

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

EVOLUTIONARY NETWORK DEVELOPMENT  
SERVICE CHANGES, 2006

Docket No. N2006-1

**INITIAL BRIEF OF THE UNITED STATES POSTAL SERVICE**

UNITED STATES POSTAL SERVICE

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## STATEMENT OF THE CASE

The United States Postal Service has concluded that it should evaluate and realign its current mail processing network to minimize operational inefficiency and redundancy, to create opportunities to more efficiently utilize transportation, and to ensure that its network is sufficiently flexible to deal with changing mail mix trends. Accordingly, the Postal Service has embarked upon an Evolutionary Network Development initiative, which is the process by which network realignment will occur. In support of this initiative, the Postal Service has developed optimization and simulation modeling tools to assist in the design of its future network, to help in determining which functional roles should be assigned to future mail processing plants, and to identify potential opportunities for the consolidation of existing operations among mail processing facilities. Postal management will utilize these modeling resources, along with existing Area Mail Processing consolidation review procedures, and its considered judgment in determining future network roles for existing facilities.

Although it is not a goal of Evolutionary Network Development (END), the systemwide review and modification of the mail processing network is expected to result in changes in how existing mail class service standard definitions apply to the approximately 850,000 different 3-digit ZIP Code pairs in the postal network. Decisions to change the manner in which current service standard definitions apply to 3-digit ZIP Code pairs will be made on an incremental basis as the planned Regional Distribution Center activation and Area Mail Processing

review procedures are applied to various nodes in the network in the years ahead.

These changes are expected to be in the form of upgrades or downgrades in service for an unknown percentage of mail volume transmitted between an unknown number of 3-digit ZIP Code pairs for some mail classes. Under the circumstances, it is impossible to precisely predict the cumulative degree to which service will be upgraded or downgraded for any particular mail class, either in terms of affected volume or the number of 3-digit ZIP Code pairs. Whenever it determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, the Postal Service is required by 39 U.S.C. § 3661(b) to submit a proposal to the Postal Rate Commission requesting an advisory opinion on the change. Because the service changes that could result from pursuit of its Evolutionary Network Development initiative potentially could be at least substantially nationwide in scope for one or more affected mail classes, the Postal Service has requested that the Commission issue an advisory opinion regarding whether such potential changes would conform to the policies of the Postal Reorganization Act, within the meaning of 39 U.S.C. § 3661(c).

## PROCEDURAL HISTORY

On February 14, 2006, the United States Postal Service filed with the Postal Rate Commission a Request for an Advisory Opinion on Changes in Postal Services. In support of this request, the Postal Service submitted the direct testimonies of Pranab M. Shah and David E. Williams.<sup>1</sup> Their testimonies were accompanied by USPS Library References N2006-1/1 through N2006-1/8. Discovery on the Postal Service's request commenced almost immediately. On February 17, 2006, the Commission issued Order No. 1453, publishing a notice of the filing of the request, initiating this docket, and appointing an officer of the Commission to represent the interests of the general public. Approximately two dozen parties intervened and the Commission convened a pre-hearing conference on March 24, 2006.

An informal technical conference on the END optimization and simulation models referred to in the testimony of witness Shah was conducted for the benefit of the parties and the Commission's technical staff on April 28, 2006. The testimonies of witnesses Shah and Williams and the written responses to discovery have been supplemented by the filing of additional USPS Library References: N2006-1/9 through N2006-1/28. Hearings for oral cross-examination of witnesses Shah and Williams were held on July 18-19, 2006. Written discovery on the Postal Service's direct case testimony continued until August 14, 2006.

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<sup>1</sup> See, Docket No. N2006-1: Direct Testimony Of Pranab M. Shah On Behalf Of United States Postal Service (USPS-T-1); and Direct Testimony Of David E. Williams On Behalf Of United States Postal Service (USPS-T-2).

On September 1, 2006, the American Postal Workers Union filed the direct testimony of witness Margaret L. Yao (APWU-T-1), which offered suggestions for expansion and enhancement of the public input processes the Postal Service is employing in association with END-related Regional Distribution Center activations and Area Mail Processing consolidation reviews. After discovery on her testimony was completed, it was admitted into evidence on October 3, 2006.

I. The Pursuit Of Network Realignment Is A Proper Exercise Of Postal Management's Statutory Responsibilities

The Postal Service has been established to operate as a basic and fundamental service to the American public. Operation of the nation's postal system is guided by its Presidentially-appointed Board of Governors who direct postal management in balancing the important service and operational objectives embodied in the Postal Reorganization Act (39 U.S.C. § 101 *et seq.*). These objectives include promptness, reliability and efficiency of mail delivery. See 39 U.S.C. § 101(a). To achieve these goals, postal management is empowered to determine the methods and to deploy the personnel necessary to conduct its operations. 39 U.S.C. § 1001(e). At the same time, the Postal Service is charged with operating and maintaining such facilities and equipment as are necessary to pursue these objectives. 39 U.S.C. § 401(6).

Established in accordance with chapter 36 of the Act, the Domestic Mail Classification Schedule reflects the existence of a number of mail subclasses designed to meet the needs of a varied postal customer base. With some degree of overlap, the different mail subclasses reflect variations based on such factors as content, shape, volume, weight and priority of dispatch. Relative speed of delivery from origin to destination is reflected in the service standards applicable to each mail class. These standards indicate the level of service the users of a particular mail class can expect to receive and are summarized in the Attachment to USPS-T-1.

