. As proposed, delivery is expected to continue to be made in 3 days or less for FCPS items with a drive time between the OD Pairs under 32 hours. Revised USPS-T-1 at 6-8. Under the proposed changes, FCPS items with a drive time between OD Pairs exceeding 32 hours would experience a 1-day or 2-day increase in the expected days to delivery.[225] The Commission finds that proposed changes are not facially inconsistent with the section 3661 requirement that the Postal Service's offering must be an adequate and efficient postal product. Should the Postal Service determine to implement the proposed changes, the Commission urges the Postal Service to carefully coordinate its implementation strategy to balance the adequacy and efficiency of FCPS. In particular, communication among and between shippers, Postal Service processing facilities, and transportation suppliers will be key to mitigating potential disruptions as the Postal Service overhauls its processing and surface transportation networks during FY 2022.

The Postal Service contends that its proposed changes strike the required balance between "prompt and economical" delivery of FCPS pursuant to section 101(f).

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[224] Pursuant to 39 U.S.C. § 3642(b)(1), Competitive products are by definition those products over which the Postal Service does not "exercise[ ] sufficient market power that it can effectively set the price of such product substantially above costs, raise prices significantly, decrease quality, or decrease output, without risk of losing a significant level of business to other firms offering similar products." The Commission is authorized to transfer products between the Market Dominant and Competitive product lists as necessary to ensure that for those products for which the Postal Service does exercise sufficient market power, mailers are protected by the price cap and other regulatory provisions applicable to Market Dominant products. *See* 39 U.S.C. § 3642(a).

[225] *See* Revised USPS-T-1 at 7-9. Specifically, FCPS items with a drive time between the OD Pairs between 32 and 50 hours would experience a 1-day increase in the expected days to delivery (from 3-day to 4-day) and FCPS items with a drive time exceeding 50 hours would experience a 2-day increase in the expected days to delivery (from 3-day to 5-day). *See id.*

The Commission has previously noted that the policy directives of section 101 "are qualitative in nature, somewhat in competition with one another, and provide high level guidance to the Postal Service." Docket No. N2021-1 Advisory Opinion at 177. The Commission agrees that the statutory requirement of "prompt" delivery of all non-important letter mail can be distinguished from the statutory requirement for "most expeditious" delivery of important letter mail. Courts engaged in statutory interpretation generally presume that differences in language convey differences in meaning.[226] However, it remains to be seen whether, in execution, the Postal Service can strike the balance of prompt and economical with the policy directives set forth in section 101. *See* Sections VII.C. and VII.D., *supra*, for a discussion of the Postal Service's proposal as it relates to cost savings and transportation, respectively.

The States and Cities have alleged, although not established, that the proposal has the potential to disproportionally impact veterans and rural communities. For a discussion of undue or unreasonable discrimination against these segments of the population as it relates to pharmaceutical deliveries, *see* Section VII.H., *infra.* Although the Commission notes that any potential impacts are too speculative to violate section 101 prior to implementation, it urges the Postal Service to monitor the impact of the service changes on these vulnerable communities as it implements the proposal.

The States and Cities allege that the Postal Service is moving "FCPS packages between 1.2 and 2.7 times farther than First-Class Mail in the same period of time." States and Cities Statement at 7. This allegation mischaracterizes the Postal Service's transportation network and business rules. The Postal Service's proposal in Docket No. N2021-1 was for Market Dominant FCM items that would require between 3 hours and 20 hours of drive time between the OD Pairs to be subject to a 3-day service standard. *See* Docket No. N2021-1 Request at 3-4. The Postal Service's proposal in Docket No. N2021-2 is for FCPS items that would require between 8 hours and 32 hours of drive

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[226] *Henson v. Santander Consumer USA Inc.*, 137 S. Ct. 1718, 1723, 198 L. Ed. 2d 177 (2017); *Wisconsin Cent. Ltd. v. United States*, 138 S. Ct. 2067, 2071–72, 201 L. Ed. 2d 490 (2018).

