

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

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

Docket No. N2010-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS PULCRANO
TO NATIONAL NEWSPAPER ASSOCIATION INTERROGATORIES
NNA/USPST1-1 THROUGH T1-11

The United States Postal Service hereby provides the responses of witness Samuel Pulcrano to the above-listed interrogatories of the American Postal Workers Union dated June 8, 2010. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSE OF UNITED STATES POSTAL SERVICE WITNES PULCRANO
TO INTERROGATORY OF THE NATIONAL NEWSPAPER ASSOCIATION**

NNA/USPS T1-1

Please describe the inefficiencies and associated costs for Postal Service operations if start-stop were to occur on a Tuesday or Wednesday, rather than a Saturday.

RESPONSE

As I explained at page 10 of USPS-T-1, "...the selection of any other day would be create two start-and-stop mail processing and delivery cycles per week, which would be operationally inefficient for the Postal Service and its customers." The stop-and-start of operations would be inefficient for the Postal Service for several reasons.

Having the two non-delivery days be consecutive allows for mail processing to schedule operations more efficiently by waiting until a greater percentage of volume is available prior to the start of mail processing. In contrast, having the non-delivery days be non-consecutive eliminates this advantage. Operations would need to remain running at somewhat decreased levels and with sporadic arrival profiles in order to ensure that volumes were processed to meet service requirements in the "start-stop-start-stop-start" environment that a routine mid-week cessation of operations would create.

There are also capacity concerns related to choosing a different day of the week. While the movement of originating volumes from Saturday to Monday will produce new weekday peaks (about 28 percent of weekly originating distribution), the capacity on Monday to handle this is greater than any other day

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RESPONSE to NNA/USPS-T1-1 (continued)

of the week because there is virtually no destinating volume received for processing on that day. Selection of a different day in the middle of the week (say Tuesday) would result in an even greater peak on Wednesday (about 35 percent of weekly originating distribution) without the corresponding lack of destinating volumes. Originating volumes from Monday processing would still be arriving on Wednesday for delivery on Thursday.

As explained by witness Grossmann (USPS-T-5), the elimination of Saturday delivery and the associated elimination of originating collection and distribution on Saturday allow the Postal Service to reduce transportation costs. We can take advantage of the additional day for use in routing and transporting mail via surface transportation as opposed to using air transportation while still achieving the required service performance. Elimination of any other day of the week for delivery and originating distribution, would not support this cost reduction. Air transportation would still be required to meet the service standards.

Specific cost studies were not performed related to using any other day of the week except for Saturday.

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NNA/USPS T1-2

Did the Postal Service investigate dropping a delivery day other than Saturday during your management of the Five-Day team that you described and, if so, at what point during your investigation did you determine that Saturday was the Postal Service's choice?

RESPONSE

No. See the response to APWU/USPS-T1-1. We made the judgment that the impact on businesses, especially remittance operations and small businesses, would be significantly less if we eliminated Saturday delivery to street addresses and collections and processing, than a day during the normal work week. This was confirmed in the stakeholder outreach that my team conducted with major mailers and mailer associations. It was further confirmed in the market research conducted by Opinion Research Corporation on behalf of the Postal Service. See the testimony of Rebecca Elmore-Yalch, USPS-T-8, at 7-8; and Gregory Whiteman, USPS-T-9, at 3-5 and 7-9. The research and information provided to me showed that businesses generally are open Monday through Friday. Many businesses do not do anything with the mail that is delivered on Saturday. Approximately 25 percent of businesses have requested that mail not be delivered on Saturday. They generally indicated that eliminating a day of delivery other than Saturday would be disruptive to their business operations. Remittance mailers generally indicated that elimination of any day other than Saturday would be very harmful to their business and potentially harmful to their sector of the economy, as it would disrupt the flow of funds during the business week. Most consumers surveyed indicated that eliminating Saturday delivery would be the least disruptive day to them.

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NNA/USPS T1-3

Do you believe the Postal Service workforce overall prefers dropping Saturdays to dropping any other day if 5 day mail service were implemented?

