

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

SIX-DAY TO FIVE-DAY STREET DELIVERY  
AND RELATED SERVICE CHANGES, 2010

Docket No. N2010-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO NALC INTERROGATORIES NALC/USPS-T2-1 – 8, 10  
REDIRECTED FROM WITNESS CORBETT  
(June 8, 2010)

The United States Postal Service hereby provides its responses to the following interrogatories of NALC, filed on May 25, 2010: NALC/USPS-T2-1 – 8, 10, redirected from witness Corbett. Each interrogatory is stated verbatim and is followed by the response.

UNITED STATES POSTAL SERVICE

By its attorney:

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June 8, 2010

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO NALC  
INTERROGATORIES, REDIRECTED FROM WITNESS CORBETT**

**NALC/USPS-T2-1.** You state at page 4 of your testimony that:

The critical fiscal condition of the Postal Service in 2010 can largely be attributed to these factors: the diversion of letter mail to electronic alternatives; the ongoing effects of the economic recession; the statutory obligation to pre-fund retiree health benefits at an accelerated pace; and the restrictions on making adjustments to our operations network and cost structure.

To what extent is the fiscal condition of USPS in 2010 attributable to each of the foregoing factors, stated separately. Provide data supporting your response.

**RESPONSE:**

As a practical matter, it is not possible to quantitatively allocate responsibility for current circumstances among these four factors. Perhaps a more useful way to consider the matter is to note that the projected deficit for FY 2010 is in the neighborhood of \$7 billion, and that each of these factors can fairly be said to contribute at least several billion dollars.

For example, with respect to the diversion of mail to electronic alternatives, estimates of the volume impact were provided in the Postal Service's response to GCA/USPS-T2-1 and 2, redirected from witness Corbett (May 17, 2010). Specifically, the response to GCA/USPS-T2-2 indicated that, for First-Class Mail alone, the cumulative diversion by the end of FY 2009 was estimated to be in excess of 45 billion pieces. Using the average FY09 unit contribution for First-Class Mail of 21 cents (Docket ACR2009, Public CRA, USPS-FY09-1 at 1), this suggests that, hypothetically, if there had been no electronic diversion over the last several decades, contribution from First-Class Mail could have been \$9 billion or more higher in FY09.

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Similarly, with respect to the ongoing effects of the recession, the Excel spreadsheet filed in response to GCA/USPS-T2-1 indicates that the Postal Service is estimated to have lost in excess of 21 billion pieces of mail going from FY08 to FY09 due to the recession, and approximately 20 billion pieces in the preceding two years. Even taking into account that most of these pieces were not First-Class Mail, a loss of volume in the magnitude of 40 billion pieces hits the bottom line by at least several billion dollars. Of course, if there had been no recession, the macro-economic factors (i.e., growth in the economy) would normally lead to volume increases, so the effects of the recession are not necessarily limited to actual volume losses. Note that it is important to distinguish the temporary effects of the recession from volume losses due to factors like electronic diversion, which will not return even when the economy improves.

With respect to the statutory obligation to pre-fund retiree health benefits at an accelerated pace, one could perhaps debate which payments required of the Postal Service are “accelerated,” and which are not. At the end of FY 2009, however, Congress determined that \$4 billion dollars of the scheduled payment for that year could be deferred. In so doing, the bottom line for FY 2009 improved by \$4 billion. Certainly being absolved of an obligation of that magnitude on a continuing basis would play a substantial role in how critical the Postal Service’s fiscal condition remains.

The last factor identified, restrictions on making adjustments to our operations network and cost structure, may be the most difficult to quantify. In the testimony filed in this proceeding, however, the Postal Service has focused on only one such restriction – that which constrains the Postal Service from evolving from six-day service to five-day

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service. The magnitude of cost savings identified with lifting that restriction is \$3.3 billion, and even after accounting for the anticipated volume adjustment associated with this change, the net improvement in the bottom line is \$3.1 billion. Consequently, it follows that, more broadly speaking, restrictions on our ability to adjust our operations network and cost structure are another set of factors which have a negative impact of billions of dollars on our current critical fiscal condition.

