

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

**INITIAL COMMENTS OF THE
AMERICAN POSTAL WORKERS UNION, AFL-CIO**
(October 18, 2010)

In accordance with 39 U.S.C. § 3661, on March 30, 2010, the Postal Service filed a request for an advisory opinion on its proposal to eliminate Saturday delivery nationwide, except for delivery of Express Mail and deliveries to post office boxes that currently provide Saturday delivery.¹ Pursuant to Section 3661(c), the Commission established the present docket to consider this proposal.² The American Postal Workers Union, AFL-CIO (APWU) submits the following comments for consideration by the Commission.

For the reasons discussed below, the Commission should unequivocally advise the Postal Service that the elimination of Saturday delivery is a flawed concept based on insufficient study which will negatively impact the future viability of the Postal Service and should not be implemented.

I. A Drastic Reduction in Service is Not Warranted

The American public has benefited from postal delivery services six days per week since the 19th Century.³ Delivery six days per week is, as stated by Postal Service

¹ Request of the United States Postal Service for an Advisory Opinion on Changes in the Nature of Postal Services, March 30, 2010 (Request).

² Commission Order No. 436, April 3, 2010.

³ Tr. 2/153 lines 8-10.

Witness Samuel Pulcrano, an “iconic feature of the national postal system.”⁴ An irreversible decision to undo this “iconic feature” and reduce delivery service by 17 percent would require the utmost caution and careful study of the circumstances allegedly warranting such an important change. In the instant case, the Postal Service decision to move forward with a plan to eliminate a day of delivery was made during the “worst recession on record since the Great Depression.”⁵ In fact, the recession is “unprecedented in the post World War II era in terms of suddenness and severity.”⁶ The Gross Domestic Product fell by 3.9 percent, private employment fell by 7.3 percent and real investment spending declined by 35.7 percent.⁷ In 2009, the Postal Service experienced its “sharpest decline in mail volume in the history of the Postal Service.”⁸ This was due in large part to the fact that the “credit crisis disproportionately damaged the very economic sectors on which demand for postal services depends most – real estate, banking, mortgage lending, credit card lending, insurance and advertising.”⁹ Despite the unprecedented nature of the recession and the severity of the volume loss sustained by the Postal Service during this time, the Postal Service nevertheless relies on this historic decline in volume to support its claim that the Postal Service must eliminate Saturday delivery. This claim is flawed for several reasons.

First, it is widely expected that postal volumes will recover from the FY2009 levels.¹⁰ Moreover, as recently acknowledged by the Commission in its decision denying the Postal Service’s request for an exigent rate increase, “there is every reason to expect that the Postal Service can, and will, right size its operations in the reasonably near future.”¹¹ The Postal Service has been actively working to implement cost adjustments and has done an exceptional job cutting costs in response to recent volume declines. For example, in FY2009, the Postal Service reduced costs by \$6 billion, and in FY2010, the Postal Service has reduced workhours faster than volume

⁴ USPS-T-1 p. 3 lines 10-12.

⁵ Tr. 3/604 lines 7-10.

⁶ PRC Order No. 547, p 50, September 30, 2010.

⁷ Tr. 3/605 lines 15-25.

⁸ Tr. 2/167 lines 10-13.

⁹ PRC Order No. 547, pp. 50, 65.

¹⁰ Tr. 2/72.

¹¹ PRC Order No. 547, p 67.

has declined.¹² Cost savings will continue to be realized as the effects of other initiatives, like the FSS deployment¹³ and the 69 AMP studies currently underway are realized.¹⁴ In fact, the Postal Service is already doing better in FY2010 than predicted. As of May 2010, Postal Service net income is \$1.3 billion better than it had projected for this year and revenue is higher than projected.¹⁵ We respectfully submit that these data cannot support the proposed elimination of Saturday delivery.

