Six-Day to Five-Day Street Delivery
And Related Service Changes, 2010

Docket No. N2010-1

REPLY BRIEF OF THE UNITED STATES POSTAL SERVICE

Respectfully submitted,

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I. Introduction.

In its October 15, 2010 Initial Brief, the United States Postal Service summarizes the evidence of record in Docket No. N2010-1, the scope of the Commission’s responsibilities under 39 U.S.C. § 3661, and the legal standards that apply to the exercise of those responsibilities. The USPS Initial Brief explains why the advisory opinion it has requested should conclude that the service changes are all consistent with the relevant policies of title 39, United States Code.

Because the major facets of the case were discussed in its Initial Brief, the Postal Service will not attempt to revisit every matter touched upon in that document. In this Reply Brief, the Postal Service focuses primarily on arguments propounded by various parties in their October 15 and 18, 2010, Initial Briefs (as well as the Motion to Strike filed on October 19, 2010) in order to demonstrate that none of the critics of its service change plan has provided a basis for the Commission to conclude that the changes are inconsistent with the policies of title 39. The fact that the Postal Service has not chosen to respond to every argument presented in each intervenor Initial Brief should not be interpreted as agreement by the Postal Service with points it does not address below.
II. Evidentiary or Not, The Field Hearing Record Provides Merely Corroborates The Direct Case of the Postal Service.

A. The Commission’s Approach to the Construction of the Evidentiary Record Has Created Uncertainty.

At pages 2-3 of its October 19, 2010, Motion to Strike, APWU asserts that the Postal Service waived its opportunity to contest the Commission's declaration of intent to elevate the field hearing testimony to full evidentiary status by not raising the issue earlier in this proceeding than in its Initial Brief.

The Postal Service submits that several factors provide a basis for concluding otherwise. They include the plain meaning of the Commission's long-standing evidentiary rules, the Commission's descriptions of the Docket No. N2010-1 field hearings as informal, compared to the hearings scheduled for Washington DC, the Commission's analogy to the Docket No. N2009-1 field hearings. These considerations led the Postal Service to focus on the plain language\(^1\) of 39 C.F.R. §§ 3001.20a(c) and 20b(c) as the foundation for how Docket No. N2010-1 would proceed. Accordingly, it remains the Postal Service’s view that, if it was the Commission’s intent to deviate from the and to establish different rules of procedure, the Commission was obliged to explicitly state such an intent and explain the basis for such a change to avoid the appearance of an arbitrary and capricious change in course.

It has been long-standing Commission practice, when adopting special rules for the conduct of its proceedings governed by the Administrative Procedure Act, to propose a set of rules and solicit comment before establishing

\(^{1}\) See, Tesoro Hawaii Corp. v. United States, 405 F. 3d 1339 (Fed. Cir. 2005; Lockheed v. Windall, 113 F. 3d 1225 (Fed. Cir. 1997).
such rules. This can take place at the pre-hearing conference where specific special rules or rule change proposals are discussed orally. Or the Commission can solicit written comments before adopting rules or rule changes. At the April 28, 2010 Docket No. N2010-1 pre-hearing conference, no indication was offered that witness statements at the field hearings being planned would be elevated to any status not conferred by 39 C.F.R. 3001.20a(c) and 20b(c). See Tr. Vol. I at 38-39. At the pre-hearing conference, in reference to the upcoming field hearings, the Presiding Officer emphasized:

I want to assure counsel that their presence is not required and that the Commission will not make final determination on procedural or substantive matters likely to affect the interest of formal Intervenors during the course of the field hearings. Counsel for Intervenors will of course be welcome at any such field hearings, but the Commission recognizes that travel to attend such hearings could present financial burdens. Furthermore, witnesses at each of these hearings will testify under oath, and the hearings will be transcribed. The transcript for each hearing will be made available as quickly as practicable. Field hearings were quite helpful during the Commission’s consideration of the Postal Service’s Stations and Branch Optimization and Consolidation Initiative and caused no procedural or due process problems.