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**NALC/USPS-T2-2.** Your testimony, at page 13, discusses USPS's financial projections over the next decade. Provide USPS's projections for its operating revenue, operating expenses and total mail volume from 2010 to 2020 (with the projections broken out separately for each year, if you have such yearly projections), and the reasons and data on which such projections are based.

**RESPONSE:**

The portion of Mr. Corbett's direct testimony on page 13 referenced in this question refers specifically to the material presented by the Postal Service on March 2, 2010. The background of the March 2<sup>nd</sup> presentation is that, in order to get a set of independent opinions, the Postal Service engaged The Boston Consulting Group, McKinsey & Company, and Accenture to develop a ten-year plan that outlines the Postal Service path to profitability. The three consulting firms focused on different areas. The Boston Consulting Group prepared a ten-year volume outlook, Accenture studied and summarized the business models of foreign Posts and their diversification strategies, and McKinsey & Company analyzed revenue and cost initiatives that could bring the Postal Service to financial sustainability. McKinsey & Company also consolidated the work of the three consulting firms and developed an integrated plan and set of financial projections that represent the independent view of the three firms. Further information about that presentation can be found on the Postal Service's website at:

<http://www.usps.com/communications/newsroom/deliveringfuture/welcome.htm>.

Specific projections underlying the March 2<sup>nd</sup> presentation of operating revenue, operating expenses, and total mail volume (broken out by each year from 2010 to 2020), with background reasons and data, can be found in the pdf file

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(NALC.T2.Q.2.Attach.pdf) attached this response electronically. Minor redactions are made regarding competitive product details. Additional materials are provided in response to NALC/USPS-T2-5 (redirected to the Postal Service).

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**NALC/USPS-T2-3.** Provide the most recent available data for FY 2010 year-to-date of USPS's operating revenue, operating expenses and total mail volume.

**RESPONSE:**

The most recently available data are those appearing in the USPS Preliminary Financial Information (Unaudited) report for April, 2010 (filed with the Commission on May 24, 2010), showing FY 2010 YTD operating revenue of \$40.409 billion, operating expense of \$42.897 billion, and total mail volume of 102.530 billion pieces.

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**NALC/USPS-T2-4.** You state at page 4 of your testimony that USPS through February was about \$1 billion “ahead of plan.” How far ahead or behind plan is USPS according to the most recent data available?

**RESPONSE:**

The USPS Preliminary Financial Information (Unaudited) report for April, 2010 (filed with the Commission on May 24, 2010), shows the net loss for the YTD to be approximately \$1.3 billion less than plan.

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**NALC/USPS-T2-5.** Provide any reasons, and any data, that support your projections for total mail volume for each year from FY 2010 to 2020.

**RESPONSE:**

As noted in response to NALC/USPS-T2-2 (redirected to the Postal Service), the volume projection work underlying the March 2<sup>nd</sup> presentation was performed by The Boston Consulting Group (BCG). Material relating to the BCG work that is already available to the public includes that cited in Mr. Corbett's response to APWU/USPS-T2-5.b (filed on May 7, 2010).

Additional material relating to the BCG work is provided in the form of four files (two Excel, two pdf) electronically attached to this response. One Excel file (NALC.T2.Q.5.BCG.Vol.Forecast.xls) contains BCG's annual and quarterly forecasts for individual market dominant products and competitive products in the aggregate. Another Excel file (NALC.T2.Q.5.BCG.Datapoints.xls) presents back-up data for total mail, First-Class Mail, and Standard Mail slides from the March 2<sup>nd</sup> presentation (which are among the materials already cited in the response to APWU/USPS-T2-5.b).