The testimony of witness Shah (USPS-T-1) summarizes the goals of the Postal Service's Evolutionary Network Development (END) realignment program. He describes the sophisticated analytical tools that influence the selection of feasibility studies that will help to determine the basic features of the future mail processing

network. His testimony references the current service standard definitions for each mail class, and explains the reasons why mail processing network changes are likely to affect how the current service standards are applied to numerous 3-digit ZIP Code area origin-destination pairs for different mail classes. Mr. Shah explains the need for realignment of the current postal mail processing network, the proposed structure and the roles that different mail processing facilities will have in the future network, the Evolutionary Network Development (END) optimization and simulation modeling tools that would be employed in the realignment process, and the nature of the changes in postal services that can be expected to result from realignment.

Today, the nation's postal mail processing network consists of approximately 450 inter-connected major processing facilities through which flow approximately 660 million pieces of mail each day, originating and destinating in 932 3-digit ZIP Code areas throughout the 50 states. USPS-T-1 at 2; Tr. 2/86-87. The current mail processing network -- in terms of facility location, technology deployment, and transportation planning -- reflects logistical choices made over the past decades, based upon population and mail volume trends, as well as other factors prevailing at the time that individual capital investments were made. From an operational standpoint, the Postal Service can be fairly characterized as maintaining overlapping, single product networks. USPS-T-1 at 2. The nature of the current postal network is graphically represented by witness Shah at pages 3-5 of USPS-T-1.

Currently, some mail processing facilities have specialized network responsibilities and some have single-product responsibilities. Tr. 2/89. For the duration of modern postal history until relatively recently, the majority of postal mail

volume consisted of First-Class Mail. See, Docket No. R2006-1, USPS Library Reference L-74, Domestic Mail Revenue and Volume History; and Docket No. R2005-1, USPS Library Reference K-74, Domestic Mail Revenue and Volume History. Over time, many aspects of current postal mail processing and transportation operations have been organized in large part to meet the requirements of providing that service. However, as can be affirmed by a cursory review of these Library References, the historical trend of robust First-Class Mail volume growth has ended and First-Class Mail volume has declined in recent years.

Now, the dominant mail class in terms of volume is Standard Mail, a large proportion of which is drop-shipped and enters the mail stream at or near destination. USPS-T-1 at 4. Within First-Class Mail, single-piece volume has declined over the past decade, reducing the need for postage cancellation capacity. *Id.* Workshared mail has not only grown as a proportion of total First-Class Mail, but much of that mail also bypasses originating operations and is initially processed by the Postal Service at downstream operations nearer to destination. *Id.* As these trends continue, existing mail processing infrastructure accumulated over the past decades is utilized less fully, and less revenue is generated to support it. *Id.*

To address the implications of these trends, the Postal Service has developed tools and processes with which to conduct an extensive, in-depth examination and reconfiguration of its mail processing network. This realignment is expected to be implemented incrementally over at least the next five years. Tr. 2/61. The objectives of this network realignment are to develop mail processing and transportation networks that are better suited to current and future postal operational needs, to reduce

inefficiency and redundancy, to make operations more flexible, and to capture the resulting cost savings. USPS-T-1 at 7.

Since 2001, the Postal Service has been investigating the feasibility of developing network optimization and simulation models for use in determining how to adjust its network, while maintaining day-to-day operations. The objective has been likened to changing wings on an airplane in mid-flight. Docket No. R2006-1, Tr. 18D/6620. Development of some of the modeling tools to be used in support of network realignment has been painstakingly complex and four years in the making. Tr. 2/299-306. Originally designated as the Network Integration & Alignment (NIA) program, the Evolutionary Network Development initiative has emerged and is currently being implemented.

As explained by witness Shah, the END review process generally utilizes a set of network optimization and simulation models that are designed to objectively analyze costs, capacities and volume flows for each mail processing facility. Postal managers at Headquarters and the affected Area Offices collaborate to assess which facilities might best perform which functions as part of a more fully integrated postal network, taking into account model outputs, along with such factors as capacity, cost and ability to retain existing service standards, facility age and condition, and proximity to airports and highways. USPS-T-1 at 6-8. The objectives of END are to:

- achieve economies of scale by maximizing the utilization of available mail processing capacity;
- create a more flexible postal distribution and transportation network;
- modify the surface transportation network to provide low-cost, reliable service in a fluctuating market;

- reduce the redundancy of maintaining different transportation networks for different mail classes; and
- reduce postal costs.

Tr. 2/130; USPS-T-1 at 6-7, 11.

To achieve these objectives, the Postal Service has decided to pursue a future network configuration based on the concept of Regional Distribution Centers (RDCs), which will operate in concert with subordinate Local Processing Centers (LPCs) and Destinating Processing Centers (DPCs). USPS-T-1 at 11-12. As witness Shah explains, Regional Distribution Centers will serve as the backbone of the future mail processing network. For the most part, they will be created from existing facilities. *Id.* at 11.

There is no single target or ideal network configuration that the END models are designed to achieve. Rather than declare a specific number of facility types as ideal, the Postal Service expects to periodically update END model inputs with fresh data that reflect incremental network changes and mail mix changes. USPS-T-1 at 10; Tr. 3/1175. This will allow the Postal Service to be more nimble in assessing its needs in an era of uncertainty and to adjust its plans as necessary to better achieve its objectives. The number of RDCs in the future network awaits determination by postal management and will evolve as necessary. Although a given iteration of the END optimization model may suggest approximately 70 RDCs as optimal, the Postal Service has made clear that the actual number could range from as low as 28 (assuming the conversion of all existing 21 Bulk Mail Centers and 7 Auxiliary Service Facilities) to as many as 100, depending on a variety of factors. Docket No. R2006-1, Tr. 18D/6620-21.

