

Before the  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

Evolutionary Network Development            )  
Service Changes, 2006                            )           Docket No. N2006-1

OFFICE OF THE CONSUMER ADVOCATE  
RESPONSE TO COMMISSION NOTICE OF INQUIRY NO. 1  
April 4, 2006

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The Office of the Consumer Advocate (“OCA”) hereby responds to the Commission’s Notice of Inquiry No. 1,<sup>1</sup> posing a series of five questions concerning the Postal Service’s presentations in this proceeding.

1. Can the Commission perform the role that Congress has assigned it under 39 U.S.C. § 3661 if the evidence submitted bears primarily on the goals of network realignment and the processes by which it is implemented, and the impact on service levels and costs cannot be ascertained from that evidence?

Response:

OCA submits that the Commission can perform its role under §3661 without having before it the detailed evidence of the impact on service levels and costs for each known or potential future consolidation. The prospective nature of the proposal prevents the Postal Service from providing either the estimated or actual impacts on service levels and costs for the vast majority of the several hundred consolidations anticipated as part of the proposal in this proceeding. (OCA/USPS-T1-15; OCA/USPS-T1-12(c),(e).) In the first case involving §3661

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<sup>1</sup> “Notice of Inquiry No. 1,” March 28, 2006. Responses are due on or before April 4, 2006.

before this Commission,<sup>2</sup> the Commission's opinion recognized that proposals having prospective implications could nevertheless be appropriately reviewed without knowing all the changes that will be made. The Commission said:

Consequently, as Judge Morse realized, it is not possible to specify all the changes RAP [Retail Analysis Program] may ultimately produce. However, the record in this case does allow us to project the reasonably foreseeable consequences of the program from its intrinsic features and the actual changes recommended in those instances in which RAP has already been implemented. (footnotes omitted.) (Opinion at 22.)

Potential service impacts and costs are of critical importance when analyzing each potential consolidation. Yet, where the Commission is reviewing the program as a whole pursuant to §3661, ascertaining the specific impacts on service levels and costs for each potential consolidation or the total impact on service levels and costs is not necessary to carry out the statutorily prescribed review process. Even though it is impractical for the Commission to review each consolidation when approved and implemented (and §3661 by its terms does not require any such procedure), the Commission can take cognizance of potential future service impacts and costs and assure they are reasonable by ascertaining not only the process for approving consolidations, but insuring that decision rules are established by the Postal Service that will be followed to winnow out those proposals for consolidation that fail service and cost rules. Witness Shah has indicated that the Postal Service evaluates each facility project based on operational requirements and financial criteria. (APWU/USPS-T1-11.) If those

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<sup>2</sup> *Retail Analysis Program for Facilities Deployment*, "Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services," Docket No. N75-1, April 22, 1976.

criteria are reasonable and the Postal Service applies them consistently, it follows that the overall impact on service and costs will be favorable and consistent with the Postal Service's goals.

In the absence of decision rules, the Commission will not be able to adequately review the Postal Service's process. The process of deciding whether to consolidate would be meaningless unless there are standards to reject proposed consolidations not meeting the decision rules. Without decision rules, the Postal Service's AMP process would amount to merely a scorecard for calculating the impact of a decision previously reached, where the AMP worksheets serve only as a guide to management for the change as to the equipment and employees to move, and estimated budget impact.

It is important that the proposal before the Commission is consistently and uniformly applied by the Postal Service. If the plan itself is later modified significantly, or the underlying parameters for determining changes in service are revised, then the Postal Service may be required to again submit a proposal pursuant to §3661 for Commission review. A procedure for regularly informing the Commission about the progress of the program and indicating that it has not been significantly redesigned would help to ensure that the Postal Service remains in compliance with §3661.<sup>3</sup>

There is another reason that the Commission should determine if there are decision rules that will limit consolidations to those meeting certain criteria for approval. The Postal Service has provided only estimates of the impact on

service levels and costs for 10 proposed consolidations listed in LR-N2006-1/5 out of the hundreds of potential consolidations. (See OCA/USPS-2, OCA/USPS-T1-12(c).) The anticipated impacts on service in those sample cases do not appear to be prohibitive. (OCA/USPS-6-15.) Also, cost savings are indicated for each of those consolidations. (See Williams, T-2 at 10.) Some of the cost savings as calculated do not appear particularly significant, but if taken together, nationwide, it is apparent the cost savings will be significant. However, the Postal Service has warned that the impacts in each of these 10 cases in LR-N2006-1/5 should not be considered representative of the program. (Williams, T-2 at 10.) Thus, if future analyses indicate consolidation has negative impacts overall, such as minimal cost savings, significant downgrades of service, or earlier cut-off times for collection boxes, which together indicate the goals of the Postal Service will not be furthered by the consolidation, decision rules must be rationally applied to reject or modify those proposed consolidations. In order for the Commission to provide rational advice about the proposal, the Commission should have available in the record the decision rules that will be applied by the Postal Service once the process is initiated with respect to any particular postal facility.