Any Intervenor seeking to clarify or comment on evidence received during our field hearings may do so during the rebuttal phase of this case. If the Postal Service wishes to clarify or comment on evidence, it may do so as part of a surrebuttal.

Tr. Vol. I at 38-39. The Presiding Officer’s statement drew no comment from the Postal Service for two reasons. The first was the clear import of 39 C.F.R. §§ 3001.20a(c) and 20b(c), which operate to generally segregate from the evidentiary record in a Commission proceeding informal witness statements and public comments that are not:

-- subject to cross examination on the same terms applicable to that of formal participants;
formally introduced into evidence; and

a proper subject of official notice.

The second reason was the Commission's reference to the Docket No. N2009-1 field hearings which were segregated from the evidentiary record. The same segregation appeared to have been affirmed at the initial Docket No. N2010-1 field hearing in Las Vegas NV. There, the Commission took care to distinguish between the testimony that was to be subject of adversarial examination during the Washington DC hearings and the informal nature of statements to be offered at the field hearings, making no reference to the Las Vegas NV testimony having evidentiary status. See Las Vegas NV Field Hearing Transcript at 4.

In the face of 39 C.F.R. §§ 3001.20a(c) and 20b(c), and the distinctions drawn by the Commission in describing the Washington DC and field hearings, the current dispute between the Postal Service and the APWU regarding the status of the field hearing testimony makes clear that the status of such materials has been ambiguous. Given the apparent conflict between the Commission's rules and its declaration of intent in this Docket, it is to be expected that parties in this docket might reasonably have significantly different perspectives of the status of the field hearing witness testimony and witness statements. It should come as no surprise that parties with different perspectives would react strongly to the revelation of a contrary view of the ambiguity created by the Commission's approach to the status of witness statements taken at the field hearings.

At page 4 of its Motion to Strike, APWU argues that an earlier protest by the Postal Service might have created an opportunity for the Commission to fix
part of the due process quandary, for instance, by permitting written cross-

examination of Medco institutionally after the Commission permitted Medco to

withdraw the testimony of witness Moriarty (Medco-T-1). However, that option

seems explicitly foreclosed by 39 C.F.R. § 2001.20a(c) which states:

Limited participants are not required to respond to discovery requests . . . except to the extent that those requests are directed specifically to
testimony which the limited participants provided . . . .

APWU points to no precedent for the Commission permitting written cross-
examination of parties who either do not submit written testimony for cross-
examination or who succeed in withdrawing testimony for the express purpose of

evading such examination.² Moreover, Presiding Officer's Ruling No. R2010-

1/26 cannot be read as anything other than a grant of immunity to Medco from
discovery, as it declares even a modest effort to ascertain the bases for Medco

witness Moriarty's testimony and the claims of Medco in this proceeding as

inappropriately "[i]mposing needless litigation costs on interested mailers" and as

"discourag[ing] . . . the development of a balanced record." Presiding Officer's

Ruling No. R2010-1/26 at 2. Contrary to APWU's hopes that discovery on field

hearing testimony of parties and/or non-parties could have been requested and,

thus, would have mitigated the due process quandary, the Commission's rules

are clear in foreclosing discovery in the absence of testimony. Moreover, the

Postal Service views Ruling No. N2010-1/26 as being distinctly counter-intuitive,
as it rejects any such discovery as discouraging the development of a balanced

record.

² Medco's August 3, 2010 Notice of Intervention makes clear that it intervened

"solely to provide testimony in rebuttal to the Postal Service’s direct case."
The Commission set up bi-furcated hearings in this docket subject to different procedural and substantive standards, notwithstanding what appear to be clear requirements for uniform standards for according evidentiary status to information generated in connection with its hearings. One result is the current due process disagreement between the Postal Service and the APWU. At page 4 of its October 19, 2010 Motion to Strike, the APWU appeals for an equitable solution to the procedural due process issues raised in the Postal Service's Initial Brief. The Postal Service interprets APWU's appeal as a concession that all of the equitable arguments may not favor one side or the other in this dispute. If so, then on this and perhaps only this point do the APWU and the Postal Service agree.