Witness Shah emphasizes that it is unreasonable to expect any optimization and simulation models to fully or perfectly replicate a network as complex as the postal mail processing system. Tr. 2/155. The END models employed by the Postal Service are decision support tools that provide an element of objectivity to postal management judgment. USPS-T-1 at 10; Tr. 3/1080. Without optimization and simulation models to offer objective guidance, the Postal Service would find itself expending considerably more resources exploring infeasible alternatives in the quest to determine the most feasible solutions.

As explained by witness Shah, the general role of Regional Distribution Centers (RDCs) will be to consolidate parcel and bundle distribution, in order to extend the efficiencies of shape-based processing to a variety of mail in different classes. Such consolidation will allow for mail processing that increases opportunities to merge the transportation of different mail classes and reduce some of the inefficiency reflected in current class-based transportation arrangements. USPS-T-1 at 4-6. The prospect of merging different mail classes with different service standards on the same transportation might prompt concern that delivery service will be compromised for mail classes with more expeditious service standards. However, as witness Shah emphasizes, the plan is for such intra-class transportation mergers to take place nearer to the destination of the mail and in accordance with operational plans designed to take into account the different service standards of the different mail classes. USPS-T-1 at 11-12; Tr. 2/40, 51. *See also*, Tr. 3/1160, 1163.

The role of Local Processing Centers (LPCs) in the future network will be similar to that of current Processing & Distribution Centers/Facilities, which handle originating

and destinating mail of all types mail for a particular service area. In comparison, by focusing on destinating processing, DPCs will allow for improved network efficiency as a result of the consolidation of originating processing into neighboring LPCs. USPS-T-1 at 11.

II. Integration Of Area Mail Processing Review Procedures Provides A Sound Basis For Decision-Making And Accountability

The testimony of Postal Service witness David E. Williams (USPS-T-2) describes the procedures and principles that will guide implementation of the numerous incremental network changes that provide a foundation for the designation of Local Processing Centers and Destinating Processing Centers in the future network. His testimony explains how the AMP review process will generate service standard changes that have triggered the filing of the request in this docket. Mr. Williams emphasizes the manner in which Postal Service management will apply its judgment, in combination with outputs from the END optimization and simulation models, to identify opportunities for operational consolidation, improved efficiency and cost savings. He demonstrates that the Postal Service has in place a rational process for objectively analyzing operational and cost data to determine the feasibility of alternative operational consolidation scenarios and potential changes in service.

Within the context of the END initiative, the development of each of the numerous, local operational consolidation proposals is a collaborative and iterative undertaking, involving personnel from the affected District and Area Offices and a Headquarters cross-functional review team. Mail processing facilities, such as the 41 listed in the Attachment to USPS-T-2, on a regular basis, will be identified for study to

determine the feasibility of consolidating operations from one mail processing plant or post office, either partially or completely, into one or more nearby mail processing plants. Once candidate consolidation opportunities are identified and queued for analysis, the Postal Service will utilize its Area Mail Processing (AMP) Handbook PO-408 review procedures (USPS Library Reference N2006-1/3) and initiate END-related AMP studies in the field that are then completed at Headquarters. These studies are designed to analyze how shifting mail processing operations and associated volumes from one location to another can be expected to have an impact on mail processing and transportation costs, productivity, personnel deployment, equipment and space utilization, and whether to upgrade or downgrade the level of service between particular 3-digit ZIP Code pairs. USPS-T-2 at 4-8, 11-12; Tr. 2/94.<sup>1</sup>

Assuming the completion of an AMP study, which includes vetting of each specific proposal by a Headquarters cross-functional review team, a formal documented recommendation is forwarded to the Senior Vice-President, Operations at headquarters for decision. Assuming an END-related AMP proposal to consolidate operations is approved, it is then scheduled for implementation. If the AMP proposal also includes changes to service standards for any 3-digit ZIP Code pairs in the service areas of the affected mail processing plants, those proposed changes are reviewed by the

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<sup>1</sup> Exceptions can arise when, before the Headquarters cross-functional AMP review process is either undertaken or completed, preliminary analysis leads to the conclusion that a particular operational consolidation proposal (suggested either by the END optimization model or by Area Office management) is not feasible and should not be pursued. Thus, although the END optimization model may greatly enhance management's ability to focus its analytical resources on the most feasible consolidation opportunities, the model, like any other useful optimization tool, cannot provide perfect guidance as to what may be most feasible in every instance. See, USPS Library Reference N2006-1/21. See *also*, Tr. 2/519-22 and Tr. 3/664-66.

Headquarters team and also must be approved by the Senior Vice President. If approved, the service standard changes are usually scheduled for implementation at the beginning of a postal fiscal quarter, when the USPS Service Standards database is routinely updated. The updated service standards are then published in successive quarterly versions of the USPS Service Standards CD-ROM. Tr. 2/376. See, e.g., USPS Library Reference N2006-1/2.

After implementation of a particular AMP operational consolidation is completed, periodic post-implementation reviews of that project are conducted at different intervals, based on the criteria in the Handbook PO-408, to compare planned operational changes and cost savings to those that are actually implemented and observed. These post-implementation reviews afford postal management at all levels the opportunity to analyze the financial and operational results of an AMP consolidation, and to take corrective action to close any gaps between expected and actual results. USPS-T-2 at 7.<sup>2</sup> An indication of how the post-implementation review process is expected to operate as part of the END program can be observed through a review of USPS Library Reference N2006-1/28, which reflects a post-implementation analysis of the operational and financial impact of the consolidation of operations at the Marina CA Processing & Distribution Center in 2005, one of the last AMP consolidations implemented before the END program was initiated in 2006.