time between the OD Pairs to be subject to a 3-day service standard. Revised USPS-T-1 at 6-8. This does not mean that FCPS items will travel a longer distance in the same period of time. Major factors in the business rules are the CETs for mailers to enter their items into the Postal Service's network, which starts the clock for measurement of the applicable service standard, and the Postal Service's CET at the destination facility, which defines when the item needs to arrive at the destination sectional center facility (DSCF) in order to be delivered that business day. *See* Revised USPS-T-1 at 6-10, 29. Both the CET for mailers to enter their items into the Postal Service's network and the CET at the DSCF are different for FCPS than for FCM. *Id.* at 29. For FCM letters and flats, the DSCF CET is 08:00 hours on the day before the scheduled delivery day; for FCPS parcels, the model uses 20:00 hours as the CET on the day before the scheduled delivery day. *Id.* The additional 12 hours incorporated into the FCPS DSCF CET allow for FCPS pieces to travel farther. This different operating window does not allow the Postal Service to transport FCPS pieces farther than FCM pieces in the same amount of time, rather, the Postal Service's different operating plans propose distinct operating windows for FCPS parcels than for FCM letters and flats. Additionally, the Cities and States do not acknowledge in their remarks that some letters remain subject to overnight delivery standards, further expediting important letter-shaped FCM pieces vis-à-vis package-shaped FCPS pieces.[227] The Commission does not find merit in the Cities and States' assertion that the Postal Service's proposal violates section 101 on these grounds.

Further, the Commission will not opine on the advisability of seeking reimbursement from Congress pursuant to 39 U.S.C. § 2401(b)(1), as that course of

[227] *See* Docket No. N2021-1 Advisory Opinion at 13, Figure IV-1 (observing that intra-SCF domestic Presort mailpieces properly accepted at the SCF before the day-zero CET remain unchanged); Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 21,675, 21,678 (Apr. 23, 2021) (to be codified at 39 C.F.R. pt. 121); Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941, 43,952 (Aug. 11, 2021) (codified at 39 C.F.R. § 121.1(a), effective Oct. 1, 2021).

action remains subject to the Postal Service Board of Governors' business judgment and is outside the scope of this proceeding.

The Commission also declines to recommend that the Postal Service file a notice of proposed rulemaking for the same changes proposed in this docket. Pursuant to 39 U.S.C. § 3691(a), the Postal Service must publish revised service standards for Market Dominant products in the Code of Federal Regulations;[228] however, no such statutory requirement applies to Competitive products such as FCPS. In accordance with Commission rules, the Commission published in the *Federal Register* multiple notices regarding the procedural deadlines for public participation in Docket No. N2021-2.[229]

The States and Cities allege that the public's opportunity to participate in this proceeding has been hampered by the Postal Service's decision to file certain information under seal. However, the information filed under seal in this docket contains commercially sensitive information regarding a Competitive product for which the Postal Service has applied for non-public treatment pursuant to 39 U.S.C.

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[228] In order to promulgate changes to its proposed changes to the service standards for Market Dominant products codified in 39 C.F.R. part 121, the Postal Service published both a notice of proposed rulemaking and a final rule. *See* Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 21,675-21,680 (Apr. 23, 2021) (to be codified at 39 C.F.R. pt. 121); Revised Service Standards for Market-Dominant Mail Products, 86 Fed. Reg. 43,941-43,954 (Aug. 11, 2021) (codified at 39 C.F.R. § 121.1(a), effective Oct. 1, 2021).

[229] *See* Service Standard Changes, 86 Fed. Reg. 29,600, June 2, 2021 (notifying the public of the Postal Service's pre-filing conference to be held online via Zoom); Service Standard Changes, 86 Fed. Reg. 33,787 (June 25, 2021) (notifying the public of the procedural schedule for Docket No. N2021-2, including the deadlines for filing notices of intervention, briefs, and statements of position); Service Standard Changes, 86 Fed. Reg. 36,788 (July 13, 2021) (notifying the public of the revised procedural schedule for Docket No. N2021-2, including the extended deadlines for filing discovery requests, briefs, and statements of position); Service Standard Changes, 86 Fed. Reg. 41,103 (July 30, 2021) (notifying the public of the modifications to the procedural schedule for Docket No. N2021-2, due to the filing of rebuttal testimony, and including extended deadlines for filing notification of intent to conduct oral cross-examination, briefs, and statements of position); Service Standard Changes, 86 Fed. Reg. 44,409 (Aug. 12, 2021) (notifying the public of procedures to administratively enter testimony and evidence).

