

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

Six-Day to Five-Day Street Delivery)
and Related Service Changes) Docket No. N2010-1

FIRST DISCOVERY REQUESTS OF
MAGAZINE PUBLISHERS OF AMERICA
AND DIRECT MARKETING ASSOCIATION
TO USPS WITNESS JOSEPH CORBETT
(MPA/USPS-T2-1 THROUGH -13)

(June 9, 2010)

Pursuant to Rules Pursuant to Rules 25 through 27 of the Rules of Practice and Procedure of the Postal Regulatory Commission, the Magazine Publishers of America (“MPA”) and the Direct Marketing Association (“DMA”) respectfully submit the following discovery requests to United States Postal Service (“Postal Service”) witness Joseph Corbett (USPS-T-2).

MPA/USPS-T2-1. This question refers to page 3 of your testimony (USPS-T-2), which states in part:

The Postal Service is now in dire financial condition. Precipitous and historic declines in mail volumes and revenues, combined with the growing costs of our expanding delivery network, as well as the massive new costs imposed by postal legislation, have resulted in a grave and unsustainable financial imbalance. Despite prudent management of our business and aggressive cost cutting in response to these dramatic changes in the mail marketplace, we have reported a net loss in each of the last three fiscal years and expect to do so again this year.

(a) Please identify the specific measures that the Postal Service has taken over the “last three fiscal years” as part of its “aggressive cost cutting” efforts.

(b) Please quantify, for each cost cutting measure, the cost savings that have resulted.

(c) Please break down your answer to part (b) by fiscal year and cost segment.

(d) Please state, by fiscal year and cost segment, the workhour reductions that have resulted from the Postal Service’s “aggressive cost cutting” in the last three fiscal years.

MPA/USPS-T2-2. On page 3 of your testimony (USPS-T-2), you state that the Postal Service reduced total costs by \$6.1 billion and Full-Time Equivalent (“FTE”) employees by 65,000 in FY 2009.

(a) From what benchmark was the \$6.1 billion reduction in FY 2009 cost reductions calculated?

(b) What adjustments were made to the benchmark to net out the attributable cost savings that should have resulted from the declines in mail volume even without the new cost saving initiatives?

(c) From what benchmark was the 65,000 reduction in FY 2009 FTEs calculated?

(d) What adjustments were made to the benchmark to net out the workhour changes that should have resulted from the declines in mail volume even without the new cost saving initiatives?

MPA/USPS-T2-3. On page 3 of your testimony (USPS-T-2), you refer to the “prudent management of [the Postal Service’s] business and aggressive cost cutting in response to these dramatic changes in the mail marketplace.” Please refer to the Total Factor Productivity, USPS Annual Tables, FY 2009 filed at the Postal Regulatory Commission on March 2, 2010 in general, and Tables Lab-14, TFP-51, TFP-52, and TFP-53 in particular.

(a) Please explain in plain English how increases or decreases in the USPS Total Factor Productivity Index, Labor Productivity Index, Postal Inflation Index, and Aggregate Labor Input Price Index affect the Postal Service’s financial condition.

(b) Please specify the formulae and data sources used to calculate the USPS Total Factor Productivity Index, Labor Productivity Index, Postal Inflation Index, and Aggregate Labor Input Price Index and provide a definition of each term in the formulae.

(c) For each of the four indexes, please provide the index value for the most recent quarter available.

(d) For each of the four indexes, please state the change in its value between (i) FY 2010, Quarter 1 and FY 2009, Quarter 1; (ii) FY 2010, Quarter 2 and FY 2009, Quarter 2; and (iii) Calendar Year 2009 and Calendar Year 2008.

(e) Please state the average hourly compensation (with and without benefits) by year from FY 2006 through FY 2009 for (1) all postal employees in the aggregate; and (2) disaggregated by craft.

(f) Please identify each legal constraint (e.g., statute, collective bargaining agreement, arbitration order) that the Postal Service contends has limited the ability of the Postal Service to cut its labor costs further. If a cited item is not publicly available, please produce a copy.

(g) Please provide all USPS studies (including those performed on behalf of the USPS by outside consultants or contractors) regarding the comparability of USPS and private sector compensation for the USPS workforce as a whole, or any subset of the workforce (other than individually-identified employees). This subpart encompasses all studies performed within the past five years, except that you need not produce studies prepared for labor negotiations that are still pending.

MPA/USPS-T2-4. Please refer to pages 3 through 4 of your testimony (USPS-T-2), where you state:

For FY 2010 alone, our financial plan estimates a revenue decline of roughly \$2 billion and a net loss of \$7.8 billion. (Year-to-date numbers through February, however, show us about \$1 billion ahead of plan.)

(a) How far ahead of the referenced financial plan is the Postal Service's actual performance through the first half of FY 2010?

(b) Taking into account the Postal Service's financial performance and mail volume in the first half of FY 2010, what is the Postal Service's best estimate of its full-year FY 2010 (i) net loss; (ii) total revenue; and (iii) total mail volume? Please provide the analyses, assumptions and calculations underlying your answer.

MPA/USPS-T2-5. Please refer to page 15 of your testimony (USPS-T-2), where you state:

The change to a five-day delivery schedule that we present in this docket will substantially lower our annual operating costs and produce net savings estimated at a value of \$3.1 billion each year and growing over the coming decade.

(a) Please explain all actions USPS would take to reduce its workforce were delivery frequency to be reduced to five days per week.

(b) Does the Postal Service plan to use buyouts to reduce its workforce?

(c) Are there any statutory, regulatory or contractual constraint on buyouts? If so, please identify each constraint. If it is embodied in a publicly available document or source, please provide a citation. If the source of the constraint is not publicly available, please produce a copy.

