

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Report, 2009

Docket No. ACR2009

REPLY TO PUBLIC REPRESENTATIVE COMMENTS ON
ANNUAL COMPLIANCE REPORT 2009 FROM DR. MICHAEL J. RILEY
(February 16, 2010)

I. INTRODUCTION

I, Dr. Michael J. Riley, respectfully submit comments in reply to Public Representative Comments on Annual Compliance Report 2009 (February 2, 2010). I was formerly Chief Financial Officer with the Postal Service from 1993-1998 and am currently a Professor of Business and Executive Programs with the University of Maryland/University College. Having studied costs and benefits associated with delivering mail using the different modes of delivery during my tenure with the Postal Service as well as after, I wish to offer the following comments based on that experience.

These comments, which include the attached cover letter and whitepaper, focus on how the centralized mode of mail delivery, provided by clustered types of mailboxes and parcel box systems, responds to and supports two statutory objectives referenced in the Public Representative Comments concerning the need for the Postal Service to 1) maintain customer satisfaction while 2) "...further reducing operating costs to align them better with reduced volumes..."¹

II. DISCUSSION

A. Centralized Mail Delivery Minimizes Fixed Delivery Costs/Improves Access

The centralized mode of mail delivery, utilizing clustered types of mail and parcel boxes, supports both Postal Service and Commission objectives of ongoing cost reduction and customer satisfaction by:

¹ Public Representative Comments, ACR 2009, The Postal Service's Plan and Other Options to Achieve Financial Stability in FY 2010 and in Later Years.

1. Reducing future and ongoing fixed costs of delivering mail to each new delivery point (address) by 40%
2. Increasing access to secure outgoing mail collection in neighborhoods

The Postal Service's installed base of delivery points is currently about 30% centralized delivery. Every new address installed using a centralized mode of delivery saves the Postal Service dollars for the first year...and then every year thereafter for the life of the dwelling. This same customer base with centralized mail equipment has access to secure outgoing mail collection boxes because centralized equipment typically includes integrated and/or free-standing outgoing mail collection centers in addition to mailboxes. If the Commission encourages the use of centralized mail delivery in all new developments, the Postal Service will benefit from decreased fixed operating costs while customers benefit from additional mail security and neighborhood collection box access.

B. The Greenest, Sustainable Method of Mail Delivery

In addition to furthering the goals of customer access while minimizing costs associated with delivering the mail, centralized mail delivery also supports the Postal Service's stated sustainability goals of 1) reducing vehicle petroleum fuel use by 20 percent by 2015, and 2) reducing greenhouse gas emissions by 20 percent by 2020.² How does centralized delivery help the Postal Service accomplish these important "green" goals? The best way to illustrate this is through an example. For every 1,000,000 new delivery points (addresses) added – assuming they are curbside delivery – the Postal carrier must stop the truck to deliver mail 1,000,000 times per day and then accelerate from a stop. If these same addresses were served via the centralized mode of mail delivery – assuming an average of 13 mailboxes per stop – the carrier now only has to stop the vehicle 77,000 times per day – thereby reducing the vehicle stops/starts by more than 90%! The carrier can shut down the vehicle and save the fuel that would have been spent idling. In addition, the carrier will save the fuel for over 900,000 starts. Drive time and vehicle idling in neighborhoods is reduced thus decreasing carbon emissions; the Postal Service saves

² Statement of Samuel M. Pulcrano before the Subcommittee on Federal Financial Management of the Committee on Homeland Security and Governmental Affairs, United States Senate, January 27, 2010.

dollars associated with time and fuel use; centralized delivery again benefits both the Postal Service and the community.

C. Mode of Delivery Should be Determined by the Postal Service

The Postal Operations Manual³ as currently written limits the Postal Service's authority to direct the mode of mail delivery in some instances as it puts curbside delivery on par with centralized delivery as an option for new mail service. In Section 631.1 Residential Housing, curbside mail delivery is the primary service discussed with centralized mail delivery service presented only as a secondary option. Nowhere in this Section does it state that the Postal Service will be responsible to evaluate and determine the most effective mode delivery to best serve new residential development. I believe that should be made clear throughout. .

It is imperative that mode of delivery decisions ultimately be determined by the Postal Service so that the most efficient, effective long-term method of mail delivery is initiated at the onset of service. Centralized mail delivery is proven to be the most cost effective method of delivering mail and should always be the primary method considered first for new development. However, each new development can have unique requirements, so whether the development is best served through centralized, curbside, or something else, the mode of delivery decision should rest with the Postal Service who has the ongoing service responsibility.

