

USPS-T-1

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

Complaint on First-Class Mail  
Service Standards, 2001

Docket No. C2001-3

TESTIMONY OF  
CHARLES M. GANNON  
ON BEHALF OF  
UNITED STATES POSTAL SERVICE

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1 **AUTOBIOGRAPHICAL SKETCH**

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3 My name is Charles M. Gannon. I am currently a Transportation  
4 Specialist, within the Integrated Networks Development group, in the Networks  
5 Operations Management (NOM) department at United States Postal Service  
6 headquarters. I have served in this capacity since February 2002. As outlined  
7 earlier in this proceeding in the Declaration of Charles M. Gannon (July 30,  
8 2001),<sup>1</sup> my primary duty is to serve as the National Program Manager for USPS  
9 Service Standards. In this capacity, my responsibilities have included the  
10 development and implementation of Phase II of the First-Class Mail service  
11 standard changes that were the subject of Postal Rate Commission Docket No.  
12 N89-1 and that are the apparent basis for the filing of the Complaint that initiated  
13 the current case.

14 As National Program Manager for USPS Service Standards, I also am  
15 responsible for reviewing *ad hoc* proposals submitted by field units seeking to  
16 change First-Class Mail service standards between 3-digit ZIP Code service  
17 areas. In addition, I oversee the maintenance of the data that serves as the basis  
18 for information reflected in the Service Standards database of the Postal Service,  
19 updates of which are published quarterly in a USPS Service Standards CD-ROM.

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<sup>1</sup> And subsequently updated in the March 15, 2002, response to DBP/USPS-69. I hereby incorporate by reference that Declaration as part of this testimony.

1           **PURPOSE OF TESTIMONY**

2           The purpose of my testimony is to clarify certain specific matters discussed  
3 in the December 8, 2003, testimony of Douglas F. Carlson (DFC-T-1) filed in this  
4 proceeding. It is not the purpose of my testimony to respond to each assertion in  
5 Mr. Carlson’s testimony, as many of those assertions are either not factual in  
6 nature, have been addressed in previously filed interrogatory responses  
7 designated into the record, or are arguments more appropriately responded to in  
8 legal briefs.

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1           **I.           Some Perspective Is In Order**

2           In his zeal to condemn the First-Class Mail service standard changes at  
3 issue in this case, Mr. Carlson's testimony (DFC-T-1) focuses almost exclusively  
4 on the downgrades that changed the service standards for numerous origin-  
5 destination pairs from 2-day to 3-day. It bears emphasizing that only nine percent  
6 of the 3-digit ZIP Code origin-destination pairs nationally were affected by  
7 implementation of Phase II of the First-Class Mail service standard changes. And  
8 it is worth repeating that, of this nine percent total, 5.81 percent experienced  
9 service upgrades from 3-day to 2-day, compared to 3.19 percent that experienced  
10 the downgrades from 2-day to 3-day that monopolize Mr. Carlson's attention. The  
11 overall impact of the changes was to reduce the number of 3-digit ZIP Code  
12 origin-destination pairs with a First-Class Mail 3-day service standard and to  
13 increase the number of origin-destination pairs with a 2-day service standard.

14           It also is worth noting that, when these changes were implemented, the  
15 national average for originating First-Class Mail volume targeted for delivery by  
16 Day 2 was 71.2 percent. The comparable figures for First-Class Mail originating  
17 from 3-digit ZIP Code areas in California are as follows: 76.6 percent before  
18 Phase II and 73.5 percent after Phase II. So, despite any inferences to the  
19 contrary, the volume of First-Class Mail originating in California with a 2-day  
20 service standard still exceeded the national average after the changes were  
21 implemented. There are a number of ways to describe the impact of the changes  
22 on First-Class Mail originating in California. From the Postal Service's  
23 perspective, "devastating"<sup>2</sup> seems inappropriate.

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<sup>2</sup> See DFC-T-1 at 7(line 8).