RESPONSE

The Postal Service has not polled its over 600,000 employees to determine their individual preferences. Based upon my experience working for the Postal Service since 1975, I would say that, all other things equal, most Postal Service employees would prefer to work five consecutive days and be off two consecutive weekend days.

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NNA/USPS T1-4

Did the Five-Day Team consider asking mail recipients to choose the best day for nondelivery from within the range of weekdays and weekend days when it crafted questions for the various market surveys or did it always assume that tests would be conducted only for elimination of Saturdays?

RESPONSE

See my response to NNA/USPS-T1-2. In addition, during the qualitative market research, customers discussed what day of the week that they could best accept elimination of delivery and collections and processing. Almost all customers receiving mail said that Saturday would be the best day of the week for them to eliminate deliveries to street addresses.

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NNA/USPS T1-5

If a complement of businesses had demonstrated a preference for dropping Mondays or Tuesdays instead of Saturdays, would the Postal Service have instead tested a weekday elimination in its marketing surveys and operational models?

RESPONSE

In the qualitative market research conducted by witness Elmore-Yalch of ORC, customers discussed other days of the week that delivery could be eliminated.

Almost all said that eliminating Saturday delivery would be best day for them.

It is impossible to know with any degree of certainty whether, in hindsight, such a “demonstrated . . . preference” by a “complement of businesses”, by itself, would have led to decision to test operational models for or customer response to the elimination of delivery on Monday or Tuesday, for example, in lieu of Saturday.

It is possible that a particular “complement of businesses” could generate such a small volume of mail on Saturdays that its preference/need for Saturday outgoing processing and delivery would, on balance, not outweigh other compelling reasons for generally eliminating such operations on Saturdays.

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NNA/USPS T1-6

After Saturdays, please confirm that Tuesday is the lightest mail volume day and state how volumes differ, both in numbers and in mailmix, between the two days. If you do not confirm, please describe the next lightest volume day.

RESPONSE

See the response of witness Granholm to NALC/USPS-T3-9.

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NNA/USPS T1-7

Please confirm that Postmaster General John E Potter testified this year before the House Subcommittee on the Federal Workforce, Postal Service and the District of Columbia that the Postal Service had no business solution to offer newspaper publishers who need Saturday mail delivery and state whether you agree with that statement.

RESPONSE

The written testimony submitted to the Subcommittee by the Postmaster General on March 29, 2010 succinctly references the service changes under review in this docket: except for Express Mail, the Postal Service generally would not deliver mail (including newspapers and other matter generated by newspaper publishers and others) to street addresses on Saturdays in the 5-day delivery environment. If the Postmaster General further testified at that hearing that no exception to the general elimination of Saturday mail delivery would be granted to newspaper publishers who use the mails, such testimony also would be consistent with the service changes described in the request in this docket.

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NNA/USPS T1-8

If you agree with the statement attributed to the Postmaster General in T1-7, please describe how the Five-Day Team addressed the following:

- a. Whether the so-called ECSI values in 39 USC 3622(c)(11) would be served by non-delivery of newspapers;
- b. Whether the appearance of Periodicals mail as “under water” in the sense of not covering incremental costs affected the Team’s approach to the business needs of newspaper publishers;
- c. Whether the Team believed at the time of deliberation that most publishers affected by Saturday delivery elimination would be capable of moving Saturday issues to another delivery day;
- d. Whether the Team considered potential advertising competition from privately delivered newspapers if USPS relinquished the “iconic” 6 day delivery, and if so, how that consideration factored into its decision.

RESPONSE

Interrogatory NNA/USPS-T1-7 reflects a characterization of a statement attributed to the Postmaster General that would be consistent with the service changes under review in this docket.

- a. [Redirected to the USPS for an institutional response]
- b. Such factors were not examined for the purpose of determining whether any particular class or product or type of mail should be accorded exceptional status and continue to be delivered to street addresses on Saturdays in the 5-day environment. Nor were such factors considered for the purpose of examining whether any mail should be accorded less service than otherwise might be implied by a five-day street delivery environment.
- c. The Team harbored no such belief. The Team was told during the stakeholder input process by Periodicals mailers that some would be able to adjust and some would not be able to adjust. Those that could not

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RESPONSE to NNA/USPS-T1-8 (continued)

adjust said that they would use alternative delivery methods. This confirmed our expectation of the reaction of Periodicals mailers.