The Postal Service's recent cost cutting efforts have produced a viable organization. But for the statutory requirement to pre-fund retiree health benefits at an unrealistic accelerated rate, the Postal Service would have been profitable over the last three years.¹⁶ The Postal Service is currently required by law to make substantial contributions to the Postal Service Retiree Health Benefits Fund. During FY2007-FY2009 the Postal Service contributed \$12.4 billion to this Fund.¹⁷ This alone exceeds the cumulative net loss of \$11.7 for those three years.¹⁸ The Office of the Inspector General of the United States Postal Service is investigating the substantial overfunding of the Postal Service pension and retiree health care funds and reports that if it were to recoup the amounts overfunded, it could potentially recover \$142.4 billion.¹⁹ If these over-funding problems are resolved, the Postal Service will be able to prefund its retiree health benefit obligations on an appropriate schedule, pay its ongoing premium obligations for current employees, and pay off its interest and its debt to the Treasury Department.²⁰ USPS Witness Corbett testified that if the Postal Service "had access to \$75 billion cash [from Civil Service Retirement System overpayments], the impetus for the shift to five-day delivery would be unnecessary for the foreseeable future."²¹ Therefore, the Postal Service does not need to cut service to align its costs with volume.

¹² PRC Order No. 547 pp. 80-81. For a full summary of the Postal Service cost cutting successes see Order No. 547 Section IV. D.

¹³ See http://ribbs.usps.gov/flat/documents/FSS_Deployment_Information/flat_deployment.htm

¹⁴ See <http://www.usps.com/all/amp.htm>

¹⁵ Tr. 3/610-612.

¹⁶ Tr. 3/584 lines 3-12.

¹⁷ Tr. 3/594-595.

¹⁸ Tr. 3/594-595.

¹⁹ USPS OIG, Management Advisory – Summary of Substantial Overfunding in Postal Service Pension and Retiree Health Care Funds (Report Number FT-MA-10-002), September 30, 2010 < http://www.uspsoig.gov/foia_files/FT-MA-10-002.pdf>

²⁰ Tr. 3/614-615.

²¹ Tr. 3/571.

The Commission's Advisory Opinion should make clear the Postal Service and the mailing public would be better served by seeking relief from the retiree health benefit prefunding obligation and by working to recover the overpayments to the Civil Service Retirement System Fund than reducing delivery services.

II. Postal Service Has Not Ensured 5-Day Delivery Complies with the Requirements of Title 39.

Not only is the concept of 5-day delivery an unnecessary reaction to unprecedented economic conditions and unique legal mandates, the 5-day delivery plan also violates the requirements of Title 39. The data and research purporting to support this flawed concept do not provide the Postal Service, the Commission or the Congress with any genuine basis for knowing and evaluating the impacts of a move to 5-day delivery. The Postal Service has not evaluated the impact of the proposed change on a truly representative sample of the United States. It has not assessed the needs of key business customers or the impact on all products. Thus, there is no guarantee that the Postal Service will continue to "provide prompt, reliable and efficient services to patrons in all areas" and "provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining" as required by Section 101 of Title 39.

The qualitative and quantitative market research commissioned by the Postal Service is not representative of the entire postal community. Consequently, it does not provide an accurate assessment of the impact on customers and volume from eliminating Saturday delivery. The Postal Service errs in asserting that a majority of consumers support the elimination of Saturday delivery and in asserting that volume would only be minimally impacted by eliminating Saturday delivery. The research relied on by the Postal Service in making these assertions is unreliable for several reasons and should be disregarded.

First, the research conducted by Opinion Research Corporation (ORC) began with the assumption that Saturday would be the day that delivery would be cut. The ORC qualitative study then primarily sought to discover how consumers would adjust to

the elimination of Saturday delivery rather than determine if people preferred a loss of Saturday delivery over any other day.²² There was no attempt to ascertain if another day of the week would be preferable to postal business and residential customers; the Postal Service was already 99.9 percent sure about the choice of Saturday and nothing could make it move from that position.²³ The choice of Saturday was greatly influenced by the fact that Saturday has the lowest volume and that 30 percent of businesses are closed on Saturday.²⁴ The Postal Service failed to consider that Saturday has the second largest volume of First Class Mail (after Mondays) and has, by far, the largest volume of parcels than any other day.²⁵ First Class Mail makes the largest revenue contribution and the Postal Service enjoys a competitive advantage in package delivery.²⁶ Yet the Postal Service made no effort to determine the value of its competitive advantage.²⁷ The Postal Service also did not consider the impact on individual consumers and the other 70 percent of businesses that are open on Saturday in making its decision regarding the elimination of Saturday delivery.

