

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

EVOLUTIONARY NETWORK DEVELOPMENT
SERVICE CHANGES, 2006

Docket No. N2006-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO OFFICE OF THE CONSUMER ADVOCATE INTERROGATORY
(OCA/USPS-63)

The United States Postal Service hereby files its response to the following interrogatory of the Office of the Consumer Advocate: OCA/USPS-63, filed on August 22, 2006. The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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OCA/USPS-63. Please refer to OCA/USPS-58 which referred to USPS Library Reference N2006-1/24, "Draft Regional Distribution Center Activation Planning Document" filed July 28, 2006. In part (c), the interrogatory pointed out the preparation of financial information is not provided for in the planning document and asked for an explanation. The response states the planning document "is not used to determine approval to activate an RDC. The costs/savings associated with the actual activation of an RDC will be managed within the normal budget process and through the normal capital expenditure DAR process."

- (a) Please explain the "normal budget process" that will apply to the analysis and decision to activate an RDC and determine the costs/savings associated with the activation of an RDC.
- (b) Please explain the "normal capital expenditure DAR process" that will apply to the decision-making analysis to determine whether and when to activate an RDC.
- (c) Is a benchmark rate of return used for recommending approval of expenditures of the type necessary to activate an RDC? If so, what is that benchmark rate?
- (d) Have any expenses been included in any annual USPS budget to activate an RDC or to prepare for activation of an RDC? If so, please provide the budget materials for each year for such activities, the budget analysis for the expenditures that were included in the budget, and provide the dollar amounts included in the budgets.
- (e) Has any DAR been prepared to analyze any potential RDC activation? If so, please provide a copy of that DAR as previously requested in part (d) of OCA/USPS-58.
- (f) Part (e) of OCA/USPS-58 asked whether a DAR report will be prepared to activate RDCs. The response states, "As necessary existing procedures for requesting capital funds will be followed." Please explain the "existing procedures for requesting capital funds" and whether the existing procedures provide for the preparation of a DAR. What is the lead time necessary to request funds for the activation of an RDC?
- (g) Part (f) of OCA/USPS-58 noted the planning document does not provide for a procedure to conduct post-implementation review of RDC activations. The response to the interrogatory states, "The same processes and procedures that are used today to review the impacts of network decisions are those that will be utilized to review the effectiveness of the RDC activations." Inasmuch as, to date, apparently no review of the impact of any network decision has been completed, please explain the "processes and procedures" to which the response is specifically referring that will measure the impacts of RDC activations.

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- (a-b) Any decision to activate an RDC will be subject to systemwide budgetary constraints applicable at the time or projected for the activation timeline. If a determination should be made to construct a new facility, to add substantially to an existing facility, or to retrofit that facility with new equipment in conjunction with its designation as an RDC, it is expected that a Decision Analysis Report or similar return-on-investment analysis of the expenditure will be conducted, if the expenditure meets the criteria for such analysis. As with any active facility today, an RDC would have an annual operating budget and operational goals assigned to it, and its performance would be measured against that budget and those goals. RDC activations are expected to take place over a span of five to seven years. Realignment of the network is expected to reduce overall systemwide costs below where they would otherwise be. It would be premature to judge the effects or the progress of the overall realignment mid-stream or on the basis of the activation of the first or the first few RDCs.
- (c) There is no single benchmark. If it is determined that new construction is necessary to convert an existing facility into an RDC or to build one from the ground up at a particular location, each project is evaluated on the basis of its different circumstances.

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- (d) RDC activations are capital plans and would not be regarded as recurring “expenses” to be factored into annual budgets. No RDC activations have been determined yet that would provide a basis for considering whether to include activation-related expenses in the budget.
- (e) No. As the Postal Service has not determined which facilities to designate as RDCs, it has not yet subjected any facilities to an RDC-activation DAR-type analysis.
- (f) The lead time for requesting funding for an RDC activation would depend on the complexity of the undertaking. Varying levels of existing facility renovation may be involved. In some instances, the conversion could be incremental and be executed while the facility continues to operate. In some instances, totally new construction could be necessary. In these latter cases, it may be two years or so between funding approval and completion of construction. If funding exceeds a certain threshold, it may require Board of Governors approval.
- (g) There is no AMP-like PIR process specific to RDC activation. RDC activations that involve major capital investments will go through post-activation reviews to ensure that the facility planning concept was adhered to and the projected operating variances were achieved. Otherwise, like all other active facilities have an operational budget and operational objectives assigned to them and the performance of those facilities is

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judged on the basis of the degree which they achieve the objectives
assigned to them.