As a routine postal management function unrelated to END, the monitoring of delivery service performance or time-in-transit for different mail classes is achieved by reliance on different postal data systems, depending on the mail class involved. For

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<sup>2</sup> And, as indicated in Chapter 6 of the Handbook PO-408, USPS Library Reference N2006-1/3, an AMP consolidation can be reversed, if circumstances so warrant.

First-Class Mail, the Postal Service relies on the External First-Class (EXFC) service performance measurement system operated for it by IBM Consulting, Inc. For Priority Mail, the Postal Service relies on its Product Tracking System, which generates delivery service information for pieces for which the ancillary Delivery Confirmation service is purchased. Tr. 2/44-48; Docket No. R2006-1, Tr. 18D/6339-40. For Periodicals and Standard Mail, the Postal Service does not have similar delivery service or time-in-transit measurement systems, and must rely on internal operations data and mailer feedback to monitor operational delays and backlogs that could adversely affect service. Tr. 2/76. Postal Service managers at all levels of the organization are accountable for the quality of mail delivery provided to postal customers, irrespective of whether any particular operations are affected by END-related network changes. Accordingly, the Postal Service has not incorporated into the AMP post-implementation review process an unnecessarily redundant service quality monitoring regime. Tr. 2/48, 144; Tr. 3/499, 1084.

III. The Postal Service Has Established Extraordinary Processes For Public Notice And Solicitation Of Public Input

A. RDC Activation and AMP Study Public Notice Procedures Exceed Legal Requirements

The Postal Service has established procedures for informing the public about anticipated END-related operational changes and potential service changes that reflect a commitment well beyond anything required by the Postal Reorganization Act. The Act does not require the Postal Service to inform the public regarding alterations in mail processing operations unless those alterations result in a change in a postal service on at least a substantially nationwide basis, within the meaning of § 3661(b). Even then,

the required public notice is limited to the filing of a request for an advisory opinion regarding the proposed service changes, accompanied by supporting materials, as part of a proceeding such as the instant docket conducted by the Postal Rate Commission under 39 C.F.R. § 3001.72 *et seq.* Otherwise, generally speaking, except when a national program or a discrete local operational decision involves the closing of a post office,<sup>3</sup> the Postal Service is not required by law to notify the public or solicit comment.

Nevertheless, as reflected in USPS Library References N2006-1/23 (Regional Distribution Center Communications Plan), N2006-1/12 (Area Mail Processing Notification Tool Kit), N2006-1/4 (Area Mail Processing Communications Plan), and Worksheet 3 of the Handbook PO-408 (USPS-LR-N2006-1/3), the Postal Service has established procedures through which it will notify the general mailing public, indirectly through the public electronic communications and print media; and community organizations, bulk mailers and local and Federal government representatives, directly through correspondence -- of its intention to either activate a facility as Regional Distribution Center or to subject a facility to an Area Mail Processing Handbook PO-408 operational consolidation feasibility study, as a part of the Evolutionary Network Development initiative.

This level of public notice is rooted in the long-standing AMP Handbook PO-408 Worksheet 3 notification process. It reflects an understanding by postal management that the dissemination of a reasonable level of public information beyond anything mandated by law is consistent with its public service responsibilities. And, it should be regarded by the Commission as evidence that the Postal Service has an abiding

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<sup>3</sup> In which case, irrespective of END, it triggers the requirements of 39 U.S.C. § 404(b).

commitment to keep the public informed of potential operational changes that could lead to changes in service.

B. RDC Activation and AMP Public Input Procedures  
Provide Opportunities For Mailers To Communicate Concerns

1. RDC Activation Public Input

The decision by postal management to activate a Regional Distribution Center at a particular location could involve changes in mail class service standards applicable to 3-digit ZIP Code areas served by mail processing facilities within the planned service area of that RDC. In such cases, the Postal Service plans to publish a notice at its public internet website -- <http://www.usps.com>. This notice will include a list of all affected mail classes and 3-digit ZIP Code pairs. A public communication process designed for RDC activations will disseminate information through the public media and other means to the general mailing public and other stakeholders in the planned RDC service area to direct their attention to information in the website posting regarding any planned service changes, including a summary description of the network and service standard changes expected in the service area of the planned RDC, a summary of the anticipated schedule for implementation of such changes, and related information.

The public will be given time to direct written comments to an address provided on the website. USPS Library Reference N2006-1/16 at 7. These comments will be reviewed by the RDC activation team and will provide that team an opportunity to adjust plans in response to concerns expressed by mailers before activation begins.

2. AMP Proposal Public Input

As reflected in USPS Library Reference N2006-1/16, the Postal Service has established a process through which the public is invited to comment on each AMP

operational consolidation proposal that has been vetted and refined by the Headquarters AMP cross-functional review team for consideration by the Senior Vice-President, Operations. The plan calls for a summary of the service impacts (if any) and the cost and operational justification for each proposed AMP consolidation to be posted on the Postal Service's public internet website -- as evidenced by several recent examples available for examination at -- <http://www.usps.com/all/amp.htm>. Each web posting is publicized in the affected service area, and the mailing public in that area is invited to participate in a public meeting regarding the proposed consolidation and to submit written comments.

