

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

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

Docket No. N2010-1

**WRITTEN STATEMENT OF
CLARION FELCHLE
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

RAPID CITY FIELD HEARING

JUNE 23, 2010

My name is Clarion "Clem" Felchle. I am the Manager of the Dakotas District for the United States Postal Service. I welcome the Postal Regulatory Commission to Rapid City, South Dakota. As you may know, "Dakota" is derived from the Sioux word for "friend." Even if your visit to Rapid City turns out to be a short one, I am confident that you will leave here with a true sense of the Dakota spirit that makes life in this part of the country so special.

I have been Dakotas District Manager since June 2005. I began my postal career in 1974 in Grand Forks, North Dakota. I have been privileged to serve as a craft employee and as a manager. I've been a front-line supervisor, a mid-level manager, Director of Mail Processing, Director of City Operations, Bulk Mail Center Manager, Senior Plant Manager and Postmaster. The highlight of my career has been to come back home to the Dakotas District as the District Manager, working in a place where it is great to live. I love the job and the great work ethic of the more than 4700 employees who are part of our Dakotas team. As you are aware, the Postal Service is facing serious challenges. Despite those challenges, Dakotas District employees are dedicated to providing something that no other part of the postal network can provide -- Dakotas quality customer service.

In response to the Commission's invitation, I will share details concerning postal operations, finances and services in the Dakotas District. My goal in sharing local data is to help broaden the Commission's understanding of the nature of the financial and operational challenges that have led to the Postal Service's decision to implement Saturday service changes.

Our District administrative office is located at 2801 South Kiwanis Avenue, Suite 400, Sioux Falls, South Dakota 57105-4239. We manage all postal acceptance, processing, transportation and delivery operations for the states of North Dakota and South Dakota, as well as the northwest corner of the state of Minnesota. Our service area includes the following 3-digit ZIP Code areas: 565, 567, 570 through 577, and 580 through 588. Mail in the District flows through Processing & Distribution Centers located in Sioux Falls SD and Fargo ND. The District operates about 740 Post Offices, 99 percent of which currently are open on Saturdays. In our larger cities, these facilities are supplemented by the operation of a total of eight stations and branches and five carrier annexes. More than 1500 collection boxes provide Dakotas District customers convenient access to the mailstream. All of these boxes currently have Saturday pick-up.

There are more than 630,000 street addresses and a total of approximately 234,000 Post Office Box addresses in the Dakotas District, including more than 37,000 Group E boxes provided for rural addresses for which there is no carrier delivery. Just under 50 percent of our street deliveries are on city carrier routes. Almost 43 percent of street deliveries are performed by rural carriers and more than seven percent are provided by highway contract route drivers.

Of the 45,000 delivery points in the District served on more than 380 highway delivery service routes, 1,070 addresses on 31 of those routes presently only receive mail delivery three days per week. We have four customers who are so remotely located that we are able to provide delivery only one day per week.

Of the Districts you have selected for your field hearings, ours is easily the largest one geographically and probably the most heavily rural in character.

In order to maximize convenience for our customers, postal retail operations in the Dakotas District are supplemented by the availability of more than 150 stamp consignee locations at which postal customers can conveniently purchase stamps at grocery stores, office supply outlets and other retail locations. Participating retailers include CVS, Safeway, Sam's Club, Staples, WalMart and Walgreens. In addition, stamps may be purchased within the Dakotas District at more than 100 Wells Fargo/Advantage bank automated teller machines. The Dakotas District also has four Approved Shipper locations and 89 Contract Postal Units. Over the past few years, these CPUs have brought in about a 70/30 mix of stamp revenue versus weigh-and-rate traffic. Almost 95 percent of our CPUs are open on Saturdays.

I understand that the Commission is reviewing the Postal Service's plan for five-day street delivery and related service changes. That plan would eliminate Saturday delivery of all mail to street addresses (with the exception of Express Mail). The plan also would eliminate collection of mail on Saturdays from delivery points and regular collection boxes, as well as the Saturday processing of outgoing mail.

The processing of incoming mail will not change, and Post Office boxes will continue to receive mail Monday through Saturday. Postal retail units will also continue to provide window service on Saturdays. The Postal Service intends to implement these changes during calendar year 2011, though an exact

implementation date has not been set. As the Commission is aware, the Postal Service's plan to implement five-day delivery is contingent upon Congress not enacting a prohibition for fiscal year 2011. I will leave speculation about the outcome of the ongoing legislative process to others.

The justification for the service changes is presented in detailed written testimony submitted by several senior postal executives from Headquarters and other expert witnesses, all of whom are scheduled to testify before the Commission in Washington DC next month. I will defer to those witnesses to explain the operational details, the cost and revenue implications, and the national policy issues relating to the proposed service changes. I trust that the Commission will find the hearings next month informative and enlightening.