B. The Field Hearing Testimony Is Either Cumulative Or Lacks Reliability And Substance.

Irrespective of the Commission's resolution of the evidentiary issue discussed above, the Postal Service submits that the overwhelming bulk of the field hearing testimony is cumulative of the infinitely more reliable, highly probative and substantial evidence submitted in support of its Request. Where the field hearing testimony is not cumulative, it fails to provide reliable, probative or substantial information to support assertions of widespread adverse impact or hardship on recipients of pharmaceutical shipments by mail, Vote By Mail participants, or recipients of the newspapers currently delivered by mail on Saturdays.
1. The field hearing testimony pales in comparison to the quality of the evidence supporting the Request.

The Docket No. N2010-1 field hearing testimony echoes many of the postal customer and union reactions to planned service changes that were heard and considered by the USPS Five-Day Team directed by witness Pulcrano (USPS-T-1) during the development of the five-day service change operating concept ultimately presented to the Commission for review. Chapter 3 and Appendix A of USPS Library Reference N2010-1/1 reveal the breadth and scope of customer outreach performed by the Postal Service, the mail senders and recipients whose interest were considered, as well as various accommodations to the operating plan made in response to their concerns.

The testimony of Postal Service witness Elmore-Yalch (USPS-T-8) demonstrates that very rigorous quantitative and qualitative market research was conducted in order to develop reliable and probative information regarding potential reactions of various types of business and residential mail senders and recipients to five-day delivery. Her residential customer research was designed to include a geographically diverse range of urban, suburban and rural customers. As demonstrated by the surrebuttal testimony of Postal Service witness Boatwright (USPS-RT-1), this quantitative and qualitative market research were carefully designed to meet applicable standards for survey design and execution.
The highly reliable, probative and substantial USPS/ORC market research results\(^3\) are reflective of the anecdotal expressions of opposition to and support for five-day delivery among the owners or representatives of businesses who were invited by the Commission to testify at the different field hearings. The reactions of residential customers in the USPS-T-8 market research are remarkably consistent with the results of the Maritz public opinion survey in USPS Library Reference N2010-1/13, as well as the independent public opinion polls referenced at page 27 of USPS Library Reference N2010-1/1. It is, therefore, no surprise that the Commission would find residential customers willing to testify in support of the planned service changes. Memphis Field Hearing (FH) Tr. at 102-116. The consumer protection witness testifying out of concern for the interests of low-income postal customers expected that most of them would act responsibly and would adjust their mailing habits easily to avoid penalties for late bill payments. Sacramento FH Tr. 37-38. This testimony supports the conclusion that effective execution of the public communications plan described by Postal Service witness Kearney (USPS-T-11) could contribute significantly to ensuring such an outcome.

No doubt, there is value in the Commission being able to conduct field hearings at which it can connect names and faces of real postal customers around the country to the variety of comments heard by the Postal Service during its own customer and employee union consultations, its quantitative and

\(^3\) Buttressed by the USPS/MTAC business customer and USPS/Maritz residential and small business opinion survey materials in USPS Library Reference N2010-1/13.
qualitative market research, and its public opinion polling. However, such field hearing testimony is infinitely less reliable and probative for drawing broad conclusions or for making policy decisions than the market research of the quality presented by witness Elmore-Yalch. This is especially the case when the field hearing witness panels and public comment sessions are disproportionately dominated by current and retired postal letter carriers or retail clerks (and their associates).

Among business mailers, the field hearings produced testimony of witnesses who generally expressed a preference for the continuation of Saturday delivery to street addresses, concern for the potential costs they might incur in adjusting to the planned service changes, and the potential impact on postal volumes. However, these witnesses produced virtually no detailed information of the adverse impact to their businesses, explanations for costs that might be incurred in adjusting to the planned postal service changes, or any basis for projecting what such impacts or costs might be on an industry-wide or a nationwide basis. When cost figures were offered, there were devoid of any explanation or disaggregation. See, Rapid City FH Tr. at 22-23. The witness representing one of the Postal Service's largest customers seemed oblivious to fundamental aspects of the operating plan, such as the continued operation of Bulk Mail Entry Units on Saturdays. Chicago FH Tr. at 87. Some field hearing business witnesses indicated that the changes were not necessarily welcome, but that if they could contribute significantly to overall postal financial stability,
they should be pursued for the long-term benefit of the Postal Service and its ratepayers. Dallas FH Tr. at 68, 72; Buffalo FH Tr. at 21, 28, 30.