§ 504(g)(1) and 39 C.F.R. part 3011 subpart B.[230] The Commission has set forth a process for the public to request and obtain access to these non-public filings in 39 C.F.R. part 3011 subpart C and has included a template document to facilitate parties' ability to comply with the Commission's rules. *See* Order No. 5920 at 11-12, Attachment 2. Only one party requested and obtained access to these materials in the instant docket.[231] Pursuant to 39 U.S.C. § 3661(c) and 39 C.F.R. § 3020.111(d), the Commission appointed a member of the Commission staff to serve as the Public Representative in this proceeding. *See* Order No. 5900 at 3, 4. The Public Representative is automatically made a party to this proceeding, given access to non-public materials, and represents the interests of the general public in this proceeding. *See* 39 C.F.R. §§ 3010.142(a), 3011.300(a)(2); 39 U.S.C. § 505. In addition to the Public Representative's brief, the Commission has received and considered statements of position from members of the public in response to this proposal.

The States and Cities have urged the Commission to extend the procedural schedule beyond the 90-day timeline in order to sufficiently analyze the impact of the proposed changes. The Commission has already done so in Order No. 5933 in this docket. *See* Order No. 5933.

H. Section 403 Analysis

The Commission evaluates whether the Postal Service's proposal is consistent with 39 U.S.C. § 403(c), which prohibits "undue or unreasonable discrimination among users of the mails…." The Commission reviews these arguments and concludes that

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[230] The Postal Service explains that the information filed under seal contains detailed volume and cost information regarding purchased transportation; data that reveal cost, volume, weight, modes of transportation, transportation windows, service performance information for Competitive products; and market research on FCPS developed by an external firm on behalf of the Postal Service. Notice of United States Postal Service of Filing of Library References and Application for Non-Public Treatment, June 17, 2021, Postal Service Application for Non-Public Treatment, at 1, 3-6.

[231] Presiding Officer's Ruling Granting Access, July 6, 2021 (POR No. N2021-2/1) (granting non-public access to a representative of APWU).

while different recipients will be subject to different service standard expectations, these differences are not demonstrably "undue" or "unreasonable" on their face.

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

As set forth in 39 U.S.C. § 403(c):

> (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.

39 U.S.C. § 403(c). The Commission evaluates claims of undue or unreasonable discrimination according to a three-part test: first, a mailer or mailers (non-preferred mailer) must be offered less favorable rates or terms and conditions than another mailer(s) (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 offered to the preferred mailer. *See* Order No. 718 at 28; Docket No. N2021-1 Advisory Opinion at 170.

2. Parties' Positions

The States and Cities and APWU contend that the Postal Service's proposed changes violate section 403(c). The States and Cities state that the service downgrades for pharmaceutical deliveries will disproportionally impact mailers in certain areas, and that such geographical disparities constitute undue or unreasonable discrimination. States and Cities Statement at 11. They assert that "[a] patient living in California or Maryland's Eastern Shore is no differently situated than a patient living in Wyoming or Kansas, but patients living in the former areas will have to wait a day or longer than those living in the latter areas to get the same prescriptions. Patients

should not be subject to worse service standards solely by virtue of their geography." *Id.*

APWU does not specifically refer to section 403(c) but asserts that "First-Class package service standards for packages containing pharmaceuticals pose a particular concern given the nation's growing reliance on mail delivery of medicine and prescriptions." APWU-RT-1 at 6. APWU goes on to state that "[d]owngrades impacting 11 to 25 percent of pharmaceutical First-Class package volume will affect central Maine, north central New Jersey, central Pennsylvania, southeastern Virginia, western and southern North Carolina, northern South Carolina, northern and southeastern Georgia, northeastern and southeastern Florida, Alabama, Mississippi, Southern Louisiana, northeastern Arkansas, western and central Tennessee, south central Kentucky, central Minnesota, western North Dakota and northwestern South Dakota." *Id.*

The Postal Service contends that its proposal does not violate section 403(c). The Postal Service asserts that the FCPS service standards are based on drive time from origin to destination—with mail traveling farther having a longer delivery time than mail delivered closer to origin. Postal Service Brief at 23. It states that distance-based service standards applied nationwide do not facially distinguish between mailers who use the service; rather, all mailers are offered and receive the same service depending on drive time from origin to destination. *Id.* Finally, the Postal Service contends that the proposal complies with section 403(c) because "the differentiation of service standards based on drive time from origin to destination is rationally related to the Postal Service's statutory mandate to provide adequate, efficient, reliable, and economical postal services." *Id.* at 25.