If the Commission is to determine whether the proposal will achieve the planned goals, the process for achieving those goals must be carefully reviewed. Does the process conform to normal standards of professional management? Is the process by which the proposal will be activated appropriate for the task to

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<sup>3</sup> See *Complaint on First-Class Mail Service Standards*, "Order Denying Postal Service Motion to Dismiss Complaint, Allowing Amendment of Complaint and Instituting Formal Complaint

achieve the stated goals? Is the proposal well-planned with stated objectives and technically competent? Are the inputs and outputs reasonable? Is there adequate notice to stakeholders and input from stakeholders? Is there provision in the plan for follow-up corrective action after implementation? All of these steps are necessary to ascertain whether the goals of the program can reasonably be anticipated to be achieved and without unforeseen consequences.

Reviewing the process and commenting upon the process, suggesting improvements in the process or citing deficiencies in the inputs and decision rules would not be a usurpation of management's prerogatives but would, as Congress intended, insure that this proposal having wide-reaching impact will be carefully reviewed by this Commission after obtaining input in the public forum of a hearing subject to the procedures and protections of the Administrative Procedure Act. The resulting advice rendered to the Postal Service for its consideration will not undermine the Postal Service's prerogatives, but will enhance the value of reviewing this proposal with significant impact, and will insure that the purposes of the Act are furthered and that useful advice is rendered to the Postal Service.

The Commission should therefore compile a record that includes the Postal Service's rules for a consolidation decision to assure that the Postal Service over time will apply the program consistently. If the proposed decision rules appear insufficient to prevent undue harm to service standards or other service, then the Commission's duty under §3661 is to advise the Postal Service of that situation. If the Postal Service does not have any rules for decisions

relating to its proposal, then the Commission may recommend that rules are needed to assure consistency in the application of the program and to assure that, overall, the goals of the program will be met.

2. Is it appropriate for the Commission to examine the process of network realignment in sufficient detail to determine whether the outcome of network realignment might be predicted, at least on a general level? For example,
- a. Should the Commission examine the process in sufficient detail to determine the extent to which network realignment is likely to degrade overall service for certain classes of mail, or upgrade overall service for others?
  - b. Should the Commission examine the process in sufficient detail to determine the general extent to which transportation or mail processing cost savings will result from network realignment?

Response:

Yes, the Commission should examine the process of network realignment in sufficient detail to determine whether the outcome of network realignment might be predicted, at least on a general level. OCA submits that just as in the response to NOI question 1 above, the Commission should look to not only the process but the decision rules that will apply to the proposal. At this time, in this proceeding it will be impossible to estimate the outcome of each consolidation in even a general way. Each consolidation varies from another. A review of the ten examples in LR-N2005-1/5 quickly indicates the impact on 3-digit ZIP Code pairs varies significantly among the consolidations—and they are not deemed representative. Also, the dollar savings vary widely as well as the estimated impact on employees. At this time, there are not enough cases to create a statistically reliable sample, nor is there likely to be one within a reasonable time to be of use in this proceeding, even if a statistical sample could be obtained.

However, as noted above, if the Postal Service provides decision rules for approving consolidations which would reject AMP proposals that significantly

degrade service to any class, it can be assumed the proposals, taken together, will not degrade service to any particular class of service. If the decision rules would permit a significant degrading of service to a particular class, the Commission can not only advise against such rules, but that information would be particularly relevant to future rate and classification proceedings. The Commission may take appropriate action in the future in other proceedings to take account of decision rules which are found to degrade service. This is consistent with the view expressed by the Commission in the opinion in Docket No. N75-1 when it rejected the suggestion that the docket remain open indefinitely pending receipt of supplemental data concerning the impact of the program under review:

Furthermore, if developments within the subject matter of our jurisdiction occur hereafter (i.e., program results with significant rate service, or classification dimensions), we will consider them in independent proceedings brought under the appropriate provisions.<sup>4</sup>

In any event, the Commission should be informed in this proceeding of such decision rules that may have the impact of degrading service.

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<sup>4</sup> *Retail Analysis Program for Facilities Deployment*, "Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services," Docket No. N75-1, April 22, 1976 at 63.