1           It is not my intent to understate the impact on customers of the service  
2 standard downgrades that we implemented or to exaggerate the impact of the  
3 upgrades. On the other hand, it seem as a bit of a stretch to claim, as Mr. Carlson  
4 does at page 2 of DFC-T-1, that the only mailing option that I, as a postal  
5 customer, would have, when confronted with the prospect of a downgrade from 2-  
6 day to 3-day First-Class Mail service to a particular destination, would be to switch  
7 to Priority Mail or Express Mail. Putting aside any dissatisfaction I might have as  
8 a postal customer with such a downgrade, it would seem that my first reaction  
9 might, instead, be to mail my letter via First-Class Mail a day earlier than had  
10 previously been my custom.

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12           **II.       Mr. Carlson’s Analysis Is Flawed By A Mistaken**  
13           **Assumption About The National Critical Entry Time**

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15           In criticizing the mail processing and transportation model that was  
16 implemented in conjunction with Phase II of the First-Class Mail service standard  
17 changes, Mr. Carlson testifies that:

18           When the computer-projected truck drive time is more than 12 hours, the  
19 Postal Service continues to impose a three-day service standard even if  
20 the mail *actually* is scheduled to arrive at the destination ADC before the  
21 CET of 18:00.

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23 DFC-T-1 at 12 (lines 5-8). Similar claims are made at other points in his  
24 testimony. See, DFC-T-1, at 16, (lines 16-17), 17 (lines 10-12, and 23-25).

25 Mr. Carlson apparently believes that a First-Class Mail Critical Entry  
26 Time (CET) of 18:00 (6:00 p.m.) applies to each destinating ADC. From there, he  
27 appears to believe that First-Class Mail with a 3-day service standard and arriving  
28 at ADCs between 17:00 and 18:00 is deferred for the purpose of allowing delivery

1 to occur on the expected third day. This belief appears to be at the heart of some  
2 of Mr. Carlson's claims that the service standard changes implemented in 2000-01,  
3 and the mail processing operations and transportation model that support them, do  
4 not give enough consideration to expedition in providing First-Class Mail service.  
5 As I will demonstrate below, Mr. Carlson has simply jumped to a conclusion based  
6 upon his having confused the 18:00 (6:00 p.m.) National Critical Entry Time (CET)  
7 concept with the Expected Time of Arrival (ETA) that was been established for  
8 each destinating Area Distribution Center (ADC).<sup>2</sup>

9 For purposes of the transportation model employed in implementing the  
10 Phase II service standard changes, the ETA concept was designed to support a  
11 staggered arrival profile for the mail entering each destinating ADC. Development  
12 of the ETA concept is outlined in documents provided to Mr. Carlson in response  
13 to a Freedom of Information Act (FOIA) request before he filed his Complaint.  
14 These documents first appear in this proceeding as pages 20-22 of Enclosure 3 at  
15 the end of his Complaint. As reflected in those documents, no ETA for an ADC  
16 could be calculated for later than 17:00 (5:00 p.m.).<sup>3</sup>

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<sup>2</sup> A CET is a fixed time concept wherein, theoretically, all mail could simultaneously arrive at the exact same time (say, 17:00) and still be "on-time", even though processing problems would surely be incurred from such a huge mail surge. On the other hand, ETAs for each arrival at an ADC will range from between 06:00 to 17:00, thus providing a "staggered arrival profile" which is much more conducive to processing large volumes of mail.

<sup>3</sup> Page 20 of Enclosure 3 of the Complaint provides the formula for calculating Estimated Time of Arrival:  $ETA = \text{Dock Clearance Time} + \text{Drive Time} + \text{Buffer}$ . Using this formula, along with the rest of the Model parameters, the latest time that an ETA could possibly be established is 17:00, not 18:00. Pages 21 and 22 of Enclosure 3 provide examples of how ETAs are calculated.

1 Mr. Carlson's testimony appears to reflect a misinterpretation of one of the  
2 other documents provided to him in response to his FOIA request. This other  
3 document first appears in this proceeding as page 18 of Enclosure 3 at the end of  
4 his Complaint and is entitled "Established National Operating Parameters."