Additionally, the ORC study presented the participants with a false choice – either the elimination of Saturday delivery or a 10 percent increase in rates. The Postal Service did not inform participants that it was legally prohibited from increasing rates above the rate of inflation.²⁸ The stated purpose for the choice between a loss of Saturday delivery or a substantial rate increase was to “gain a sense of the strength of the participants’ feelings regarding five-day delivery.”²⁹ However, given this “Hobson’s choice” it is not clear that the study shows anything other than a stronger dislike for a rate increase than a loss of delivery. Regardless, it shows no preference for Saturday.

More problematic, the market research did not adequately represent the views of postal consumers from all geographic locations across the United States. During its qualitative assessment, ORC did not interview anyone in Alaska, Hawaii or North Dakota, and only one person was interviewed from South Dakota, Wyoming and New

²² Tr. 5/1269 lines 6-11.

²³ Tr. 2/177,188.

²⁴ Tr. 2/177

²⁵ Tr 2/220 lines 9-15.

²⁶ Tr. 2/154, lines 9-13.

²⁷ Tr. 2/115

²⁸ Tr. 5/1080.

²⁹ Tr. 5/1078.

Mexico.³⁰ Hawaii and Alaska, in particular, have unique mailing needs, and as Alaska Senator Murkowski recently testified, “the information [the PRC] received from hearings held in large, lower 48 cities will bear little relevance to the conditions and concerns of many of the people of [Hawaii and Alaska].”³¹ Residents of Alaska and Hawaii rely on postal services for the delivery of basic and necessary items. Residents of Alaska and Hawaii already face longer delivery times due to their distance from the 48 contiguous states and it appears the Postal Service is unconcerned with the potential consequences of its decision on these states.³²

The focus groups also did not provide information about the rural areas of the country. The entire southwest of the United States was excluded from these groups.³³ One simple way to have sought geographic diversity would have been to inquire who provided the mail service, rural letter carrier, city carrier or through a non-carrier Post Office, but this was not asked.³⁴ Instead, ORC relied on participants from “rural communities surrounding a metropolitan area”³⁵ to represent rural America, though Postal Service witness Elmore-Yalch testified that rural areas surrounding large cities are not representative of rural areas in less densely populated regions of the country.³⁶ The focus groups also did not include occupations that were likely to be found in mostly rural areas.³⁷ Additionally, there were substantially more respondents in the income groups above the median income in the United States than below,³⁸ thus giving more weight to the opinions of consumers whose dependence on postal services is likely smaller than lower income persons. Thus, the Postal Service has not provided a good basis for determining the impacts on rural America much less on Hawaii or Alaska.

While the Postal Service provided little information about the potential impact on the rural customer, Postal Service witness Starr did provide a limited set of data that

³⁰ Response of USPS Witness Elmore-Yalch to Request at Hearing Tr. 5/1176, July 30, 2010.

³¹ Senator Lisa Murkowski Remarks *As Prepared* U.S. Postal Service Proposal for Five-Day Delivery Week, September 16, 2010

³² Id. see also Senator Daniel K. Akaka Prepared Remarks The Impact of Eliminating Saturday Delivery Service on the People of Hawai'i, October 4, 2010

³³ Tr. 5/1120 lines 3-9.

³⁴ Tr. 5/1138.

³⁵ Tr. 5/1125 lines 16-17.

³⁶ Tr. 5/1136.

³⁷ Tr. 5/1138 -1140; Tr. 5/1123-1125

³⁸ Tr. 5/1138 -1140; Tr. 5/1123-1125

showed, on average, the mail transit to and from rural areas in Oregon takes longer with 40-50 percent of the rural origin mail taking 2 or more days to get to its destination compared to only about 20 percent of the urban-to-urban mail.³⁹ If these numbers are representative of rural users, adding an extra day onto the transit time of mail would disproportionately impact the rural users.