While it is the Postal Service's intent that these meetings and the oral and/or written comments be germane to the proposed consolidation and the potential service changes, Library References 1 through 5 filed by the American Postal Workers Union (APWU) in this docket provide ample evidence that relatively few limitations are imposed on the postal subjects that customers may raise. The public comments are then analyzed by the Headquarters cross-functional review team to determine whether they trigger reconsideration of or modification to any aspect of the AMP proposal. Only then does an AMP proposal, accompanied by a summary of pertinent public comments, advance for final review and decision. USPS Library Reference N2006/16 at 2. By any objective standard, this voluntary process requires as much, if not greater direct public accountability and permits as much, if not more, direct public dialogue than do the Congressionally-mandated procedures in 39 U.S.C. 404(b) that apply when the Postal Service intends to close a post office altogether. It is noteworthy that these AMP public

input procedures apply even if no service changes are proposed in connection with a particular AMP feasibility study.

C. The APWU Confuses Quantity Of Public Input With Quality Of Public Input

The testimony of American Postal Workers Union witness Margaret L. Yao (APWU-T-1), a senior associate of the non-profit organization, *AmericaSpeaks*, offers suggestions for increasing the mailing public's direct participation in RDC activation and AMP consolidation decision-making. Witness Yao candidly admits that she and her colleagues at *AmericaSpeaks* have not facilitated town hall meetings related to the closure or consolidation of government facilities. Response of witness Yao to USPS/APWU-T1-8, Tr. 4/\_\_. Undaunted, she proposes that the elected officials throughout the nation collaborate with the Postal Service to establish local Citizen Advisory Panels (CAPs) six months in advance of each potential AMP study. APWU-T-1 at 25. APWU suggests that the Postal Service and each of the potentially hundreds of CAPs develop or share critical data, if mutually acceptable protective conditions can be established. APWU response to USPS/APWU-T1-2(b), Tr. 4/\_\_. At page 25 of APWU-T-1, witness Yao suggests that each CAP develop AMP proposals or serve as a sounding board for them, *id.*, that each CAP spearhead outreach to the local community, *id.*, that it structure AMP-related town hall meetings at which electronic polling technology can be utilized to collect discussion themes to be voted upon. *Id.* at 21. She advises that each CAP be involved in determining which alternative operational consolidations proposals might best suit the needs and desires of the local community and be selected for evaluation. *Id.* at 25. She proposes that each CAP later advise postal management on any final AMP consolidation recommendations and plans

for public accountability, and that each CAP participate in quarterly and semi-annual AMP progress reviews over several years. APWU-T-1 at 25-26.

Despite the apparently earnest nature of witness Yao's suggestions, the Postal Service urges the Commission to decline to suggest the injection of multiple layers of overly burdensome complication into the process of making END-related capital expense decisions, selecting postal personnel and equipment deployment options, determining postal floor space utilization, balancing postal transportation choices, making postal budget allocations and conducting postal efficiency analyses and trade-offs by subjecting these matters to local plebiscites. With good reason, Congress enacted the Postal Reorganization Act, out of recognition that the Postal Service could better balance its public service obligations and operate in a more business-like manner, if day-to-day postal management decisions were placed in the hands of experienced, professional, subject matter experts whose primary focus is the operation of the nation's postal system.

The Postal Service has established opportunities for public input related to its RDC activation decisions and its consideration of AMP consolidation proposals. The public is free to provide relevant information regarding potential impacts of proposed service changes. These established public input processes are well-suited to permit experienced postal operations, financial, and customer service experts to utilize their knowledge and judgment and to evaluate that information in relation to refined network realignment proposals developed internally by postal experts that may involve service upgrades or downgrades as part of an overarching national strategy to improve network efficiency.

IV. The Filing Of The Request In This Docket Is In Accord With Commission Precedent And The Commission's Rules

A. The Request Complies With Commission Guidance

It is expected to take at least five years to subject all major components of the mail processing network to an initial END realignment review and to implement any resulting operational changes. Tr. 2/61. Service standard adjustments for affected 3-digit ZIP Code area origin-destination pairs resulting from these network changes will be implemented incrementally, as different local components of the postal mail processing and transportation networks are modified. Because the numerous operational and transportation outcomes reflected in an END optimization model iteration may not match the outcomes of the numerous AMP feasibility studies, the Postal Service does not rely on model projections as an indication of the number of 3-digit ZIP Code area origin-destination pairs for each mail class that will experience either a service standard upgrade or downgrade. Likewise, the Postal Service currently is unable to estimate the aggregate percentage of volume for any particular mail class that may experience a service standard change.

As explained by witnesses Shah (USPS-T-1) and Williams (USPS-T-2), the Postal Service intends to examine mail processing facilities and transportation arrangements for the purpose of maintaining a flexible and efficient mail processing system. Holding current service standard definitions constant, service changes are a foreseeable consequence of network operational and transportation changes, whether those changes are isolated and local in nature, or whether those changes are potentially nationwide in magnitude.

In this regard, the Postal Service finds itself in a position different from where it stood before filing its request in Docket No. N89-1. In that earlier case, the Postal Service's primary objective was to change the application of First-Class Mail service standards for a targeted percentage of volume and to refine the definitions that have been used to determine which destinations were overnight, two-day or three-day from any point of origin. In contrast, in the current case, the Postal Service is realigning its mail processing network, and some of those operational changes are expected to lead to changes in the application of current service standard definitions to an unknown number of 3-digit ZIP Code pairs and volumes for different mail classes. Changes in the application of current service standards are not an objective, but are an expected consequence of Evolutionary Network Development. Moreover, because of the incremental manner in which END will be implemented and 3-digit ZIP Code origin-destination pairs will be reviewed for change without any pre-conception about outcomes, it is impossible to project the magnitude of the service standard upgrades and/or downgrades that may be implemented for any particular mail class. Nevertheless, irrespective of whether the service changes resulting from the pursuit of the operational objectives described above are deemed to be "substantially nationwide" for any mail class within the meaning of 39 U.S.C. § 3661(b), the Postal Service considers that its Docket No. N2006-1 request complies with a relevant policy directive of the Postal Rate Commission.