5 There, the final bulleted section reads:

6 Essentially replaced the Critical Entry Time (CET) method at ADCs with a  
7 new concept called ETA (Expected Time of Arrival), but National CET  
8 established as NET 18:00.  
9

10 Mr. Carlson appears to have assumed that the National CET referenced here  
11 applies to each destinating ADC. In reality, it applies to no ADCs. When  
12 designing the 2 & 3-Day Realignment Model, we included the historical 18:00  
13 (6:00 p.m.) National CET as an option, in anticipation of a few situations where it  
14 was expected that available transportation might not allow mail to meet the latest  
15 (17:00/5:00 p.m.) ETA for a few particular ADCs. At the time, we theorized that  
16 there could be some rare instances where there was inadequate volume to justify  
17 surface transportation to a designated 2-day destination, and air transportation  
18 involving multiple airline transfers might have to be utilized, precluding any  
19 possibility of meeting some destinating ADC's 17:00 ETA . This extra hour  
20 (between 17:00 and 18:00) was then to have been used to avoid a "downgrade"  
21 to a 3-day service standard, while alternative transportation solutions were  
22 explored. Our thinking at the time was that, in subsequent reviews of the  
23 outcomes produced by the model, we could use this factor as a basis for granting  
24 exceptions to a 2-day standard, in circumstances where such "air transfer" mail  
25 could only get to the ADC between 17:00 and 18:00.

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1           In fact, as it turned out, after we implemented the model, this hypothetical  
2 situation was never identified to Headquarters for any office that was designated  
3 for a 2-day service standard under the Model. Thus, to-date, the 18:00 National  
4 CET option has never been utilized at any ADC. The ETA concept, the latest  
5 arrival time being 17:00 at any ADC, has proven adequate across the network,  
6 including all California ADCs. Thus, contrary to a constant theme of DFC-T-1,  
7 there are no ADCs to which the 18:00 National CET is applied. There is also no  
8 deferral of mail arriving before 18:00 for the purpose of preventing it from being  
9 delivered prior to the established 3-day standard. If 3-day mail is delivered within  
10 2 days, we consider that to be a good thing.

11           Mr. Carlson's confusion of concepts aside, he has had the opportunity to  
12 review data produced at his request in USPS Library Reference C2001-3/14  
13 before deciding whether to claim that the Postal Service is deferring First-Class  
14 Mail with a 3-day service standard to prevent it from being delivered before the  
15 expected delivery date. Even though the disaggregated EXFC data which serve  
16 as the basis for USPS Library Reference C2001-3/14 have their limitations,<sup>3</sup> at a  
17 minimum, they would seem to discourage the claim that mail with a 3-day service  
18 standard is being deferred to prevent delivery before the third day.

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<sup>3</sup> The data are derived from USPS Library Reference C2001-3/12 which, at page 1, cautions that the small sample sizes limit the uses to which the disaggregated EXFC data can be put with confidence to draw conclusions about service performance between specific origin-destination pairs. I am informed by the managers of the EXFC system that it is not designed to produce statistically reliable estimates of service performance between specific origin-destination pairs.

1           **III.       The California “Pseudo-ADC” Issue Is a “Red Herring”**

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3           In pages 18-31 of DFC-T-1, Mr. Carlson expends a lot of energy in an effort  
4 to disparage the designation of “pseudo-ADCs” as part of the postal mail  
5 processing network in California. In other places, he urges expansion of the  
6 concept. Below, I explain when and why the concept was developed. And I  
7 explain why it could not serve as a model for adjusting service standards  
8 elsewhere in the mail processing network.

9           The four California “pseudo-ADCs” were established sometime in the early  
10 1990’s, long before we designed the 2 & 3 Day Realignment Model.<sup>4</sup> These four  
11 are the only such ADCs in the country. It was not the purpose of the 2 & 3-Day  
12 Realignment Model to change the USPS processing and distribution structure, but  
13 to work within the framework of the existing networks while developing reasonable  
14 and achievable 2-day and 3-day First-Class Mail Service Standards. For this  
15 reason, it was necessary that we find a way to incorporate this existing structure  
16 into the model.

17           At the time of the establishment of the ADCs in question, the plan was for  
18 each of the processing facilities under a designated “pseudo-ADC” to have the  
19 same ADC sort schemes available on their mail processing equipment. Unlike a  
20 traditional ADC, which is only one designated facility, having the ADC schemes in

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<sup>4</sup> The four facilities in question are Area Distribution Centers in the same sense as the other 84 ADCs in the lower 48 states. Those of us involved in implementation of the Phase II service standard changes designated these four ADCs as “pseudo-ADCs” to distinguish them from “traditional” ADCs that do not share sort schemes, as described in further detail below.