III. CONCLUSION

For reasons stated above and in the attached whitepaper, I respectfully request the Commission recommend that the Postal Operations Manual be revised in a manner that provides the Postal Service with full authority to direct the mode of mail delivery for new delivery points/addresses in any type of new development. Further, I recommend that centralized delivery be the first and primary option for delivery to new dwelling units. This will help ensure that perpetual, fixed operating expenses associated with serving new

³ Periodic Postal Service Reports to PRC, United States Postal Service Manuals — Postal Operations Manual (POM), Chapter 6, Delivery Operations, 63 - Modes of Delivery, Mail Receptacles and Keys, September 21, 2009.

delivery points are minimized, thereby enhancing the long term financial stability of the Postal Service and helping to retain low consumer postage costs. In addition, when centralized delivery is the mode of mail delivery specified and installed by the developer, it will also benefit customers by providing access to more neighborhood mail collection centers plus additional security through equipment features that protect both the mail and resident privacy.

I appreciate the opportunity to share this information with the Commission and for your consideration of this matter.

Respectfully submitted:

Dr. Michael J. Riley
Professor, Business and Executive Programs
University of Maryland/University College
Former Chief Financial Officer, USPS (1993-1998)
431 Pinewood Lake Drive
Venice, FL 34285
Phone: (703) 338-9635
Email: mjriley@umuc.edu

Stacy Kohlmeier
Vice-President
Florence Manufacturing Company
5935 Corporate Drive
Manhattan, KS 66503
Phone: (785) 323-4442
Email: skohlmeier@auth-florence.com

Michael J. Riley

431 Pinewood Lake Drive, Venice, FL 34285-5680
Tel: (941) 244-0416 home (703) 338-9635 cell Michael@Riley.net

February 1, 2010

Ruth Y. Goldway, Chairman
Postal Regulatory Commission
901 New York Avenue NW #200
Washington, DC 20268-0001

Dear Chairman Goldway:

Thank you very much for requesting conversation and input on the future of mail in the United States. For background purposes and so that you have context for my comments, I want to share that I was the Chief Financial Officer for the U.S. Postal Service from 1993-1998. Mail volumes have definitely changed since then, but although mail volumes have declined, the relevance of the U.S. Postal Service prevails and the service it provides remains vital to creating robust commerce in this country.

There is no doubt that operational as well as regulatory modifications are needed for the Postal Service so that it can react to changes in the way consumers and organizations communicate and so that it can continue to provide affordable mail service that is such an important element in conducting business both domestically and internationally.

It is evident that the Postal Service has been concentrating efforts on improving both its top line as well as implementing cost cutting to help stabilize its bottom line. This is certainly a balancing act that many businesses are grappling with in this difficult economy. However, for the Postal Service to respond with the kind of agility it needs to make the business decisions necessary to improve its financial stability, it must be provided additional flexibility in managing its operations.

For example, the "mode of delivery" choice is an operational decision that is best left up to the Postal Service to ensure the most effective, efficient method of delivering mail to residents is put into place for the long term. As the Commission works with the Postal Service to evaluate and achieve cost savings and efficiencies while at the same time providing quality universal service to its customers, please consider allowing the Postal Service to determine the mode of delivery for all new residential and business development. I have long been a proponent of implementing centralized mail delivery because of its inherent efficiencies which result in significant savings to the USPS as well as greater security and convenience to customers. Centralized delivery also assists the Postal Service in achieving its stated objective of reducing petroleum fuel use 20 percent by 2015 as well as reducing corresponding emissions. However, whether centralized mail delivery, curbside or some other mail delivery method is deemed best to serve a new development, the choice should ultimately rest with the Postal Service.

For additional background and facts about savings and benefits related to centralized mail delivery, I am submitting the attached whitepaper recently prepared in collaboration with Stacy Kohlmeier from Florence Manufacturing Company. Please contact me or Stacy if you would like additional information related to centralized delivery or to discuss anything contained in this letter or whitepaper. We would be very happy to assist you and the Commission in any way we can. Thank you.

Sincerely,



Michael J. Riley

cc: Ann Fisher, Director of Public Affairs/Govt Relations – Postal Regulatory Commission, Washington, DC
Stacy Kohlmeier, Florence Mfg Company, 5935 Corporate Drive, Manhattan, KS 66503-9675

Centralized Mail Delivery...

Supporting U.S. Postal Service Delivery Efficiencies

Dr. Michael J. Riley
*Professor, Business and Executive Programs
Graduate School of Management and Technology
University of Maryland University College, and;
Chief Financial Officer, Retired
U.S. Postal Service (1993-1998)*
mjriley@umuc.edu ▪ (703) 338-9635

November 2009



Supporting U.S. Postal Service Delivery Efficiencies with Centralized Mail Delivery

Position Summary:

The Postal Service needs to use centralized delivery for all new delivery points to provide the most cost effective, efficient, convenient, secure mail delivery to new customers. Attractive, clustered mail centers that serve several families in residential areas provide the only alternative that safeguards both packages and mail. In addition, centralized delivery is the most sustainable, environmentally friendly mode of mail delivery.