3. In order to know whether a program involving widespread facility consolidation will be consistent with the Act, does the appropriate scope of the Commission's inquiry depend on the particular approach that the Postal Service has taken to network realignment? For example,

- a. If the Postal Service has identified a specific network configuration that it intends to use to guide its consolidation program when it begins, is it necessary or helpful for the Commission to know what that configuration is? Would this knowledge increase the Commission's ability to estimate what service and cost impacts are likely to occur?
- b. If network realignment relies on a specific set of assumptions to measure the effect of consolidation on costs, or on service levels, is it necessary or helpful to know what that set of assumptions is?
- c. If network realignment relies on a specific set of decision rules to determine when an estimated level of cost savings justifies an estimated degree of service degradation, is it necessary or helpful to know what those decision rules are?

Response:

a. OCA submits that the Commission does not need to know what the specific network configuration is in order to estimate the service and cost impacts of the program. The Postal Service has provided general information as to the direction it is going to alter the types of facilities and rename the pieces of the network. The Postal Service has indicated an objective to build a backbone network around a target number "in the neighborhood" of 70 RDCs and other facilities which significantly reduces the number of major facilities. (See Shah, USPS-T-1 at 11, OCA/USPS-T1-12(d).)

Each consolidation appears to stand on its own merits. The consolidations to date and the others identified in this record relate to essentially first tier consolidations of relatively small processing facilities into facilities covering larger metropolitan areas. The ultimate shape of the network will not be

seen until well into the future. Knowledge of the ultimate network would not lead to meaningful impact on the Commission's advice at this time. Later consolidations of two facilities which themselves were the result of consolidations one or more times previously may raise other problems such as whether the new facility will become so large as to create new problems of efficiency or service delays.

For now, the Commission does not need to know the specific network configuration used as a guide by the Postal Service for planning consolidations. An OCA interrogatory inquired about Postal Service procedures and plans to advise the Commission about the impacts of its consolidations on classes of mail, consumers and the Postal Service after the advisory opinion is issued in this docket. Although the Postal Service responded that it "is not aware of any currently binding obligation to formally file progress updates with the Commission after the conclusion of the litigation in this docket," (OCA/USPS-1) a process for keeping the Commission informed about the program's impact with periodic reporting would be useful to monitor the success of the plan.

b. It is necessary for the Commission to know the specific set of assumptions in the network realignment plan to measure the effect of consolidation on costs and on service levels. The OCA has requested these assumptions through interrogatories. With these assumptions the Commission can determine whether the process is based upon reasonable and professional management practices and whether the assumptions are technically competent and provide meaningful analytical results on which the decision to consolidate or

not to consolidate are based. This information is critical if the Commission is to provide meaningful advice to the Postal Service.

c. Yes, the Commission must know the decision rules. As noted above, decision rules ensure that the analytical process is meaningful by establishing parameters for the Postal Service's approval or, more importantly, disapproval of proposed consolidations that do not pass muster.

4. In performing its evaluation of the goals of the Postal Service's network realignment program and the processes by which those goals are implemented, what aspects of the process should the Commission consider?

- a. With respect to the AMP process, should the Commission evaluate
  - (i) the plausibility of the assumptions used?
  - (ii) the objectivity of the decision rules?
  - (iii) the quality of the data and the accuracy of the methods by which service and cost impacts are measured?
  - (iv) the accuracy of this process in predicting the impacts of consolidations that have already been implemented?
  
- b. With respect to the END model,
  - (i) Is it necessary or helpful to know how it identifies an optimal network configuration, what alternatives have been considered, and what constraints are built into the model?
  - (ii) Is it necessary or helpful to know how it simulates the impact of changes in the existing network?
  - (iii) Do the Postal Service witnesses rely sufficiently on the END analysis to obligate the Postal Service to comply with the Commission's rules of practice concerning computer analyses?<sup>5</sup>

Response:

a(i-iii). With respect to the AMP process, the Commission has asked whether it should evaluate the: 1. plausibility of assumptions, 2. objectivity of decision rules, 3. quality of data measuring service and cost impacts and 4. accuracy of the methods for measuring service and cost impacts. Of these four issues, the first two should be considered by the Commission and the latter two do not need to be evaluated by the Commission.