1 each of the subordinate facilities would allow the Area to “dynamically” manage  
2 mail volumes on a daily basis, so that workloads could be balanced, and  
3 unexpected high volumes could be shifted and spread among facilities within the  
4 Area that might have additional processing capabilities at specific times. Based  
5 on this philosophy, the “pseudo-ADCs” were established.

6           Since the 2 & 3-Day Model required a facility with a Longitude & Latitude  
7 from which to develop the Drive Times, the Pacific Area was asked to select a  
8 facility that would represent the ADC within the Model. The Pacific Area made its  
9 selections and the Model used that information to develop the 2-Day standards.  
10 It should be noted that the Pacific Area, at any time, could have designated Los  
11 Angeles and San Francisco as the “host city” from which to establish the service  
12 standards. However, they did not.

13           There is no basis for Mr. Carlson’s claim that anyone was “fooling the  
14 model” (DFC-T-1, at 25) or engaging in “sleight of hand” (*Id.* at 26) or “tricked the  
15 computer” (*Id.* at 27) in building the service standards. As was the mission of the  
16 project, the methodology allowed for Area Office input. We sought Area input.  
17 The Pacific Area selections were completely above-board and were incorporated  
18 into the Model as they requested. In fact, had Los Angeles and San Francisco  
19 been selected as the sole ADC locations, California would have ended-up with  
20 fewer 2-day origin-destination pairs than it did in the actual final Model.

21           Hindsight now informs us that the mail in question is not normally  
22 “dynamically” managed, as originally planned in the design of these “pseudo-  
23 ADCs.” Had we known then (when designing the Model) what we know now,

1 we probably would have designated Los Angeles and San Francisco as the sole  
2 physical plants for calculating Drive-Time Mileage for all four of the “pseudo-  
3 ADCs.” Further, should we modify the 2 & 3-Day Model at some time in the  
4 future, we would probably consider this option as more representative of reality.  
5 This operational wrinkle, along with other minor issues, became clear upon  
6 implementation of the Model. In undertakings as complex as this, there are  
7 always going to be things that, in hindsight, one might have done differently. In  
8 the overall scope of the Model, this very minor situation is no exception.

9 In any event, there is no basis for Mr. Carlson’s claims that the “pseudo-  
10 ADC” concept was “illogical and detrimental” (*Id.* at 25) or for his other  
11 characterizations. The concept was incorporated in the model to accommodate  
12 this pre-existing network feature, as part of the process of trying to be consistent  
13 and logical in determining 2-day and 3-day First-Class Mail service standards.

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15 **IV. The Reduced Reliance On Air Transportation To Effect 2-**  
16 **Day Service Is Consistent With The Original Phase II**  
17 **Parameters**

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19 At the time that the Service Standards team was developing plans for the  
20 admittedly belated completion of Phase II of the Docket No. N89-1 service  
21 standard changes, the commercial airline industry on which the Postal Service  
22 had long relied was in a state of flux. This made it very difficult for us to expect

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1 to continue to depend on commercial airliners as a chief source of transportation  
2 for mail with a day-two service standard. At the same time, the team also was  
3 aware that the Postal Service was phasing out regional contracts for dedicated  
4 air service that was being used primarily to fly mail between points in the West  
5 and Southwest. Further, since dedicated air was not used, or available, on a  
6 nationwide basis, the team did not consider it to be a viable, primary element for  
7 the 2-day portion of the National 2 & 3-Day Model that we were trying to build.  
8 As with Hub and Spoke Program (HASP) facilities and other postal transportation  
9 hubs, which were predominately used on the East Coast and Midwest, we did not  
10 consider dedicated air to be a requirement for the National Model. We took the  
11 approach that existing dedicated air would simply continue be a transportation  
12 method available, when appropriate, to get 2-day mail to an ADC destination,  
13 when surface transportation was locally deemed not practical, just like  
14 commercial air could continue to be used when appropriate.