MPA/USPS-T2-6. Please refer to the Postal Service's response to Docket No. R2009-3, Chairman's Information Request No. 1, Question 4 where it states:

1. Due to seasonal and cyclical volume declines, the Postal Service will have excess capacity in buildings, equipment, and vehicles in the summer of 2009. The excess capacity is sufficiently large so that an increase in

volume created by the Standard Mail Volume Incentive Program will not cause additional costs to be incurred in these areas.

2. The delivery networks for both city and rural delivery have also material excess capacity. As result, they can absorb the increase in volume caused by the Standard Mail Volume Incentive Program in the summer of 2009 without creating much additional cost.
3. The postmaster network has material excess capacity and the additional volume created by Standard Mail Volume Incentive Program would not cause any additional postmaster costs.

(a) Please confirm that the Postal Service had excess capacity in all of the areas specified above throughout FY 2009. If not confirmed, please explain your rationale fully and reconcile it with the statement cited above.

(b) Does the Postal Service believe it had excess capacity in mail processing operations in (1) the summer of 2009; and (2) throughout FY 2009. Explain fully any answer other than an unqualified yes.

(c) Please identify all areas where USPS believes it now has excess capacity, and state whether the Postal Service believes that this excess capacity is likely persist through the end of FY 2010.

(d) If the level of excess capacity decreased between FY 2009 and FY 2010, please estimate the cost savings resulting from the reduction in excess capacity, and produce all underlying calculations.

MPA/USPS-T2-7. Please refer to page 4 of your testimony (USPS-T-2), where you state:

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 prefund retiree health benefits at an accelerated pace; and the restrictions on making adjustments to our operations network and cost structure. In effect, while we are funded like a commercial enterprise, we do not have the flexibility of a commercial enterprise needed to adjust our pricing and costs to a dynamically changing marketplace.

(a) Please identify each of the “restrictions on making adjustments to our operations network and cost structure.”

(b) Please state whether each such restriction is imposed by statute.

(c) Please describe how the Postal Service would adjust its operations network and cost structure in the absence of each restriction imposed by statute, and estimate the cost savings that would result from these adjustments. Please also provide all calculations underlying your response.

(d) Please provide all USPS Headquarters studies (including those performed by consultants or contractors) regarding (i) the optimal size of the Postal Service’s mail processing network; (ii) the cost savings that would result from optimizing the Postal Service’s mail processing network; or (iii) the cost savings that could be achieved by consolidating mail processing operations into fewer facilities.

(e) Please provide a list of all USPS facilities that the Postal Service owns; identify the book value and market value of each facility; and indicate the primary purpose of each facility (e.g., mail processing facility; retail; administrative).

MPA/USPS-T2-8. Please refer to page 7 of your testimony (USPS-T-2), where you state:

In the legislated postal business model, the financial viability of the Postal Service as a wholly self-sustaining and independent enterprise implicitly assumed that Americans' use of mail would continue to grow each year along with the ever-expanding growth of the total American population and in proportion to or at a rate greater than the continuously expanding growth of residential and business addresses.

(a) How much of the increase in Postal Service costs from FY 2008 to FY 2009 was due to the growth in the number of delivery points as distinct from other factors, such as changes in mail volume, product mix, or hourly compensation?

(b) How does your response to part (a) compare with the corresponding values in previous years?

(c) Please produce the assumptions and calculations underlying your answers to parts (a) and (b).

(d) For each year from FY 1990 to FY 2009, please provide the number of delivery points disaggregated by City, Rural, Post Office Box, and Highway Contract Route, and provide all available data on the cost of serving each type of delivery point.

(e) For each year from FY 1990 to FY 2009, please provide the number of delivery points by type (e.g., cluster box, centralized delivery, park-and-loop, curblines), and provide all available data on the cost of serving each type of delivery point.

MPA/USPS-T2-9. Please state, by craft: (1) the number of employees (and percentage of total employees) in FY 2009 that were not covered by the “no layoff” provisions of current collective bargaining agreements (“CBAs”); and (2) the total FY 2009 total compensation (and percentage of total compensation) for employees that were not covered by the “no layoff” provisions of current CBAs. Please also provide all underlying calculations.

MPA/USPS-T2-10. Please confirm that the Postal Service did not lay off any employees in FY 2009. If not confirmed, please provide, by craft, the total number of employees that were laid off in FY 2009, and the total FY 2009 cost savings from the layoffs.

MPA/USPS-T2-11. Please confirm that the Postal Service has not laid off any employees and does not plan to lay off any employees in FY 2010. If not confirmed, please provide, by craft, the total number of employees that will be laid off in FY 2010, and the projected total cost savings from the layoffs.

MPA/USPS-T2-12. Please also identify, by craft, the total number of employees in FY 2009 and total FY 2009 compensation covered by any pay freezes that have been implemented since the end of FY 2006.

MPA/USPS-T2-13. Since the end of FY 2006, has the Postal Service discussed with any management associations or labor unions that represent postal employees the possibility of a pay freeze for any postal employees? If so, please identify (1) the timeframe of these discussions; (2) the management associations and labor unions with which USPS held these discussions; and (3) the positions and responses of each management association and labor union with which discussions were held.

Respectfully submitted,

Jerry Cerasale
Senior VP for Government Affairs
DIRECT MARKETING ASSOCIATION, INC.
1615 L Street, N.W., Suite 1100
Washington DC 20036
jcerasale@the-dma.org

*Counsel for Direct Marketing Association,
Inc.*

David M. Levy (dlevy@venable.com)
Matthew D. Field (mfield@venable.com)
VENABLE LLP
575 Seventh Street, N.W.
Washington DC 20004
(202) 344-4800

*Counsel for Magazine Publishers of
America*

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