The ORC research also omitted key businesses. For example, no newspaper publishers participated in the small business focus groups.⁴⁰ Pharmacy Benefit Management companies (PBMs), like Medco Health Solutions, likewise, were not included in the market research.⁴¹ Both of these groups have indicated a strong opposition to the elimination of Saturday delivery.⁴² Medco and its customers are concerned about timely delivery of essential medicines without Saturday delivery. Tom Underkoffler, Director of Logistics of Medco, testified that reducing delivery to five days would have a detrimental impact on service which would be largely and unfairly felt by elderly and rural dwelling patients.⁴³ National Newspaper Association Witness Heath convincingly testified that the elimination of Saturday delivery and hence, Saturday publication, would seriously damage periodicals.⁴⁴

Clearly, the move to five-day delivery will have consequences far greater than those considered by the Postal Service. Communities and customers least able to adapt to a reduced delivery environment and most dependent on six-day delivery have not be given due consideration by the Postal Service. This is discriminatory, and in direct conflict with the legal mandate that the Postal Service “bind the Nation together” and provide “prompt, reliable, and efficient services to all patrons in all areas.” 39 U.S.C. § 101. Therefore, the Commission should firmly advise the Postal Service against implementing its 5-day delivery plan.

³⁹ USPS-RT-3 and Attachment.

⁴⁰ Tr. 5/1101.

⁴¹ Tr. 5/1194

⁴² See Medco, See Heath

⁴³ Comments of Tom Underkoffler, Medco Health Solutions, May 26, 2010.

⁴⁴ NNA-T-1.

III. The True Impacts on Volume of Cutting Service are Unknown.

The Postal Service relies exclusively on the ORC quantitative research to estimate mail volumes in a 5-day delivery environment.⁴⁵ As discussed above, the ORC market research did not include consideration of all business sectors or geographic needs of postal users. In addition, it did not examine the impact on all products. There was no assessment of package services, parcel select, periodicals, or Enhanced Carrier Route Presort Standard Mail.⁴⁶ Furthermore, this research was conducted over a year ago, at the height of the largest economic crisis since the Great Depression, not a representative time going forward.

These factors alone should invalidate the estimates of future mail volumes if Saturday delivery is discontinued. But the future volume estimates are also facially unrealistically low. Further, even if valid, these estimates do not take into account other initiatives that will impact service and cause an additional reduction in volume. As a result, the Postal Service's forecast of volume and revenue loss in a 5-day delivery environment is likely much lower than what can be expected. Of concern, Postal Service has no current plan to mitigate the decrease in service to retain volume.

A. Postal Service Has Underestimated Volume Decline and Overestimated Savings as a Result of 5-Day Delivery.

The objective of the quantitative study conducted by ORC was to determine the changes in volume that would likely occur with five-day delivery.⁴⁷ To do so, ORC designed a study wherein participants were to record separately the number of mail pieces sent in the last 12 months, the next 12 months without any changes, and during the next 12 months with 5-day delivery.⁴⁸ Participants were also asked to score the how likely it was that their mail volume would change in a five delivery day environment on a scale of 0 to 10, with 10 being most likely to change.⁴⁹ This number was transformed into a percentage with 10 equaling 100 percent. ORC then multiplied this "likelihood"

⁴⁵ Tr. 5/1286

⁴⁶ Tr. 5/1088, 1336.

⁴⁷ Tr. 5/1084.

⁴⁸ See USPS-T8.

⁴⁹ Id.

factor by the stated volume with 5-day delivery to provide the Postal Service with future volume estimates.⁵⁰ However, this methodology results in a downward bias in the estimate of how much volume will be lost as a result of 5-day delivery.⁵¹ Multiplying any number by a percentage less than 100 necessarily results in a smaller number.⁵² Therefore, the lost volume estimate that the Postal Service relied on to estimate revenue loss under 5-day delivery is artificially low, resulting in an overly optimistic revenue loss estimate.

The Postal Service has also underestimated the costs of transitioning to five-day delivery and the resulting savings. The Postal Service estimates that the transition will cost only \$110 million over only one year. As stated by NALC Witness Crew, “this is entirely unrealistic”⁵³ Consequently, the Postal Service compounds its arbitrarily low estimate of volume loss with an artificially high savings expectation, leaving the true resulting revenue and savings of a reduction in delivery days unknown.

