

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

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORIES
OF THE GREETING CARD ASSOCIATION, REDIRECTED FROM WITNESS
BRADLEY (GCA/USPS-T6- 15, 17-18)
(July 14, 2010)

The United States Postal Service hereby responds to the following
interrogatories of the Greeting Card Association, filed on June 30, 2010 and redirected
from witness Bradley:

GCA/USPS-T6-15, 17-18

The interrogatories are reprinted below, and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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GCA/USPS-T6-15

In response to GCA/USPS-T6-4, you note that your “task was to estimate the potential cost savings from moving to five-day delivery”. Please estimate the potential cost savings under the following plausible “operations” scenario. (If unable to answer, please have the question redirected to another USPS witness.)

Assume that as the result of collective bargaining in 2010-2011 the elimination of Saturday delivery in city and rural areas is accomplished *first* through the elimination of non-career delivery carriers, and *second* with regular career employees, only after all non-career options are exhausted. For rural carriers, please assume that all the Saturday savings would come from USPS witness Granholm’s “Rural Carrier Non-career Barg” employee type at a productive hourly rate (phr) of \$20.18. (See USPS-T-7, Attachment 1, p. 2.) For city carriers, please assume the savings would come *first* from “City Carrier TE” (\$24.47 phr) and “City Carrier Casual” (\$13.09 phr) employee types in witness Granholm’s testimony, and *second* from “City Carrier PTF” (\$36.33 phr) employee type, and *third* from “City carrier PTR”(\$39.79 phr), and finally *fourth* from “City Carrier FTR”(\$41.74).

Specifically:

- a. Please calculate the savings from eliminating Saturday delivery using the above cost assumptions and assuming there are no retirements.
- b. Please calculate the savings from eliminating Saturday delivery using the above cost assumptions and long run annual rates of retirement. For purposes of the “long run”, please use a simple annual average rate for carriers between 1986 and 2006.

RESPONSE:

[a]-[b] The Postal Service’s testimony in this docket addresses full-up City Delivery savings, after any transition period, which is how the Postal Service evaluates Capital projects. This question, however, appears to be asking for quantification of the savings as the Postal Service works through a transition period. Such amounts will change from month to month as the Postal Service

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reaches an equilibrium through, *inter alia*, attrition. This is not an exercise that the Postal Service was required to perform, and it did not.

This interrogatory does not posit a plausible operations scenario. It assumes that the Postal Service would resort to personnel actions such as layoffs, but ignores the impact of regulations promulgated by the Office of Personnel Management ("OPM") regarding reduction-in-force ("RIF") actions, and their impact on Postal Service preference eligibles.

It is not possible to posit what might occur if the Postal Service were to run a RIF, and then graft that analysis onto the calculation requested in this interrogatory. Even if this act could be performed it would lead to nothing more than mere speculation, as collective bargaining negotiations with the National Association of Letter Carriers, AFL-CIO, are due to begin later this year.

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GCA/USPS-T6-17

Please refer to your answer to GCA/USPS-T6-9. a., in which you note that adjusting network capacity depends in part on “the expected duration of the volume decline.”

- a. Would you agree that volume declines due to Internet diversion are permanent?
- b. If you answered “yes” to part (a) above, would you agree that network capacity should be adjusted *pari passu* with declines in volume due to Internet diversion? If your answer is anything other than an unqualified “yes”, please fully explain it.
- c. Is the Postal Service’s network capacity reduction fully reflecting the declines in volume due to Internet diversion or only partially reflecting those declines?

RESPONSE:

a. – c. Broadly speaking, volume declines due to Internet diversion are likely to be permanent. Please see the Postal Service’s response to GCA/USPS-T2-2 (redirected from witness Corbett), filed on May 17, 2010. As mail volume is declining month to month, however, particularly when it is declining at a rate vastly exceeding anything experienced in the post-Reorganization history of the Postal Service, it is simply not possible to know with certainty which volume declines are due to Internet diversion, and which are due to other factors. Operational adjustments to the network are made at the local level, on the basis of what is known, what can reasonably be surmised, and what is feasible. Thus, if a strong downward trend in volume is known, and if feasible adjustments can be made which seem unlikely to need to be reversed in a period of time over

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which the "transaction costs" of adjustment might exceed any operational savings, then it would not make sense to forgo such adjustments merely because no determination had been made regarding the exact proportion of the volume decline that is rooted in Internet diversion. This does not, however, mean that the optimal capacity adjustment is necessarily proportional to the total volume decline.

Perhaps over time it will become clearer which volume losses are Internet-related and which are not, but for now it would be premature to speculate whether network adjustments fully or only partially reflect Internet diversion. As indicated, the lack of such precise information would not justify a failure to make any adjustments. Moving to five-day delivery, though, is in fact a mechanism for reducing excess capacity.

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GCA/USPS-T6-18

In your answer to GCA/USPS-T6-10, you quote USPS witness Granholm's statement about carrier technicians no longer being necessary without reproducing its context. The next sentence on lines 20-22 of that testimony states that carrier technicians will fill jobs that "become vacant through attrition and the elimination of Transitional Employees."

- a. Transitional employees are paid \$24.47 at their productive hourly rate (phr), according to testimony from USPS witness Colvin. This is approximately 59 percent of the phr of \$41.74 for full time city carriers.

Please confirm that under 5 day delivery, Monday-Friday delivery costs will be increased as a result of substituting former carrier technicians for transitional employees. If you do not confirm, please explain fully.

- b. Have you factored in this cost increase in estimating your overall cost savings for five-day delivery? If so, please indicate where. If not, why not?
- c. Please confirm that the cost reductions, under six-day delivery, from attrition of full time career carriers that are not replaced would not exist under the five-day plan because carrier technicians would assume those jobs at comparable pay scales to carriers leaving the USPS from attrition. If you do not confirm, please explain fully.
- d. Please provide your best estimate of the number of carrier technicians eliminated under your cost savings calculations for five-day delivery, and the number of carriers leaving from attrition.

RESPONSE:

[a] Not confirmed. This assertion confuses adjustments during the transition path to five-day delivery with the cost savings achievable from five-day delivery. In calculating "full up" cost savings it is appropriate to measure cost savings at the wages for the employees that will ultimately be replaced.

[b] As explained in response to part a. there is no cost increase in the

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measurement of “full up” cost savings.

[c] In the current 6-day delivery environment, when a full-time regular assignment becomes vacant because the carrier assigned to a route leaves the Postal Service, the assignment is re-posted. There are no savings from attrition, as proposed in this question, because the route must still be delivered. Outside of a network change like switching from 6 to 5 days of delivery each week, City Delivery savings come from route consolidations, driven by declines in carrier workload.

[d] At the time when the Postal Service filed this case, there were between 25,000 and 26,000 Carrier Technicians. No attrition estimations were prepared for this case, nor were any such estimations necessary.