3. Commission Analysis

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

a. Less Favorable Terms

The Postal Service acknowledges that mail requiring longer drive times will experience longer delivery times than mail with shorter surface transportation distances. Postal Service Brief at 23. Although the Postal Service maintains that distance-based criteria are facially objective, the Commission has previously found that to satisfy this prong of the test a mailer need only show a different level of service received by two mailers. Docket No. N2021-1 Advisory Opinion at 175.

The proposed changes are not expected to result in some shippers experiencing less favorable delivery terms compared to the existing service standard. For instance, a shipper sending an FCPS item where the drive time between the OD Pairs remains under 6 hours is not expected to experience a change in the expected days to delivery (2-day) at all. A shipper sending the same FCPS item but with a drive time of between 6 to 8 hours is expected to experience an improvement in the expected days to delivery (from 3-day to 2-day) under the proposal. A shipper sending the same FCPS item but with a drive time of between 8 to 32 hours is not expected to experience a change in the expected days to delivery (3-day) at all.

On the other hand, the proposed changes are expected to result in the following shippers experiencing less favorable delivery terms compared to the existing service standard. A shipper sending the same FCPS item but with a drive time of between 32 to 50 hours is expected to experience a 1-day increase in the expected days to delivery (from 3-day to 4-day). A shipper sending the same FCPS item but with a drive time exceeding 50 hours is expected to experience a 2-day increase in the expected days to delivery (from 3-day to 5-day). Based on the record in this proceeding, the Commission concludes that it would be possible for certain FCPS customers to demonstrate that the proposal would result in disparate service treatment compared to other mailers.

b. Similarly Situated

This prong of the analysis—determining 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 terms exists between two mailers or a group of mailers. Docket No. N2021-1 Advisory Opinion at 175. The determination of whether mailers are similarly situated is best determined on a case-by-case basis by a comparison of the relevant characteristics of different mailers. Order No. 718 at 45, 59.

Taking the contentions of the States and Cities and APWU at face value, the Commission observes certain pharmaceutical FCPS recipients may experience longer delivery times than others. However, the Commission cannot conclude that these groups of mailers are similarly situated. In making such a determination, the Commission considers the product used, characteristics of the mail, and other relevant similarities or differences as applicable. The hypothetical mailers in the geographical areas identified by the States and Cities and APWU may or may not be similarly situated to mailers in other parts of the country. Under the existing service standards, the Postal Service distinguishes which FCPS items travel under a different days-to-delivery service standard based on how far the shipment travels (measured from acceptance at a postal facility). Similarly, to determine which of the proposed service standards would apply, the relevant question is not where customers live, but instead how far their shipments travel within the Postal Service's network. Any determination before implementation of the proposal and analysis of its effects would be premature and necessarily speculative.

c. Rational or Legitimate Basis

As the Postal Service notes, the Commission has previously stated that the Postal Service has wide latitude in providing different levels of service to different groups of users so long as those distinctions are reasonable. Postal Service Brief at 25; Docket No. N2021-1 Advisory Opinion at 176. The Postal Service's position is that the

proposed service standard changes are rationally related to the Postal Service's statutory mandate to provide adequate, efficient, reliable, and economical postal services. The Commission has identified several areas of concern regarding the implementation of the Postal Service's proposal. At present, the Postal Service has not demonstrated that it can achieve reliability, efficiency, and economy in its service standard changes. *See* Sections VII.C.-VII.E., *supra*. Much depends on the quality of the Postal Service's execution of these changes, should it choose to proceed, as well as the success of deploying interdependent operational initiatives.

4. Conclusion

The Postal Service's proposed plan does not facially violate 39 U.S.C. § 403(c). Some mailers will undoubtedly experience longer delivery times as a result of the proposed changes. However, the record does not support the conclusion that these mailers are similarly situated to those that will be less impacted. The Commission is concerned, however, that the reasonableness of the proposal rests upon the Postal Service being correct in its assessments about consumer preferences (*see* Section VII.F., *supra*.) and its ability to achieve the modeled increases in reliability, cost savings, and efficiency. *See* Sections VII.C.-VII.E., *supra*. 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, 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.

The Commission will evaluate any post-implementation claims of undue or unreasonable discrimination pursuant to the complaint process set forth in 39 U.S.C. § 3662.