Centralized mail delivery already saves the Postal Service nearly \$2.5 billion annually with only 30% of the total installed mail deliveries being served through centralized delivery.

Initiating all new mail deliveries with centralized delivery service would save another \$40 million per year ... which will accumulate to more than \$200 million annually over the next five years ...in fact, the savings will grow year after year with every new centralized delivery point added.

Background:

The U.S. Postal Service provides universal mail service to more than 150 million addresses and PO Boxes across America. Although mail volumes have declined over the last several years, the Postal Service still visits every address each delivery day. Consider this...

“The delivery network consists of over 150 million addresses. There is less flexibility in reducing costs in this network, because each address must be served whether there are many pieces to be delivered or just a single letter. Consequently, only half of the delivery costs vary with volume. ... The Postal Service has made significant changes within these networks and must continue to do so if it is going to increase efficiency and capture savings while adopting new technologies and adjusting to sizeable and volatile changes in demand.” (John Waller - May 2009 PRC report to Congress)¹

To lower the fixed costs of a delivery point – the Postal Service must establish new mail deliveries using the most effective and efficient scenario at the onset. This includes the type of mailbox equipment that is authorized for installation in any new development and the locations of such – this is called the “mode of delivery”.

The Postal Service provides three modes of delivery for existing delivery points -- to the door, to a mailbox on the curb, and to a centralized point that serves several addresses. Door to door delivery is the most costly mode and is no longer available for new delivery points. To optimize delivery efficiencies and community benefits, centralized delivery is the wise option for the future.

The Problem:

The Postal Service has worked diligently to increase the percentage of new centralized delivery points. However, because curbside continues to be an option, it has done so mainly through influence.

The annual operating cost per delivery² of the three modes of service varies greatly due to many physical variables including walking/movement time, driving distance, vehicle starts/stops, etc....

Door	\$354 ... <i>not available for new delivery points</i>
Curbside	\$225
Centralized	\$161 ... 40% less costly than curbside!

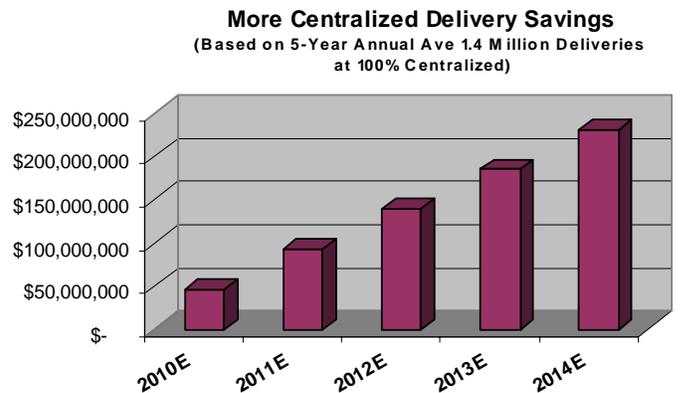
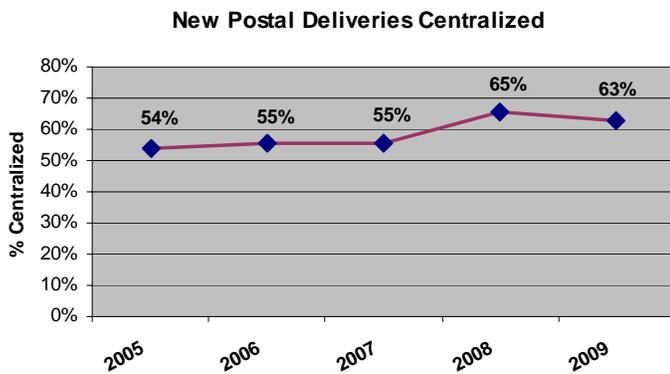
¹ Testimony before the U.S. House of Representatives Subcommittee on Federal Workforce, Postal Service and the District of Columbia, provided by John Waller, Director of the Office of Accountability and Compliance for the Postal Regulatory Commission, May 20, 2009.

² U.S. Postal Service, 2009 Delivery Point Data

Savings:

The significant savings associated with establishing a centralized delivery point are reoccurring and cumulative, so the Postal Service sees immediate cost savings as well as year after year cost benefits. However, to achieve a higher level of savings, a new requirement would be in order.

The left graph below illustrates the percentage of new deliveries that were initiated as centralized service versus curbside.³ ***Savings opportunity has been lost due to curbside delivery being an option for new deliveries.*** The decrease in the percentage of centralized delivery points in 2009 as a percentage of total new deliveries is also a disturbing trend that will lead to higher ongoing operating costs for the Postal Service if the trend is not reversed.