I know that the Commission regularly reviews extensive national operational and financial data and that you are generally familiar with the grim volume, cost and revenue trends that the Postal Service has been experiencing. Of the four postal Districts you visited last month, I am told that three of them -- Las Vegas, Sacramento and Memphis -- have all suffered very serious declines in volume and revenue over the past few years. Unfortunately, the numbers tell a similar story here in the Dakotas District.

From Quarter 1 of Fiscal Year 2005 to the same quarter in 2010, the Dakotas District experienced a cumulative 20 percent volume decrease. At the same time, the total number of city and rural carrier delivery points in the District increased by seven percent. As a result, total volume per delivery point has declined by 25 percent. The Dakotas District has experienced a 12 percent

decline in cancellations, and a five percent decline in retail transactions in recent years. Still, total operating revenue for the Dakotas District has increased cumulatively by a total of one percent from the first quarter of FY 2005 to the first quarter of FY 2010. Since our District's mail revenue has held stable despite national trends, we have experienced only a cumulative five percent decrease in revenue per delivery point over this five year period. At a time when the Postal Service as a whole is experiencing very negative volume and revenue trends, I am grateful that our District is not suffering to the same degree as others you have visited.

My managers and I maintain regular contact with postal customers throughout the Dakotas District. I monitor District service performance every day. The good news is our customers routinely tell us that they are increasingly satisfied with the service we provide. The bad news is that some of the customers frequently share their opinions about how the Internet provides attractive levels of convenience and efficiency, and how it changes the way many of them choose to conduct personal and commercial transactions traditionally conducted by mail. I am not aware of any forecast or report regarding how much First-Class Mail has been lost permanently here in the Dakotas District or nationally as a result of electronic diversion. Internet access in many portions of my District may not be as high as in some parts of the Chicago District, for example. But, as Internet access continues to expand to rural areas, I expect more rural mailers to take advantage of its benefits in ways that could diminish some types of mail volume, even if we pick up a share of packages of

merchandise ordered over the Internet. I have no idea whether the Postal Service will ever see a return to mail volume of over 210 billion pieces that we experienced before the recession. Change is definitely occurring and the Postal Service needs to adjust.

As a District Manager, I confer regularly with my Area Vice President, who stays in close contact with headquarters in Washington, DC. I am aware of the financial pressures facing the Postal Service and the need for drastic action to reduce costs significantly. Accordingly, I am not surprised that senior postal management has determined that operational and service changes, such as the ones being reviewed in this proceeding, are a necessary step in any plan for improving the long-term financial stability of the Postal Service.

When the Postal Service moves forward and implements the service changes that the Commission is reviewing, I will be responsible, under the direction of the Western Area office in Denver, for ensuring that my managers and retail and delivery employees communicate proactively, effectively and accurately with our customers. It is critical that customers clearly understand what changes are coming, when those changes will occur, and what choices there will be for maximizing the continued use of the mail.

Five-day delivery and the other service changes will entail some adjustments for many customers; minor for some and more substantial for others. As someone who is committed to and responsible for improving customer satisfaction, I do not relish the prospect of requiring some customers to adjust their personal or business routines and service expectations. I realize that

certain customers may find that our new operating model will not suit their mailing and shipping needs. Still, I am among those who firmly believe that our ongoing commitment to continuous service improvement can and will attract customers to postal services.

The household and business customers who I talk to all seem to understand that the Postal Service faces difficult choices and that no easy solutions lie within our grasp. Customers emphasize to me that, if change is inevitable, they want plenty of advance notice in order to adequately plan to adjust. This is why the Postal Service has decided to give six months advance notice of the implementation date selected for our five-day plan. When an implementation date is established and a communications plan is launched, I am committed to ensuring that Dakotas District residential and business customers can transition as smoothly as possible and understand how they can continue relying upon the Postal Service to meet their mailing and shipping needs.

The Postal Service has a user-friendly website “five-day delivery” at USPS.com (<http://www.usps.com/five-daydelivery>). It provides planning guides and frequently asked questions with answers tailored specifically for household and commercial customers. The website can help inform customers now and support our communications efforts later on. However, that website will only serve to supplement our direct and active outreach to customers.

When the time comes, I understand that multiple mailings to residential and business customers will explain all service changes and customer options. This will be especially important in those portions of my District where customers

do not have high-speed Internet access or any access at all. New signs designed to inform our customers will appear in retail lobbies; modified labels on collection boxes will reflect the elimination of Saturday collections. Fortunately, television and radio are more ubiquitous in the District. Newspapers and television and radio broadcast news programs have proven to be useful tools in “getting the word out” about the possibility of a change to five-day delivery service. When it becomes a reality, we will coordinate with the Western Area and Headquarters to provide local broadcast and print news media with information that supplements our direct customer communications.

I appreciate the opportunity to appear before you today and provide this statement. I can now try to answer your questions. If I am not the right person to provide an answer, I will work with Postal Service counsel to ensure that the Commission gets a response to any outstanding questions you may have.