The Postal Service's request does not address the issue of whether 39 U.S.C. § 3661(b) *requires* that an advisory opinion be requested from the Commission under present circumstances. *Dicta* in *Buchanan v. United States Postal Service*, 375 F.Supp.

1014 (N.D. Ala. 1974), *affirmed in part, vacated in part*, 508 F. 2d 259 (5<sup>th</sup> Cir. 1975), might lead some to conclude that such a request is required here. In *Buchanan*, the court reasoned that the requirements of § 3661 were not intended to apply to every management decision that "will probably affect postal service to some extent", but identified three factors that must coexist for § 3661 to apply:

First, there must be a "change." This implies that a quantitative determination is necessary. There must be some meaningful impact on service. Minor alterations which have a minimal effect on the general class of postal users do not fall within § 3661. Second, the change must be "in the nature of postal services." This involves a qualitative examination of the manner in which postal services available to the user will be altered. Third, the change must affect service "on a nationwide or substantially nationwide basis." A broad geographical area must be involved.

508 F. 2d 262-63. Applying the aforementioned *Buchanan* test, it seems beyond dispute that a postal management initiative involving:

- central direction of a nationwide program of optimization modeling and RDC activation;
- a centrally directed acceleration of the AMP operational consolidation review process; and
- systemwide mail processing and transportation changes resulting in service standard upgrades and/or downgrades

would effect some "change" in the nature of postal services over a broad geographical area. However, the Postal Service has no quantitative or qualitative basis for determining whether, in the aggregate, the changes that may result would have a "meaningful impact on service."<sup>4</sup>

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<sup>4</sup> If one iteration of the Evolutionary Network Development optimization model results were blindly implemented without regard to postal management judgment regarding RDC designations and AMP consolidation feasibility determinations, it is estimated that 3,180 overnight First-Class Mail 3-digit ZIP Code origin-destination pairs would be downgraded to 2-day service, and that 2,532 2-day service pairs would be upgraded to

In filing its Docket No. N2006-1 request, the Postal Service was guided by the Commission's Docket No. N75-1 "policy statement establishing guidelines concerning the filing of future requests for advisory opinions pursuant to § 3661." PRC Op. N75-1 at 65-74. There, the Commission opined that, in deciding whether to file a request, the Postal Service "should be governed by a good faith judgment whether a jurisdictional issue could be raised *which is so difficult, doubtful, serious, or substantial as to make it a fair ground for litigation.*" *Id.* at 72 (emphasis in original). In the Commission's view, the Postal Service should consider that a substantially nationwide change in service is involved if either the goal or a "reasonably foreseeable effect" of the program in question is:

an appreciable alteration in the accessibility of postal services to the public, viewed from the standpoint not of a "net" or aggregate effect, but from that of the effect on representative mailers; or

an appreciable alteration in the type or quality of postal services offered to the public.

*Id.* at 72-73. Holding current service standard definitions constant, the Evolutionary Network Development initiative includes a nationwide activation of Regional Distribution Centers over at least the next five years. It includes a centrally directed acceleration and application of the AMP review process to numerous mail processing facilities in its

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overnight. See, USPS Library Reference N2006-1/18 at iv. However, as explained at Tr. 2/50 and 119, END optimization model outputs are hypothetical scenarios at best and do not take into account the impact of management determinations that will ultimately emerge from the RDC activation and AMP consolidation processes. Tr. 2/520-22. It remains to be seen how many RDCs will emerge from the activation process. Accordingly, the Postal Service has no basis now for quantifying the expected impact of the service upgrades or downgrades that may result from the completion of the END initiative. The overall magnitude and scope of service upgrades and downgrades cannot be known until the numerous facility reviews are conducted and operational changes are implemented. USPS-T-1 at 13.

network over the same period. These elements can reasonably be expected, in combination, to result in service standard changes of an unknown magnitude. The Postal Service is not in a position to refute any assertion that the overall impact of its END-related service standard changes could be to produce such “appreciable alterations.” In the absence of compelling evidence to the contrary, the Postal Service assumes that the service changes resulting from the pursuit of the operational objectives described above could be deemed by the Commission to be “substantially nationwide” for any mail class within the meaning of 39 U.S.C. § 3661(b). Accordingly, the Postal Service made the determination to initiate this docket by filing its request for an advisory opinion. The fact that the Postal Service originally intended and expected to implement the first service standard changes resulting from the initial wave of 41 potential AMP consolidations (USPS-T-2 Attachment) as early as May 15, 2006, prompted the filing of its Docket No. N2006-1 request on February 14, 2006.

B. The Request Complies With The Commission’s Rules

The Postal Service regards its February 14, 2006, filing to be in compliance with the requirement in 39 U.S.C. § 3661(b) that such requests be filed a reasonable time before the scheduled implementation of the service changes in question. Section 3661(b) is implemented by the Commission at 39 C.F.R. § 3001.72 to require that such requests “shall be filed 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 services involved.”

To-date, implementation of only one of the Area Mail Processing (AMP) operational consolidation opportunities listed in the Attachment to USPS-T-2 has been

initiated. See USPS LR-N2006-1/14. Operational changes were implemented in conjunction with the Newark NJ AMP beginning on May 22, 2006. That AMP shifts the postmarking and initial processing of collection mail among different Processing & Distribution facilities in Newark and Northern New Jersey, but involves no service standard upgrades or downgrades for any mail classes, or changes in collection mail last pick-up times. See, USPS Library Reference N2006-1/14.