The Postal Service could realize significant additional reoccurring savings as illustrated above - nearly a quarter billion dollars over the next five years -- if it takes a stronger, consistent stance in directing the mode of delivery to centralized for new delivery points.

Benefits:

In addition to cost savings benefits to the Postal Service, centralized mail delivery offers other benefits to residents and communities.⁴

Residents who have centralized mail delivery enjoy the following added features:

- Secure, outgoing mail collection centers integrated into centralized mailbox systems
- Enhanced security of the mail and resident privacy due to locking mailboxes
- Secure package delivery since centralized mailboxes can include parcel lockers

Communities benefit as well because centralized mail delivery:

- Beautifies neighborhoods by eliminating curbside “clutter” and uses space efficiently
- Results in fewer vehicle stops and reduced carbon emissions

Conclusion:

New mail delivery points are established every day. The most efficient, cost effective method of delivering mail is centralized. Each day new curbside deliveries are authorized in lieu of centralized delivery the Postal Service is unnecessarily increasing its current and future fixed operating costs of providing mail service.

To minimize fixed operating costs associated with every mail delivery point, the U.S. Postal Service should modify its regulations as soon as possible so that centralized mail delivery is the mode of delivery authorized for all new business and residential development.

³ U.S. Postal Service, 2009 Delivery Point Data

⁴ Centralized Mail Delivery – Plan Early for Centralized Mail Delivery in New Developments , Florence Corporation (See Appendix for additional information regarding centralized mail delivery planning.)

Centralized MAIL DELIVERY

Plan Early For Centralized Mail Delivery in New Developments

The U.S. Postal Service continually reviews and modifies its operations to provide universal service to its customers as efficiently and cost effectively as possible. Consider this:

- the U.S. Postal Service delivers mail to more than 300 million people at 148 million locations every day
- on avg 700 million pieces of mail are delivered daily
- 1.4 million new delivery points on average have been added annually, over the last five years

The U.S. Postal Service prefers centralized mail delivery in all new construction because it is the most efficient method of providing the best service, which helps keep the cost of mail service affordable.

Centralized mail delivery provides delivery and collection services to a number of residences from a centrally located installation – whether in a single-family subdivision or multi-family structure. Business customers also receive delivery services from a convenient central location.

As centralized mail delivery equipment is larger and will require designated “common space”, planning for mailbox installations should occur as early in the project as possible to avoid surprises later.



Centralized Mail Delivery Equipment Options

Effective mail service is an integral part of any community and must be given proper consideration early in a project, especially since unlike single family residential delivery, centralized mail delivery requires “common space”.

Centralized mail delivery equipment can be in the form of any “clustered” style of mailboxes including free-standing, pedestal mounted Cluster Box Units (CBU), or other STD-4C compliant cluster mailboxes mounted in a wall, kiosk, or outdoor shelter.

All STD-4C compliant mailboxes and cluster box units must meet USPS specifications in order to receive a “USPS Approved” designation. (See back cover for details.)

New centralized mail delivery equipment may be required for any major renovation to existing mailbox installations. If your project will disturb the rough opening of the wall your mailboxes are currently mounted into, new centralized mail delivery equipment may be required.

It is important to check with local postal authorities prior to planning mailbox installations to ensure local requirements and proper placement is included in your design plan. These local experts will ensure mail service is not interrupted for your customers.

To find a local Post Office® or postal officials nearest you, visit USPS.com, or call 800-ASK-USPS (800-275-8777).



For more details on centralized mail delivery for residential and business service, visit www.USPS.com

Centralized MAIL DELIVERY

Benefits of Centralized Mail Delivery

Centralized mail delivery is the most cost effective, sustainable method of mail delivery. The benefits for the U.S. Postal Service and its customers - both residential and commercial business customers - are obvious and real:

- Fewer vehicle stops results in lower vehicle maintenance costs, fuel savings and reduced carbon emissions
- Centralized location reduces risks to letter carriers such as unleashed dogs and poorly maintained sidewalks
- Multiple deliveries per stop results in faster service for customers due to less time per delivery, resulting in lower costs
- Reduced costs help to sustain lower mail/postage costs for consumers
- Provides locked and secure mail delivery to deter mail theft and protect privacy
- Eliminates the need to be at home or the office during service hours to receive a package or parcel
- Provides locked and secure mail collection – saving residents trips to the Post Office® or collection boxes
- Beautifies neighborhoods by eliminating curbside “clutter” – more efficient use of space
- Protects mail from the weather better than unsecured receptacles
- Costs less to install per resident than individual resident mailboxes
- Mail delivery can often begin even before residences are occupied



Additional resources can be found online at www.mailboxplanners.com