For the reasons set forth in response to question 1 above, we believe the Commission can and should evaluate in a general way the plausibility of

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<sup>5</sup> See 39 CFR § 3001.31(k)(3). That rule requires computer analyses that support record evidence to be submitted in a form sufficient to replicate and validate the computer program used. Requirements include "a general description of the program that includes the objectives of the program, the processing tasks performed, the methods and procedures employed, and a listing of

assumptions that enter into the AMP process and the objectivity of the decision rules. Assumptions and decision objectivity are fundamental to a review of the quality of the analyses conducted by the Postal Service and lead to decisions affecting significant amounts of service to customers, its employees, and its facility usage across the nation. In doing so, the Commission would not be micro-managing the Postal Service—merely rendering independent advice provided for by Congress as to the perceived suitability of inputs into the analytical process and the level of costs and benefits that may be necessary to justify consolidating processing activities.

On the other hand, we do not believe the Commission needs to consider the quality of the data and the accuracy of the methods by which service and cost impacts are measured. The quality of the data compiled and the accuracy of the methods measuring service and cost impact are matters within the purview of Postal Service management. The underlying data relied upon for these analyses are derived from internal documents and operating systems. Those documents and data systems are not the subject of review. The Postal Service benefits from the process of consolidation by operating more efficiently and improving productivity. There is no incentive to consolidate for consolidation's sake. It is to the advantage of the Postal Service that only consolidations providing a cost savings or improving service standards are warranted. It follows that Postal Service management can be expected to utilize the best data available for its analyses and to accurately apply the selected methods to

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the input and output data and source codes (or a showing ... as to why such codes cannot be so furnished) ... .”

measure cost impacts. Additionally, the Postal Service has established a post-implementation review process to monitor results of the consolidations to determine if projected efficiencies and service improvements are being accomplished. (Shah, USPS-T1 at 7, Williams, USPS-T2 at 7.) That process is also subject to Commission review in this proceeding to determine whether the review process will function satisfactorily and whether it will provide for necessary responses if projected service changes and cost savings do not meet expectations.

There may be uncovered during the course of the hearing mathematical errors in some analyses, but uncovering such errors is merely incidental to determining the suitability of the overall process under review which by its very nature is a universal process, not one requiring the scrutiny of each proposed consolidation by this Commission. In the future, notice and opportunity of stakeholders to comment on individually planned consolidations will provide the appropriate opportunity to raise issues concerning the data relied upon for specific situations. For this reason, the Commission should seek to ensure that there exists the opportunity for reasoned input from stakeholders at the local level as an integral part of the Postal Service's planned consolidation process.

a(iv). As to the accuracy of the process in predicting the impact of consolidations, OCA understands that there are no completed consolidations that have utilized the END program in conjunction with the AMP process. In any event, it is unlikely that the first consolidations included in the 10 consolidations in LR-N2006-1/5 planned for implementation in May 2006 will have generated

sufficient experience during the pendency of this proceeding to provide feedback as to the accuracy of the process in predicting the impacts of consolidation.

However, the Postal Service has indicated the predecessor to the END process is the NIA process (Network Integration and Alignment) and that “Both processes use the same methods, data, and models for designing the Postal Services’ future network strategies. Additionally the core objectives of both NIA and END remain the same:” (OCA/USPS-T1-5.) Thus, if there is experience with consolidations that used the NIA process in conjunction with AMP decision packages, the Commission may consider the accuracy of that analysis as a proxy for the ability of the END process to predict the impact of consolidation. If available, specific information on the AMP processes and cost and savings results for facilities reviewed under an NIA/AMP process should be provided to the Commission to provide some evidence that the overall END/AMP process will be workable. If such NIA/AMP information is not available from the Postal Service, the Commission should consider obtaining progress reports on the 10 facilities that are the subject of LR-N2006-1/5, if necessary, even after the Commission issues its advisory report.

b(i-ii). With respect to the END model, the Commission asks whether it is necessary or helpful to know how the optimal network is identified, the alternatives considered, the constraints to the model, and how the END model simulates the impact of changes in the network.

OCA believes all of this information would be helpful to the Commission to obtain an understanding of the END model. At a minimum, it is helpful to know

details of how the END model is built and how it works. Moreover, all of the information suggested, except for the alternatives considered, would not only be helpful but necessary to review the sufficiency of the END model. Without understanding how the END model functions, including constraints and outputs, the Commission would be merely blindly advising on the desirability of universally desirable goals of improving productivity, reducing costs or upgrading service. This Commission has previously noted that such limited review is insufficient:

...it is not enough for this Commission, in a §3661 case, merely to approve or disapprove the stated goals of a Postal Service program; we must also attempt to predict how efficiently it will achieve those goals and offer such suggested improvements as are supported by the record.<sup>6</sup>

OCA has posed several interrogatories regarding the END model and will no doubt seek further details. An informal off-the-record technical conference open to all participants has been arranged by the Postal Service for April 28, 2006 to explain the END optimization and simulations models and perhaps even provide a demonstration.<sup>7</sup> It is anticipated the conference will serve to provide much of the information necessary for the participants to gain an understanding of the END model and on which to base interrogatories for the record. It would be particularly useful if the Postal Service provided to participants in conjunction with the presentation documentation that can be submitted for the record.

b(iii). OCA does not believe Rule 31(k)(3) should be applicable.

