

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

EVOLUTIONARY NETWORK DEVELOPMENT
SERVICE CHANGES, 2006

Docket No. N2006-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-35 THROUGH 43)
(June 1, 2006)

The United States Postal Service hereby submits its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-35, filed on May 8, 2006; and OCA/USPS-36 through 43, filed on May 17, 2006. The interrogatories are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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OCA/USPS-35. As mentioned during the April 28, 2006 technical conference, parcel-shaped items with different service standards, such as Priority Mail and Parcel Post, often are processed in different facilities and use different modes of transportation in the current network. Under the END distribution concept, which involves considerable consolidation of processing and transportation, these parcel classes could be processed in the same operations in the same facilities and transported in the same containers. How would the current class-based service distinctions be maintained in the new network environment?

RESPONSE:

Under the RDC concept, multiple mail classes can be processed together only at the point in each mail stream where merger will not affect service distinction. At an RDC, originating Priority Mail parcels and originating Parcel Post will not be processed on the same sort plan. They will be potentially be run on the same machine, just at different times; whereas, at the destinating RDC, these classes can be processed at the same time when they are both committed for delivery the next day.

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OCA/USPS-36. The purpose of this interrogatory is to develop additional understanding of USPS Library Reference N2006-1/9, Evolutionary Network Development Technical Conference Presentation Slides, in the context of the GAO report “U.S. Postal Service: The Service’s Strategy for Realigning its Mail Processing Infrastructure lacks Clarity, Criteria, and Accountability,” dated April 2005. Slides 11 through 21 in USPS-LR-N2006-1/9, Evolutionary Network Development Technical Conference Presentation Slides, present the optimization and simulation approaches to achieve feasible and lowest cost solution. The output of the network restructuring will be an optimized network of mail facilities. In general, functions will have been consolidated in a limited number of relatively large facilities.

- a. Figure 10 on page 30 of the GAO report leads to the conclusion that P&DC plant productivity varies inversely with size. Please reconcile this concept with the possible implementation of potential plant activity consolidation decisions which could be derived from the optimization and simulation models.
- b. Is individual plant productivity an input to the models, an output of the models, or both? Please explain.

RESPONSE

- a. The GAO correctly acknowledged on page 29 and 30 that, as seen in figure 10, there are also large gaps in productivity among the plants within each size classification. They go on to describe factors that can lead to the variation in productivity, including: complexity of the operation, size of the workforce, physical layout of the facility, and lack of standardization. The network redesign is focused on achieving economies of scale through the consolidation of operations under a standardized distribution concept and as much as possible a standardization of the physical layout of the facility.

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RESPONSE to OCA/USPS-36 (continued):

- How unit costs respond to the addition of volume to an operation depends on the operation's volume-variability factor. The Postal Service's models show less than 100% variability (except for the AFSM operation), which implies that unit costs decline as volumes are added to facilities, other things equal. The comparison of average productivities by group does not represent the effect of adding volume to facilities; it is fundamentally an inter-facility comparison -- sites which have always been large vs. sites which have always been small, etc. The comparison of productivities by facility size group also fails to control for features of facilities receiving volume that will not change due to consolidation. See also the response to POIR No. 3, Question 10(a). The cited figure in the GAO report also shows that there is sufficient within-group productivity variation that there are "large" facilities with higher productivity operations than most "small" facilities. Note also that the ultimate goal of the optimization model is not to characterize the facilities the Postal Service currently has, but rather to answer questions relating to: if the Postal Service could optimally configure its operations, then what would the network look like.
- b. Individual plant productivities are taken into consideration as inputs as capacity functions are developed.

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OCA/USPS-37. Please confirm that the consolidation of existing BMCs, HASPS and other facilities into RDCs will be nationwide in scope.

RESPONSE:

It would be fair to characterize the anticipated consolidation of the operations of such facilities into RDCs as at least substantially nationwide in scope.

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OCA/USPS-38. Please refer to the response to APWU/USPS-T1-21 which discusses the future RDC conversion process and indicates that, “An RDC planning concept document which blends the principles of AMP with facility planning concepts is being developed.” Please confirm that the consolidation of major facilities such as BMCs and HASPs and other facilities into RDCs will utilize an RDC planning document that will effectuate changes in the nature of postal services. If you do not confirm, please explain.

RESPONSE:

Yes.

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OCA/USPS-41. What is the point in time that is the end point of the END proposal about which the Postal Service is seeking advice from the Commission?

RESPONSE:

The service changes resulting from the AMP consolidations implemented in pursuit of Evolutionary Network Development are expected to take at least several years to implement. It would not be unreasonable to expect the process to still be underway in 2008.

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OCA/USPS-42. Please confirm that in moving the locations of various outgoing mail processing facilities and thereby the location for drop shipments, it is possible that the zone boundaries are changed for certain 3-digit ZIP-Code pairs, thereby causing a rate impact on zoned mail.

RESPONSE:

That possibility cannot be ruled out entirely.

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OCA/USPS-43. Please indicate whether any of the AMP consolidations listed in LR-N2006-1/5 or LR-N2006-1/6 impacted the zone boundaries for any 3-digit ZIP-Code pairs. If so, how many 3-digit ZIP-Code pairs were impacted? Please provide a listing of the 3-digit ZIP Code pairs affected.

RESPONSE

None were impacted.