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

APPENDIX A
PARTIES AND COUNSEL/AUTHORIZED REPRESENTATIVE(S)

Party Counsel/Authorized Representative(s)	**Party Short Form**
American Postal Workers Union, AFL-CIO Melinda Holmes Nicholas Mendoza Phillip Tabbita	APWU
Association for Postal Commerce Matthew D. Field Michael Plunkett Ian D. Volner	PostCom
Douglas F. Carlson Douglas F. Carlson	Carlson
Steve Hutkins Steve Hutkins	Hutkins
National Association of Letter Carriers, AFL-CIO Peter DeChiara James Holland Kate M. Swearengen	NALC
National Association of Postal Supervisors Robert M. Levi	NAPS
Public Representative Mallory L. Smith Samuel Koroma	Public Representative

APPENDIX B
TESTIMONY/REBUTTAL TESTIMONY

Direct Testimony—United States Postal Service (Postal Service)		
Citation	**Filing Date(s)**	**Short Citation**
Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1); Notice of Filing Replacement Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1); Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata (Errata to Request and Testimony)	June 17, 2021 (original); June 21, 2021 (replacement); July 2, 2021 (errata) August 10, 2021 (revised)	Revised USPS-T-1[1]
Direct Testimony of Michelle Kim on Behalf of the United States Postal Service (USPS-T-2); Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata (Errata to Request and Testimony)	June 17, 2021 (original); July 2, 2021 (errata); August 10, 2021 (revised)	Revised USPS-T-2[2]

[1] The testimony, as corrected by the replacement and errata, is included in the filing of Notice of Filing Designated Materials and Declaration Attesting to the Proposed Record Material for United States Postal Service Witness Stephen B. Hagenstein, August 10, 2021 (Revised USPS-T-1).

[2] The testimony, as corrected by the errata, is included in the filing of Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Kim, August 10, 2021 (Revised USPS-T-2).

Direct Testimony—United States Postal Service (Postal Service)		
Citation	**Filing Date(s)**	**Short Citation**
Direct Testimony of Thomas J. Foti on Behalf of the United States Postal Service (USPS-T-3); Notice of the United States Postal Service of Revisions to Certain Pages of the Request for an Advisory Opinion, USPS-T-1, USPS-T-2, and USPS-T-3 -- Errata (Errata to Request and Testimony)	June 17, 2021 (original); July 2, 2021 (errata); August 10, 2021 (revised)	Revised USPS-T-3[3]

Rebuttal Testimony		
Citation	**Filing Date**	**Short Citation**
Rebuttal Testimony of Anita Morrison on Behalf of the American Postal Service Workers Union, AFL-CIO	August 4, 2021	APWU-RT-1

[3] The testimony, as corrected by the errata, is included in the filing of Notice of Designated Materials, and Notice of Filing of Declaration Attesting to the Proposed Record Material, for United States Postal Service Witness Foti, August 10, 2021 (Revised USPS-T-3).

APPENDIX C
BRIEFS/REPLY BRIEFS

Citation	Filing Date	Short Citation
Public Representative (PR)		
Initial Brief of the Public Representative	August 20, 2021	PR Brief
United States Postal Service (Postal Service)		
Initial Brief of the United States Postal Service	August 20, 2021	Postal Service Brief
Reply Brief of the United States Postal Service	August 27, 2021	Postal Service Reply Brief

APPENDIX D
STATEMENTS OF POSITION

Citation	Filing Date	Short Citation
Statement of Position from M. Bruce	June 22, 2021	Bruce Statement
Statement of Position from John Cowley	May 26, 2021	Cowley Statement
Statement of Position from Sylvia Fellows	June 2, 2021	Fellows Statement
Statement of Position from Sharon Hamersley	June 23, 2021	Hamersley Statement
Statement of Position from Stephanie Ladd	June 22, 2021	Ladd Statement
Statement of Position of the National Association of Letter Carriers, AFL-CIO	August 19, 2021	NALC Statement
Statement of Position from Lila Oshatz	May 26, 2021	Oshatz Statement
Statement of Position of 17 State Attorneys General and Two Cities	August 20, 2021	States and Cities Statement
Statement of Position from Edward Taussig	May 26, 2021	Taussig Statement
Statement of Position from Evan Wolfe	June 22, 2021	Wolfe Statement