- d. To varying degrees in different locations, non-postal access to newspapers has been a long-standing component of the newspaper distribution chain, whether through news stands, retail stores, vending machines, or via alternative channels for delivery to street addresses. The Team was aware that hard-copy mail senders, including publishers with a strong preference for Saturday delivery, might examine the availability and pros and cons of alternative Saturday delivery options. The Team considered the change in volume from all products due to implementation of five-day delivery in the quantitative market research conducted by witness Elmore-Yalch of ORC (USPS-T-8, at 12 - 31). See the testimony of witness Whiteman, USPS-T-9, at 10 - 16. We were not concerned with who would receive volume diverted from the Postal Service, but with how much volume might be diverted.

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NNA/USPS T1-9

Do you consider the Postal Service with its present mail mix to be an advertising medium?

RESPONSE

The Postal Service has always served as an advertising medium, to the extent that advertising has been a component of its various classes and products.

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NNA/USPS T1-10

Did the Team assign any of its analysts or market researchers to examine whether rural America would be disparately impacted by the elimination of Saturday mail; if not, why not; and if so, please state whether any measurements or tests of rural business customers' reactions were taken. If you respond in the affirmative, please provide the results of any measurements or tests.

RESPONSE

The qualitative market research conducted by witness Elmore-Yalch of ORC (USPS-T-8, at 4 - 5) included focus groups composed of individuals living in rural areas. See also the testimony of witness Whiteman, USPS-T-9, at 3 - 7. Since the research was qualitative, no measurements or tests could be made.

My understanding is that respondents in the focus groups from rural areas had the same reactions to the five-day delivery concept as those from suburban and city-downtown areas. Most respondents want to ensure the financial viability of the Postal Service and would be willing to accept elimination of Saturday delivery. This included the reaction of those living in rural areas.

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NNA/USPS T1-11

Did the Team believe that the Postal Service would hear from business mailers that more extensive cost-cutting should be considered in lieu of service cuts? If your response is in the affirmative, please explain whether that is why the survey materials provided by witness Elmore-Yalch offered only 5 day delivery and a 10 percent rate increase in a dichotomy of choices. If not, please explain why respondents to surveys and participants in interviews were not offered an opportunity to select greater cost-management in lieu of the other options.

RESPONSE

As explained by witness Corbett (USPS-T-2), the Postal Service has engaged in extensive cost-cutting in recent years, to great effect. These cost-cutting measures have affected all aspects of our operations and administration. We are proposing to eliminate Saturday delivery to street addresses and collections and processing as a way to further reduce costs by over \$3.1 billion per year. These operational and service changes are being proposed to contribute to the financial stability and viability of the Postal Service. The concepts of “more extensive cost cutting” and “cost cutting that involves a reduction of service on some level” are not mutually exclusive. Other than five-day delivery operations proposed in this docket, the Postal Service is not aware of any one operational change that could come close to reducing annual costs on the order of \$3 billion.

The mail sending and receiving community is comprised of hundreds of millions of households and businesses. They would be expected to react to the Postal Service’s five-day plan in a wide variety of ways, including the one described in the question. The Postal Service did not design its market research in anticipation of the reaction described in the question. Postal management is charged with the responsibility of determining the extent to which cost-cutting will

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RESPONSE to NNA/USPS-T1-11 (continued)

be of such a nature as to affect a change in service. The objective of the market research was not to solicit a variety of cost-containment ideas from customers, but to determine reactions to five day-delivery operations as a cost-containment operating concept developed by postal management after considerable internal analysis and consultation with customers.

The Team did not anticipate that customers (businesses or consumers) would ask for more extensive cost-cutting measures than eliminating Saturday delivery, collections and processing. The research conducted by witness Elmore-Yalch (USPS-T-8, at 7 - 11) on behalf of the Postal Service confirmed that expectation. Also see the testimony of witness Whiteman, USPS-T-9, at 3 -10.

See the response of witness Whiteman to NNA/USPS T-9-3 for an explanation of why respondents to the market research were asked about five-day delivery and a significant or 10 percent increase in prices.