The Postal Service acknowledges that the postmarking and initial processing of some mail at a different facility than before constitutes a change in *operations*. However, the Postal Service also submits that, in the absence of a change in applicable service standards for the affected 3-digit ZIP Code areas for any mail class or any change in collection mail last pickup times, the shifting of some postmarking operations in a local service area and initial processing of mail does not constitute a change in *service*, within the meaning of 39 U.S.C. § 3661. In any event, the record is clear: no END-related operational changes that could have resulted in service changes were initiated earlier than 90 days after the February 14, 2006, filing of the Docket No. N2006-1 request. Accordingly, it is clear that no END-related service changes were implemented before a reasonable time after the filing of its Docket No. N2006-1 request, within the meaning of § 3661, as implemented by 39 C.F.R. 3001.72.

V. Service Changes Resulting From Rational Plans To Improve Efficiency Are Consistent With The Policies Of The Postal Reorganization Act

A. The Expected Changes Are Narrow In Scope

Before the instant docket, the most recent Postal Service request seeking an advisory opinion under § 3661 on proposed service changes was in Docket No. N89-1.

A major difference between the Postal Service's Docket No. N89-1 and N2006-1 requests is that the Postal Service is presently proposing no changes in the current service standard definitions that apply to the various mail classes. The current definitions are summarized in the Attachment to USPS-T-1. A second difference is that the current request is not driven primarily by an imperative to achieve upgrades and/or downgrades in service between ZIP Code pairs. The service changes expected to result from the Postal Service's Evolutionary Network Development initiative are merely an unavoidable consequence of the implementation of that program. They are not the driving force behind it. Still, the fact that such service standard changes are a mere consequence of END does not alter the relevance or application of 39 U.S.C. § 3661.

END is a program focused on what is commonly referred to as "back-of-the-house" processing of mail between its origin and destination processing facilities. USPS-T-1 at 3. Expectations are that operating plan Dispatches of Value will be maintained, even with modifications of Critical Entry Times and/or Clearance Times. Tr. 3/1097. It is not intended to change such elements of customer interaction with the Postal Service as collection mail pickup and daily letter carrier delivery. See, Tr. 3/939, 953, 1033-36. These features of a customer's daily postal experience are expected to conform to existing postal operations polices. A review of the implementation of some of the pre-END AMP consolidation approved in 2005 demonstrates that the Postal Service has been vigilant in ensuring that AMP consolidation of originating operations and related mail processing changes affecting local "turn-around" collection First-Mail does not lead to unjustifiable changes in collection mail last pickup times. Tr. 3/953, 953. There is no basis for assuming any change in vigilance going forward, as the

Postal Service vets AMP proposals and implements consolidation decisions as part of the END initiative.

Given the downward trend in single-piece First-Class Mail volume discussed by witness Shah (USPS-T-1 at 4) and the reduced need for collection mail postage cancellation capacity, there are efficiencies that can be achieved by consolidating cancellation and originating processing operations among fewer facilities, and designating some facilities to perform only destinating processing. Accordingly, as a part of its END initiative, the Postal Service expects that it will convert a significant number of current P&DC/Fs into Destinating Processing Centers (DPCs). Collection mail formerly cancelled at what will be DPCs would be transported to a nearby Local Processing Center for cancellation. The affected volume of collection First-Class Mail, in the aggregate, or as measured by the number of affected ZIP Codes, could meet a threshold sufficient to conclude that the phenomenon will be at least *substantially nationwide*, within the meaning of § 3661(b).

Nevertheless, it is the Postal Service's view that collection mail which only experiences a change in the location at which it is postmarked and initially processed does not experience a *change in service*, within the meaning of that subsection. Any number of back-of-the-house *operational* changes or variations in processing can be applied to mail, whether permanently or *ad hoc*, without changing the *service* that is experienced by the sender or recipient. When the availability and application of automated vs. manual operations varies locally by time of day or changes permanently because of equipment deployment, this -- by itself -- does not mean that affected mail has experienced a *change in service*. Whether an eligible mail piece travels by air or

surface transportation for a particular leg of its journey may vary depending on the establishment of permanent or seasonal air operations, or the availability of air capacity at different times of the day. When such operational variations are not accompanied by changes in otherwise applicable service standard definitions for affected origins and destinations, there is no change in the nature of the postal *service* being provided. The Postal Service submits that the same conclusion holds when the cancellation of postage affixed to collection mail picked up in the service area of a DPC (at which it was formerly postmarked) is made the responsibility of a nearby LPC in the future network and this operational change is unaccompanied by a change in the applicable service standard. No change in *service* results. Accordingly, if the Commission should conclude that the establishment of DPCs as a result of END will result in substantially nationwide operational changes as described above, it should still reject the conclusion that there has been a change in service that triggers the application of § 3661(b).

B. The Expected Changes Would Conform To The Policies Of The Postal Reorganization Act

A critical question before the Commission in the instant docket is whether the expected nature of the service afforded to each mail class affected by END -- after any service standard upgrades and/or downgrades are applied to numerous ZIP Code pairs -- can be said to conform to the policies of the Postal Reorganization Act, within the meaning of § 3661(c). Based upon his understanding of the current mail processing network and the potential changes that END might generate, witness Shah explains that any upgrades and downgrades are likely to be most pronounced for First-Class Mail and Priority Mail. Impacts also are expected for Periodicals Mail, to the extent that its service standards are linked to those of First-Class Mail. USPS-T-1 at 14; Tr. 2/37-38,

64. Witness Shah's expectations are based on the likelihood that most AMP consolidations will occur between facilities that are in relatively close proximity to one another and will involve destination Sectional Center Facilities that happen to be located on the fringes of two different service area zones. Tr. 2/37, 95. Operating plans for each future RDC and associated transportation links are expected to determine the extent to which current service standards will apply to Package Services mail in the future network, but witness Shah does not expect the changes to be very pronounced overall. Tr. 2/38, 50. No Express Mail impacts are anticipated. Tr. 2/138.

