

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

NOTICE OF THE UNITED STATES POSTAL SERVICE OF REVISED RESPONSE OF
WITNESS COLVIN TO GREETING CARD ASSOCIATION
INTERROGATORIES GCA/USPS-T7-1-5 -- ERRATA
(June 24, 2010)

The United States Postal Service is today filing a revised set of responses to GCA/USPS-T7-1 – 5 to replace the set filed yesterday. The header on each page after the first was incorrect. Also corrected, on the bottom of the first page of the answer to question 1, “2,826” was changed to “2,836”; in question 1.d, “productively” was changed to “productive”; and the word “growth” was inserted near the end of question 5. The table for question 1.d was reformatted, but no values changed. None of these changes are significant, although the header needed to be corrected.

UNITED STATES POSTAL SERVICE

By its attorney:

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June 24, 2010

**RESPONSE OF POSTAL SERVICE WITNESS COLVIN
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GCA/USPS-T7-1.

- a. How much of the \$3.1 billion net savings from five-day delivery is total labor costs, and how much of that is wages?
- b. What is the qualitative and quantitative difference between “productive hourly rates” in Attachment 1 and (i) actual wage rates and (ii) actual total compensation rates?
- c. In terms of carrier savings from eliminating Saturday delivery, please show the amount of savings (hours saved and compensation foregone) for each employee type, using the same employee categories as found in Attachment 1, page 2, of your testimony.
- d. For each employee type, using the same employee categories as found in Attachment 1, page 2, of your testimony, please state the FY 2009 hourly wage rate for each, and total compensation for each.

RESPONSE:

- a. As shown in my Attachment 3, page 2 the total savings, without consideration of revenue loss impacts are \$3,531 million. This is the sum of the gross cost savings of \$3,300 million and cost savings stemming from volume reductions of \$231 million. The labor portion of the \$3,300 million gross savings is \$2,836 million if you include service-wide benefits and \$2,563 million with just salaries and benefits from cost segments 2 to 12, as can be obtained from my testimony. The labor portion of the \$231 million cost reductions associated with the volume reduction is about \$177 million if service-wide benefits are included, and \$160 million with just salaries and benefits.¹ The total labor savings for five-day delivery is then \$3,013 million (= \$2,836 million + \$177

¹ These estimates of labor costs are calculated using the share of total attributable costs which is labor cost with service-wide benefits or \$33.434 billion out of 43.602 billion which is 77 percent and also the share of total attributable costs which is salary and benefits, \$30.210 billion out of \$43.602 billion, which is 69.3 percent

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million) with service-wide benefits included and alternatively it is \$2,723 million (= \$2,563 million + \$160 million) with salary and benefits alone. The wage portion can be estimated by noting that salary accounts for nearly 77 percent of total salaries and benefits for total field personnel, or \$37,329 million of \$48,530 million.² As a result, we can estimate that of the \$2,723 million in salary and benefits savings, \$2,094 million are wages.

- b. Productive hourly rates are the cost per work hour of total salary and benefits (including other personnel related costs such as relocation expenses) as indicated in the Postal Service's response to Docket No. ACR2009, Chairman's Information Request No. 3, Question 20. My interpretation of "actual wage rates" is the cost of salary per work hour. As noted in my response to part a, salary accounts for about 77 percent of salary and benefits. My interpretation of "actual total compensation rates" is the cost per work hour of salary and benefits with service-wide benefits included. As I indicate in my testimony, USPS-T-7, pages 7-8, the amount of service-wide benefits costs, as developed in the attributable costs, implies that for every \$1,000 of labor costs (salary and benefits), there is an additional \$106.70 service wide benefits costs. Thus "actual total compensation rates" would be 10.7 percent higher than the productive hourly rates.

² The NATIONAL PAYROLL HOUR SUMMARY REPORT (NPHSR), PAY PERIOD-FY 20-2009, ENDING DATE 09-25-2009, page 111. As noted in my response to Chairman's Information Request no. 4, question 7c, the NPHSR treatment of labor costs is very close to that provided in my Attachment 1.

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- c. As indicated in the Postal Service’s response to GCA/USPS-T6-1, the requested information is not available.
- d. The table below provides for each employee category in my Attachment 1, page 2, the “hourly wage rate,” productive hourly rate and “total compensation” hourly rate. The “hourly wage rate” is approximated as discussed in my response to part b, by multiplying the ratio of the NPSHR Salary (line 30) to Salary and Benefits (line 43) for each employee category times its respective productive hourly rate. The “total compensation” is approximated by multiplying the productive hourly rate times 1.1067 as done in my development of service-wide benefits savings. See my testimony at pages 8-10 for a discussion of the limitations of this approximation.

CITY CARRIER

EMPLOYEE TYPE	Hourly Wage Rate	PROD. HRLY. RATE	Total Compensation Hourly Rate
City Carrier FTR	\$ 31.48	\$ 41.74	\$ 46.19
City Carrier PTR	\$ 28.94	\$ 39.79	\$ 44.04
City Carrier PTF	\$27.01	\$ 36.33	\$ 40.20
City Carrier Career Total	\$ -		
City Carrier TE	\$ 22.73	\$ 24.47	\$ 27.08
City Carrier Casual	\$ 13.70	\$ 13.09	\$ 14.48
Total	\$ 30.41	\$ 39.98	\$ 44.24

RURAL CARRIER

EMPLOYEE TYPE	Hourly Wage Rate	PROD. HRLY. RATE	Total Compensation Hourly Rate
Rural Carrier Career	\$ 28.66	\$ 38.86	\$ 43.00
Rural Carrier Non-career Barg	\$ 18.75	\$ 20.18	\$ 22.33
Rural Carrier Casual	\$ 12.73	\$ 13.70	\$ 15.16
Total	\$ 25.42	\$ 32.84	\$ 36.34

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GCA/USPS-T7-2.