One pdf file (NALC.T2.Q.5.BCG.Projection.pdf) includes BCG material entitled "Projection of US mail volume to 2020 (Compendium)," prepared in December 2009, as it relates to the BCG volume projections. Minor redactions have been made regarding competitive products and, as explained below, to safeguard respondent identities.

Another pdf file (NALC.T2.Q.5.BCG.Interviews.pdf) includes BCG material titled "USPS Sender Interview Compendium," also prepared in December 2009. This file contains information regarding interviews with mailers about their future mailing plans.

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Redactions have been made in both pdf files to safeguard respondent identities, a necessary and critical practice in this type of research.

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**NALC/USPS-T2-6.** You state at pages 8-9 of your testimony that “[w]e believe that the recession itself may have accelerated the diversion of First-Class Mail to the Internet.” Explain the reasons, and provide any data, on which you base this belief.

**RESPONSE:**

Please see the Postal Service’s response to GCA/USPS-T2-2(a)(ii), redirected from witness Corbett, filed on May 17, 2010.

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**NALC/USPS-T2-7.** Your testimony, at page 12, provides figures on the “direct costs of carriers” as a percentage of “total USPS costs.” Provide, separately for each year, the direct costs of carriers from FY 2000 through FY 2009. Provide, separately for each year, total USPS costs from FY 2000 through FY 2009.

**RESPONSE:**

	<b>Accrued Direct Delivery Costs</b>	<b>All Cost Segments Accrued Costs</b>	<b>Percentage</b>
<b>FY2000</b>	\$ 17,373,551	\$ 64,780,831	27%
<b>FY2001</b>	\$ 18,474,621	\$ 67,548,878	27%
<b>FY2002</b>	\$ 18,745,828	\$ 67,364,765	28%
<b>FY2003</b>	\$ 19,335,722	\$ 64,895,336	30%
<b>FY2004</b>	\$ 20,186,315	\$ 65,963,683	31%
<b>FY2005</b>	\$ 21,272,030	\$ 68,547,664	31%
<b>FY2006</b>	\$ 22,145,930	\$ 74,875,425	30%
<b>FY2007</b>	\$ 22,627,747	\$ 76,979,813	29%
<b>FY2008</b>	\$ 22,443,329	\$ 77,856,354	29%
<b>FY2009</b>	\$ 22,247,802	\$ 71,912,021	31%

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**NALC/USPS-T2-8.** To what extent is USPS's projection, set forth in a press release on March 2, 2010, of a "cumulative shortfall of \$238 billion by 2020" based on an assumption that retiree health benefit prefunding requirements will continue? What is the total dollar amount of your assumption of the cost of the prefunding requirement?

**RESPONSE:**

The retiree health benefit prefunding requirements are assumed to continue until 2016, as established by the PAEA. The prefunding amounts are:

	2010	2011	2012	2013	2014	2015	2016
Pre-funding	5,500	5,500	5,600	5,600	5,700	5,700	5,800

For those seven years, the prefunding amounts total to \$39.4 billion.

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**NALC/USPS-T2-10.** Your testimony, at page 11, discusses “inflation-adjusted revenue per delivery point” from 2000 through 2009. Provide, separately for each year, the inflation-adjusted revenue per delivery point from 2000 through 2009 and the inflation-adjusted cost per delivery point from 2000 through 2009.

**RESPONSE:**

Mr. Corbett’s testimony on page 11 discusses inflation-adjusted revenue per delivery point *per day*. The inflation adjusted total revenue and total cost per delivery point per day by year from FY 2000 to FY 2009 in 2009 dollars are:

FY	Inflation Adjusted	
	Total Revenue	Total Costs
2000	1.96	1.96
2001	1.92	1.97
2002	1.94	1.91
2003	1.87	1.77
2004	1.83	1.75
2005	1.77	1.73
2006	1.75	1.80
2007	1.75	1.80
2008	1.65	1.71
2009	1.50	1.58

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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