Under the circumstances, the testimony of witness Shah provides the best description possible of the changes in the application of current service standards that could result from implementation of the END initiative in the years ahead. Because the END models are only decision support tools and do not dictate service standard changes, it cannot be predicted whether the preponderance of 3-digit to 3-digit ZIP Code area service standard changes that will emerge from the numerous AMP studies will be in the form of upgrades (from 2-day to overnight, for instance) or downgrades (from 2-day to 3-day, for example). Tr. 2/38. The aggregate magnitude of such changes cannot reliably be predicted or estimated.

Knowledge of the magnitude of potential changes would be helpful in determining with certainty whether the expected service changes for a particular mail class would likely affect sufficient volume or a sufficient number of 3-digit ZIP Code area pairs to support the opinion that the changes are at least *substantially nationwide* in scope, within the meaning of § 3661(b). In the absence of any basis for excluding an affirmative finding, it is appropriate under the circumstances of the request before it, for

the Commission to assume that the END initiative could result in substantially nationwide changes for affected mail classes. With that as its working assumption, the Commission can opine whether the expected nature of the potential service changes and the rationale for implementing them combine to support the conclusion that such changes would conform to the policies of the Act, within the meaning of § 3661(c).

The Postal Service submits that the record in this proceeding provides abundant support for an affirmative conclusion. For purposes of this docket, the Postal Service presumes that its existing service standard definitions, which it is not proposing to change, reflect an appropriate consideration of relevant operational and service policies of the Postal Reorganization Act. For instance, the Postal Service considers that existing service standard definitions, summarized in the Attachment to USPS-T-1, reflect that it seeks to provide what can fairly be described as at least an *adequate* level of service for each mail class, within the meaning of § 3661(a). And, no party has presented record evidence to support a contrary conclusion.

The different service standard definitions for the different mail classes summarized in the Attachment to USPS-T-1 reflect different levels of priority of dispatch and speed of delivery. In part, these differences can be affected by whether a mail class, as a whole, utilizes both surface and air transportation or only surface transportation. Given the unknown mix of service upgrades vs. downgrades that will occur, there is no basis on the record for concluding to what degree implementation of END will affect the balance in percentages of mail within any given mail class that are currently subject to overnight vs. 2-day or 2-day vs. 3-day service.

END is not designed to or expected to affect daily carrier delivery. Accordingly, there is no basis for concluding that it should have an adverse impact on the *promptness* with which customers can expect to receive their daily mail delivery, within the meaning of 39 U.S.C. § 101(a). As witness Shah explains, network realignment can be expected to improve *efficiency* (USPS-T-1 at 6-7). One of its guiding criteria also is to retain current service standards to the greatest extent practicable, within the meaning of § 101(a).

Postal management is empowered by 39 U.S.C. § 1001(e) to determine the methods and to deploy the personnel necessary to conduct its operations. Accordingly, the Act anticipates that changes in operations that are executed for rational reasons such as END could result in service changes. Notwithstanding the importance of relative speed of delivery as a fundamental characteristic of each mail class, as indicated by § 101(a), upgrades or downgrades in the speed of delivery between different 3-digit ZIP Code pairs for a particular mail class can be driven by a compelling need to change mail processing methods and personnel deployments. In operating and maintaining such facilities and equipment as are necessary to pursue its objectives, as authorized by § 401(6), the Postal Service is directed by §§ 101(a) and 3661(a) to strive toward greater efficiency. A principle objective of the END initiative is to reduce inefficiency. Thus, to the extent that substantially nationwide downgrades of service between numerous 3-digit ZIP Code pairs within existing service standard definitions occur in accordance with rational operating plans such as END, resulting service changes should not, because they result from the pursuit of efficiency, be determined to not comply with the policies of the Act. The goals of Evolutionary Network Development

are consistent with the operational policies of the Postal Reorganization Act and reflect a proper consideration of service and cost related policies. Accordingly, a sound basis exists for concluding that implementation of the types of service changes expected to result from END would conform the policies of the Postal Reorganization Act, within the meaning of § 3661(c).

## VI. Conclusion

As demonstrated above, the service changes that could result from implementation of the Evolutionary Network Development initiative are founded upon a rational plan for improving the nation's postal system and are the product of a proper balancing and consideration of pertinent objectives of the Postal Reorganization Act. The mandate in §101(a) that the Postal Service provide "prompt" service must be balanced, for instance, with the instruction in § 101(f) that postal management be "economical" in selecting modes of transportation. In §§ 101(a), 403(a), 403(b)(1), 403(b)(3) and 3661(a), the Postal Service also is directed either to be "efficient" or to maintain "reasonable economies" in its operations. The development of a flexible and efficient network for the reasons described by witness Shah (USPS-T-1), and the use of tools and processes described in his testimony and the testimony of witness David Williams (USPS-T-2), and various other supporting documents provided by the Postal Service in this docket reflect a faithful exercise of the pursuit of these statutory responsibilities. The record in this docket supports the conclusion that the service changes resulting from the END initiative are of a nature that would conform with the policies of the Postal Reorganization Act.

Respectfully submitted,

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