B. No Consideration of Impact of 5-day Delivery in Combination with Other Initiatives that May Affect Service.

The Postal Service also fails to consider the combined impact of the elimination of Saturday delivery with other cost savings measures on overall service. For example, the Postal Service has recently implemented 34 Area Mail Processing studies and another 35 are at various stages of implementation.⁵⁴ The purpose of these studies is to identify ways to reduce costs by consolidating mail processing facilities. However, the Postal Service has not considered the impact of a 5-day delivery workload in these studies.⁵⁵ Nor has the Postal Service coordinated its expected implementation of 5-day delivery with the completion of FSS deployment.⁵⁶ Both of these initiatives impact the volume processing capabilities and transit times of the Postal Service and thus affect the Postal Service's ability to provide adequate and effective delivery service.

⁵⁰ Id.

⁵¹ NALC-T-4 p. 6

⁵² Tr. 5/1289-1293.

⁵³ NALC-T-4 p.10.

⁵⁴ <http://www.usps.com/all/amp.htm>

⁵⁵ Tr. 6/1529.

⁵⁶ Tr. 2/298.

Moreover, the Postal Service has not examined the combined impact of this proposal, which increases customers' dependence on post offices, with its proposal to reduce its number of stations and branch locations. As one example, while the current proposal provides for the continued delivery of mail to PO Boxes, thereby likely increasing the demand for PO Boxes, the Postal Service's initiative to close numerous stations and branches would require the relocation of PO Boxes. Yet, the Postal Service has not evaluated whether it can meet the demands of new PO Box customers while providing adequate box vacancies for new customers created by the elimination of Saturday street delivery.⁵⁷

Furthermore, since less mail arriving on Friday afternoon and evening will be processed Friday evening and early Saturday morning, it seems unlikely that as much PO Box mail will be delivered on Saturday under a 5-day scenario as compared with current 6-day delivery. It is also possible that if relatively little mail is going to stations and branches or rural post offices, the cost of transportation of this mail would be unjustified and delivery to boxes on Saturday could well be the next service cut; or alternatively the price of PO Box rentals could increase. The Postal Service plan does not consider such a circumstance. By omitting consideration of this and other measures that will affect service, the Postal Service is relying on an incomplete picture of what the actual impacts will be to its customers.

C. Customer Concerns and Related Impact on Volume Not Considered.

The Postal Service proposal to reduce delivery days neglects to consider the needs of various customers and includes no national plan to react to those needs.⁵⁸ As a result, it is unknown what the real impact on volume will be from a loss of Saturday delivery. Incredibly, the Postal Service has conducted no evaluation of the relationship between customer satisfaction with postal services and the use of the Postal Service.⁵⁹ However, as acknowledged by USPS Witness Boatwright, "all else equal, when the quality of a product falls, demand for the product falls."⁶⁰ In the instant case, the Postal

⁵⁷ Tr. 2/300

⁵⁸ Tr. 2/489.

⁵⁹ Tr. 2/507.

⁶⁰ Tr. 11/3191, lines 1-7.

Service is proposing to reduce delivery service by 17 percent without any corresponding decrease in price or by increasing the value of the product. Notably, after filing the instant request, the Postal Service sought permission from the Commission to pierce the rate cap and raise postal rates beyond the rate of inflation.⁶¹

The Postal Service has also indicated that it does not intend to adjust access to postal services in a 5-day delivery environment despite the clear resulting reduction in access and service to its customers. Specifically, the Postal Service does not intend to adjust collection box schedules,⁶² and it has no current plan to increase the retail hours of post offices to accommodate an increase in retail lobby traffic as a result of the discontinuance of Saturday delivery.⁶³ The attitude on this point is best exemplified by Postal Witness Pulcrano's recent testimony wherein he stated "just because you go to five [delivery days] it doesn't mean that the whole world collapses for them. It is simply making some adjustments."⁶⁴ This is unacceptable from a monopoly public service provider. Moreover, the Postal Service is aware that one way customers will adjust is to leave the postal system. Market research participants and non-profit organizations acknowledged that they could make more use of the internet if Saturday delivery is discontinued.⁶⁵ Newspapers will increase use of private delivery.⁶⁶ This is problematic for a business seeking to remain viable.