- a. Which employee category in Attachment 1, page 2 represents a “Carrier Technician”, as the term is used by USPS witness Granholm on page 12, line 14 of his testimony, USPS-T-3? If this employee category is not listed in Attachment 1 page 2, why not?
- b. Which employee category in Attachment 1 page 2 represents a “Rural relief employee”, as the term is used by USPS witness Granholm on page 13 of his testimony, USPS-T-3? If this employee category is not listed in Attachment 1 page 2, why not?
- c. If your employee categories in Attachment 1, page 2 do not include the employee types noted in a. or b. above, please provide the same information for those employee categories as you do for those categories listed on page 2, as well as the information requested above in GCA/USPS-T7-1, part b.

RESPONSE:

- a. None. I am told that the NPHSR data is not available at a sufficiently detailed level to do this.
- b. The category called “Rural Carrier Non-Career Barg.”
- c. We do not have this information, as indicated in my answer to part a.

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GCA/USPS-T7-3.

You state on page 5 of your testimony that the amount of “facility space . . . needed for five-day delivery will be the same as under six days of delivery.” (Lines 8-10). And, on page 6, lines 11-13, you state “Administrative clerk savings have been identified in the operational analyses, without the use of piggyback factors, for plant processing and vehicle service drivers.” Finally, on page 13, you note that USPS witness Neri states there will be no outgoing sorting or plant cancellation of mail on Saturdays

- a. Please confirm that, even apart from the five-day delivery proposal, there is substantial excess capacity in USPS “facility space” for plant processing (see, e.g., USPS OIG Report January 7, 2010).
- b. If mail processing clerk savings can be realized via service cuts to the public such as five-day delivery, could such savings also be effected through closing and consolidation of P & DC plants? Please explain your answer fully.
- c. Supposing that all piggybacks associated with mail processing clerk savings were applied, how would the savings compare relative to the calculations you have made without piggybacks?

RESPONSE:

- a. I can confirm that the report, “Audit Report – Status Report on the Postal Service’s Network Rationalization Initiatives (Report Number EN-AR-10-001)” addresses the issue of “reducing processing facility space,” but I am not familiar enough with it to characterize or summarize its findings.
- b. It seems almost tautological to suggest that, if the Postal Service were able to close and/or consolidate P&DC plants, mail processing savings could be realized. The question, however, is how such operational changes could be made within operative constraints and, moreover, without “service cuts to the public.” Addressing such questions is well beyond the scope of any analysis I have been requested to conduct.

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- c. The question's characterization of my savings estimates as "calculations you have made without piggybacks," is incorrect in several ways. First, as I indicate at page 6 of my testimony, USPS-T-7, in the case of service-wide benefits I have relied on the traditional CRA method to determine savings. Second, while I have not used piggyback factors to reflect savings in the other types of indirect costs, as discussed in my testimony, pages 13-15, witness Neri has provided estimates of workhour savings for many of the indirect costs included in piggyback factors. Specifically, he has provided estimated workhour reductions for supervision, administrative clerks, equipment maintenance and custodial. In addition, there was no determination that elimination of outgoing sorting or other five-day operations changes at plants would, taken by themselves, affect the amount of facility space needed. So the savings determined for plants given the elimination of Saturday outgoing sorting has considered piggyback and clerk and mail handler savings as discussed in my testimony at pages 13-15.

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GCA/USPS-T7-4.

Suppose that instead of reduction of service to five-day delivery, network consolidation without service cuts was made instead. Recognizing that consolidating or closing mail processing plants would also entail a reduction in clerk and supervisory labor costs, what percentage and numerical reduction in existing P&DCs, the 21 re-named BMCs, and other facilities would be required to effect annual savings of \$3.1 billion?

RESPONSE:

I do not know. The Postal Service expended extensive time and effort to develop the operational background necessary to generate the savings estimates associated with the service changes upon which an advisory opinion is sought in this case. It would appear that a commensurate amount of time and effort would be needed to develop the operational background necessary to begin to address this question.

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GCA/USPS-T7-5.

On page 17, lines 3-8, of your testimony you note that “higher hourly labor costs” as well as other “somewhat offsetting factors” will impact “actual savings” from five-day delivery.

- a. What percentage increase in labor costs from labor negotiations this year and next year would it take to fully offset FY2012 savings from five-day delivery?
- b. What percentage drop in mail volume in FY2011 and 2012 would it take to fully offset FY2012 savings from five-day delivery?
- c. How many more delivery points would it take in FY2011 and FY2012 to fully offset FY2012 savings from five-day delivery?

RESPONSE:

a-c. As I indicate in my response to PR/USPS-T7-1, my statement that “[A]ctual savings obtainable in the coming years will be affected by these somewhat offsetting factors,” is meant to say that the likely or potential future trends in these factors will have offsetting impacts on the savings obtainable from going to five day delivery in future years. So in that context, future increases in labor costs, will all else equal, increase the savings of going to five-day delivery for future years. The same would be true of future increases in the number of delivery points. However, if volume continues to decline that will reduce the future years savings associated with adopting five-day delivery – and thereby at least partially offset the impacts of rising labor costs or growth in the number of delivery points. I have not attempted to quantify the different impacts.

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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