15         Given the nature of the Postal Service's overall mission, the agency is  
16 sensitive to matters involving the timeliness of service. The data in USPS Library  
17 Reference C2001-3/2 indicate that there were significant differences between  
18 airlines' published schedules and the level of service they were providing during  
19 the period between 1998 and early 2001. During this period, as a commercial  
20 airline customer whose cargo consists of mail that can be deferred in order to  
21 give priority to passengers, their luggage, and other cargo carried by the airline,  
22 the Postal Service was increasingly concerned about the degree to which its  
23 needs were being met. While drawing up plans for the implementation of

1 Phase II of the service standard changes, the Service Standards team was in  
2 regular contact with air transportation managers at headquarters, as well as their  
3 counter-parts in every postal administrative area. Service bottlenecks and  
4 backlogs on mail traveling by air, such as the one documented in USPS Library  
5 Reference C2001-3/8, were all too common and were disruptive to daily postal  
6 mail processing plans at many postal plants. We had regular access to data  
7 showing the degree to which the Postal Service's needs were being met by  
8 commercial airlines that carried mail. At the same time, we were aware of the  
9 generally more consistent nature of surface transportation.

10 Although our mission was not to cut costs, we were not unaware, based  
11 on our internal contacts and experience, that there were significant cost  
12 differences between such options as surface transportation, dedicated air, and  
13 commercial air. Taking all of these factors into account, it was clear to our team  
14 that we would need to make adjustments to service standards based upon the  
15 availability of what we considered to be reliable and economical transportation  
16 alternatives.

17 At the time that we were developing and implementing the Phase II  
18 service standard changes, postal air cargo capacity was purchased on a contract  
19 basis from multiple carriers. Not only did our fragmented supplier base not meet  
20 our service objectives, its very nature made it difficult to develop a centralized air  
21 transportation information technology capability. Airline on-time performance  
22 was not meeting the Postal Service's needs, and was expected to continue to  
23 deteriorate.

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1           Effective August 27, 2001, the Postal Service entered into an agreement  
2 with Federal Express to create a shared national transportation network that  
3 replaced multiple providers of dedicated networks. The primary purpose of the  
4 FedEx contract was for the transportation of Express Mail and Priority Mail. It  
5 was also planned that, on a space-available basis, 3-day First-Class Mail could  
6 be used as backfill. This agreement was seen as an opportunity to improve  
7 service, to take advantage of the FedEx shared-lift network, and to reap the  
8 benefits of working with a single network provider. In addition, the agreement  
9 allowed the Postal Service to avoid maintenance and upgrade costs anticipated  
10 under the old dedicated air networks. It also enabled us to expand our air  
11 transportation network reach and allowed for advanced information technology  
12 capabilities.

13           At the time that we were developing the 2 & 3-Day Service Standard  
14 Model, the Service Standards team was unaware of the negotiations that  
15 resulted in the FedEx contract. Until the agreement was finalized, the possibility  
16 of a contract with FedEx was a matter known only to those within the Postal  
17 Service who were deemed to have a need to know. The senior manager most  
18 knowledgeable both about our service standards realignment project and the  
19 FedEx project determined, correctly, that there were no operational conflicts or  
20 overlaps between the two and, therefore, no compelling need to inform my team  
21 about the FedEx project.

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1 For these reasons, there is no basis for the claim at page 15 (lines 26-28)  
2 of DFC-T-1 that the Postal Service was implementing the disputed service  
3 standard changes “during the early days of implementation of the contract with  
4 FedEx.” Even if the Service Standards team had known that the FedEx  
5 discussions were underway, we could not have assumed anything other than the  
6 *status quo* during the January 2000 to May 2001 time frame in which we were  
7 devising and implementing the service standard changes.

8 In any event, the range of arrival times at destinating mail processing  
9 plants for mail traveling on the FedEx network is typically later than the latest  
10 ETA time for 2-day First- Class Mail that could be scheduled at an ADC (17:00),  
11 as designed by the 2 & 3-Day Model. The majority of the FedEx arrivals at plants  
12 throughout the country are usually after 19:00, and many extend into the 21:00-  
13 22:00 time frame. While these later arrivals can be accommodated for Express  
14 Mail and Priority Mail volumes, such arrival times, usually, are too late to achieve  
15 a 2-day standard for First-Class Mail.