Yet the Postal Service remains willfully ignorant to the magnitude of costs that may be incurred by postal customers with 5-day delivery and either unable or unwilling to mitigate them.⁶⁷ For example, the Postal Service has "not conducted any analysis of changes in production schedules of publishers or any other industries."⁶⁸ The Postal Service has not investigated the cost of these delays to remittances mailers.⁶⁹ As discussed above, the Postal Service failed to fully consider the impact of a reduction in service on rural communities or on the special needs of residents in Alaska and Hawaii.

⁶¹ See PRC Docket R2010-4.

⁶² Tr. 2/337.

⁶³ Tr. 2/502, 357.

⁶⁴ Tr. 2/165 lines 3-6.

⁶⁵ Tr. 5/1200, 1317.

⁶⁶ Tr. 5/1309, 1342.

⁶⁷ Tr. 2/163 lines 18-24.

⁶⁸ TR. 2/77.

⁶⁹ Tr. 5/1307.

National Association of Letter Carriers Witness, and noted Postal Service economist, Michael Crew asserts that reducing frequency of delivery services reduces the quality of postal services.⁷⁰ The reduction in quality then leads to a decrease in the demand for postal products and services, all else equal.⁷¹ The Postal Service relied solely on market research that, by design, underestimated the loss in volume, and thus revenue, as a result of moving to five delivery days. That the Postal Service ignored the concerns of its customers and makes no plans to mitigate the impact of a reduction in service compounds this underestimation. Worse, the transition to 5-day delivery would be irreversible if the economic situation of the Postal Service becomes dire.⁷² The true impacts of it have not been studied, but will likely result in a larger volume decrease than predicted. The expected savings will likely not be realized. In the end, the Postal Service and its customers will be worse off. Therefore, the Commission should strongly advise the Postal Service to abandon its 5-day delivery plan.

IV. The Postal Service Should Pursue Other Strategies to Remain Viable.

The Postal Service's 5-day delivery plan is contrary to what it should be doing to ensure that it remains viable far into the future. The Postal Service expresses concern over electronic diversion, yet suggests a reduction in delivery that will certainly drive more postal customers to electronic means. It holds a competitive advantage in package delivery services, yet is willing to throw it away and open the door for its competitors to take over. During the past few years, the Postal Service has repeatedly taken steps to make it less accessible to consumers. For example, the Postal Service has reduced collection boxes; it has reduced retail hours in some locations and it has sought to close hundreds of stations and branches and other postal facilities across the Nation. Now it seeks to reduce further its presence in communities and its accessibility to consumers by eliminating Saturday delivery. This is a mistake and will result in a

⁷⁰ NALC-T-4, p. 3

⁷¹ Id.

⁷² Id. at p. 13. The Postal Service has not challenged NALC Witness Crew's assertion that "once Saturday delivery is eliminated, it will likely be irreversible." The Postal Service has not investigated whether the elimination of Saturday delivery is reversible. Tr.2/272 lines 12-17.

continuous loss of volume over time. Instead of driving mail from the system, the Postal Service should be devoting more resources towards expanding its services, perhaps increasing its competitive advantage and delivering other products on Sunday in addition to Express Mail. The Postal Service should expand its product offering; for example, it should investigate hybrid mail. The Postal Service should also seek a legislative fix to allow it greater flexibility with regard to creating new products, especially in the competitive products category where currently it is not allowed to experience a loss. Most especially, the Postal Service should double its efforts to get relief from the prefunding of retiree health benefits and a refund of its CSRS overpayments. This alone would allow the Postal Service to be financially viable for the foreseeable future.

V. Conclusion

For the above reasons, the American Postal Workers Union, AFL-CIO, urges the Commission to advise the Postal Service, firmly and unequivocally, that the elimination of six-day delivery is unnecessary, that it would be in violation of Title 39, and that it would be detrimental to the future viability of the Postal Service. The Commission should further advise the Postal Service that instead of eroding its customer base and relinquishing its competitive advantage, it should undertake serious efforts to increase access to postal services and add value to its services. Finally, the Commission should advise the Postal Service to continue its pursuit of relief from the unique legal requirements that have had the greatest impact on Postal Service finances.

Respectfully submitted,

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