The END program as alluded to is part of the analysis in the overall proposal but

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<sup>6</sup> *Retail Analysis Program for Facilities Deployment*, "Advisory Opinion Concerning a Proposed Change in the Nature of Postal Services," Docket No. N75-1, April 22, 1976 at 68.

does not rise to the level of a computer analysis that supports the evidence of the Postal Service witnesses. As such, we do not see a reason for the Commission to replicate and validate the computer program used. The witnesses are not proposing approval of specific consolidations nor is the END program supporting a particular rate proposal or classification filing. Witness Williams does not rely upon the END program for his testimony. Rather, the purpose of his testimony is to describe the Postal Service's process for identifying potential facilities and network realignment opportunities using the END program. (Williams, USPS-T2 at 1.)

An understanding of the model, its inputs and outputs and other restrictions is necessary. However, replication is not needed because the Commission is not being asked to approve a particular application of the END programs in the filing, unlike a rate proceeding or classification case that relies upon a program to justify a specific contention. The Commission needs only to assure that the program generally is reasonable, not that it is applied correctly to any particular case where the Commission must validate the results of its application. The Postal Service has not filed a request here for approval of any specific consolidation for which the Commission must validate an outcome. The Commission is not approving a specific consolidation and thus has no need to validate the outcome of the END analysis in any particular consolidation.

In order to allow for replication of computer analyses, Rule 31(k)(3) also requires the Postal Service to provide a copy of all input data, all sources of such

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<sup>7</sup> See "Notice of the United States Postal Service Regarding the Scheduling of an Evolutionary Network Development Model Technical Conference," March 31, 2006.

data, and a hard copy of all data bases. It is our understanding that the END program models work in conjunction with data relevant to individual facilities and locations. The data to replicate these computer analyses varies with each proposed consolidation and would, of course, change over time. There is currently no single data base that could be submitted to replicate the process. The Postal Service could only submit data that it has available for the most recent consolidation analysis. In that case, Commission replication would be reviewing piecemeal an individual consolidation rather than the overall process.

5. In evaluating changes in service levels, should the Commission look only at changes in days to delivery for 3-digit Zip-Code pairs, or should it consider related changes such as cut-off times for depositing mail, and changes in delivery times, that might result?

Response:

The Commission should look at any impacts upon service that may result from the proposed consolidations. Unless the proposals to consolidate measure all service impacts, not only service standard upgrades and downgrades, but other services such as collection times and time-of-day delivery, the Postal Service's analytical process will be incomplete. The Commission's consideration of whether the impact on cut-off times for depositing mail is measured and considered by the Postal Service, and advising the Postal Service to establish parameters in its decision rules, would not be tantamount to entering into management's prerogatives; such considerations are part of the procedure for providing advice on the process that impacts service nationwide.

To the extent mail delivery is impacted, service standard upgrades and downgrades are a significant part of mail delivery service, but not the only important characteristic. Cut-off times for mail deposits are an important part of the collection of mail which is one of the primary duties of the Postal Service as set forth in §403(b) of the PRA, "It shall be the responsibility of the Postal Service—(1) to maintain an efficient system of collection ...." Also significant is the time of day that delivery occurs. If consolidations impact the time of day that deliveries occur, then that information is a relevant factor in measuring the impact on service. However, the prepared testimony indicates the changes proposed are "expected to have virtually no effect on regular carrier delivery service,"

although the potential for exceptions are noted. (Williams, T-2 at 15-16.) Along with this testimony, the Commission should also consider whether time-of-day deliveries and cut-off times for mail deposits are appropriately factored into the Postal Service's considerations and decision rules when analyzing consolidation proposals and tailoring alterations to insure that delivery service is not unduly impacted.

Respectfully submitted,

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April E. Boston  
Officer of the Commission

Kenneth E. Richardson  
Attorney

901 New York Ave., N.W.  
Suite 200  
Washington, D.C. 20268-0001  
(202) 789-6859; Fax (202) 789-6891  
e-mail: [richardsonke@prc.gov](mailto:richardsonke@prc.gov)