16 Despite the unlikelihood of 2-day First-Class Mail being significantly aided  
17 by the new FedEx network, during a meeting with senior management on  
18 September 6, 2001, I was directed to contact the headquarters postal managers  
19 implementing the recently announced FedEx contract to verify that analysis. I  
20 was instructed to determine whether its implementation might present any  
21 opportunities for reconsideration of any of the 2-day to 3-day First-Class Mail  
22 service downgrades that had recently been implemented. As we began to  
23 establish internal lines of communications to explore that question, the Postal  
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1 Service found itself facing unprecedented processing and transportation network  
2 challenges arising from the aftermath of the tragic events of September 11<sup>th</sup>,  
3 followed by the consequences of the bioterrorist attacks that killed two postal  
4 workers and required medical treatment for thousands more. During the fall and  
5 winter of 2001, the postal processing and transportation network was being  
6 tested like never before. My team ultimately was directed to avoid burdening our  
7 transportation and mail processing managers with requests for the consideration  
8 of matters that were unrelated to the crises at hand.

9 Establishment of service standards is a dynamic undertaking, in the sense  
10 that there is constant internal review and reconsideration. As has been  
11 documented during this case, we imposed a moratorium on requests from the  
12 field for adjustments in First-Class Mail service standards we were implementing,  
13 until we had completed all of the Phase II changes in 2000-01. Since the end of  
14 that moratorium, my office has received requests for changes, such as the one  
15 relating to Reno, Nevada that is discussed at page 41 of DFC-T-1. From our  
16 perspective, it was a routine matter that was handled as routinely as other  
17 requests we have reviewed since the moratorium was lifted. No doubt, we will  
18 review even more requests, from whatever part of the country they may arise.  
19 We will consider each on its merits, in accordance with the procedures and  
20 policies outlined in the USPS Policy For Requesting A Service Standard  
21 Change.<sup>5</sup>

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<sup>5</sup> See USPS Library Reference C2001-3, OCA-1.doc. in the electronic file.

1           Given the state of commercial air at the time that we were building the 2 &  
2 3-Day Model, and given our knowledge that the limited dedicated air, which was  
3 sometimes used in the West and Southwest, was being reduced, our objective  
4 was to establish feasible service standards, for the whole nation, in a systemic  
5 fashion. Understanding the ongoing decline in available, dependable air  
6 transportation, we decided to use surface transportation as a basis for  
7 determining the scope of 2-day service standards. Accordingly, the “Two-Day  
8 Model Parameters” slide in Library Reference DFC-1<sup>6</sup> reflects that one of the  
9 Service Standards team’s objectives was to:

10           Minimize the planned movement of Two-Day Mail by Air Transportation.

11 This result is consistent with the Postal Service’s original Docket No. N89-1  
12 Phase II expectations.<sup>7</sup> The 2 & 3-Day Model only built the surface network  
13 model to ensure the feasibility of transporting 2-day mail by surface when  
14 establishing the service standard. While the general reliability and economy of  
15 surface transportation made it an attractive option, there has never been a  
16 mandate that only surface transportation can be used between 2-day origin-  
17 destination pairs. And there has been no mandate that air transportation not be  
18 used as a justification for adjusting any current 3-day standards to 2-day.

19           Implementation of service standard changes on a national scope is a two-  
20 stage process: implementation and adjustment.<sup>8</sup> What we rolled out in 2000-01  
21 was the implementation part. The subsequent changes that affect Reno are an

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<sup>6</sup> Included as page 28 of the PDF file in the electronic version

<sup>7</sup> See Docket No. N89-1, Direct Testimony of George A. Shipman On Behalf Of United States Postal Service, USPS-T-3, at 10.

<sup>8</sup> As summarized in paragraph 6 of my July 30, 2001 Declaration.

1 example of potential adjustments. As with the case in Reno, the final decision on  
2 transportation mode, in relation to service standard modifications requests, rests  
3 with the Area Offices, as those offices are in the best position to consider all local  
4 variables. Area Offices have had the opportunity, since the lifting of the  
5 moratorium, to propose service standard upgrades and downgrades. In doing  
6 so, they may propose utilization of different transportation modes. Proposals for  
7 adjustment have and will continue to be reviewed on a case-by-case basis.

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