Postal craft employees and officers of local chapters of postal employee unions who testified at various field hearings brought no reliable, probative or substantial evidence to bear on issues such as potential customer reactions to the service changes under review in this docket. Their field hearing reactions are consistent with the views expressed to postal management during five-day operational concept labor-management briefings. See USPS Library Reference N2010-1/1 at 30-31. At each field hearing where they were afforded panel witness slots, union testimony offered little more than unsubstantiated anecdotal speculation about adverse retail window and delivery customer impacts, adverse impact on future volumes, and guesstimates of substantial diversion of competitive mail product volume to competitive services. The testimony often reflected an incomplete understanding of the service changes being contemplated or the internal operational changes that would be implemented to make them work, and the hope that legislative changes to pressing financial obligations would render the Postal Service's short-term and long-term financial instability a nullity.⁴

In addition to the market research of witness Elmore-Yalch, the Postal Service has presented the volume impact analysis of Postal Service witness Whiteman (USPS-T-9) which provides a basis for assessing potential changes in mailing behavior that the Postal Service might have experience when the

⁴ Including the ill-fated hope that the Postal Service would be relieved of its fiscal year 2010 Retiree Health Benefit Fund obligation.
planned service changes are implemented. None of the field hearing testimony provides a reliable basis for the Commission to estimate the negative volume impact that would result from the planned service changes or to regard the unrebutted estimates of witness Whiteman as unreliable.

2. The field hearing newspaper testimony is cumulative and insubstantial.

The field hearing testimony of newspaper publishers expressing preference for retention of Saturday postal street delivery and the possibility that they may pursue alternative delivery solutions is consistent with consultations with Postal Service witness Pulcrano that are referenced in USPS Library Reference N2001-1/1 at 11, 34-35. The potential for Periodicals and Standard Mail volumes generated by the periodicals industry to leave the postal system in reaction to the implementation of the elimination of Saturday street delivery is accounted for in the volume impact estimates of Postal Service witness Whiteman (USPS-T-9) that are based on the market research conducted by witness Elmore-Yalch (USPS-T-8). The testimony of witness Whiteman provides reliable, probative and substantial evidence that outweighs the vague assertions about potential volume impact presented by NNA witness Heath (NNA-T-1) in his summary of the anecdotal claims of publishers at the Dallas TX and Chicago IL and Memphis TN field hearings about returning to alternative delivery channels or exploring their feasibility. Moreover, in the absence of a single newspaper reader survey (Dallas FH Tr. at 56), the Commission should be as skeptical of publishers’ assertions about the degree to which readers are dependent on Saturday newspapers as it would be of Postal Service statements about its
customers' reaction to service changes that were devoid of any basis in market research.

3. The Vote By Mail testimony confirms the consultations described by witness Pulcrano.

As reflected in USPS Library Reference N2010-1/1, during the operational concept development stage the Postal Service consulted with state and local elections management officials to obtain feedback about the planned service changes. As a result, the following strategies for preserving the continued attractiveness of Vote By Mail in a five-day environment were identified and will be promoted by the Postal Service:

-- mailpiece redesign that expedites processing of incoming ballots,

-- continuity of six-day delivery that can be accomplished by use of Post Office Box addresses and/or Caller Service, and

-- working collaboratively with elections officials to ensure that voters are reminded to mail ballots earlier rather than later.

USPS Library Reference N2010-1/1 at 11. At the Sacramento CA and Dallas TX field hearings, the Commission received testimony from Sacramento County Registrar Lavine and Dallas County Elections Administrator Sherbert, respectively. Their testimony reinforces the importance of quality postal service as vital to the preservation of the Vote By Mail option, confirms the viability of the strategies identified by witness Pulcrano, and expresses their expectations that with sufficient planning and collaboration, any adverse impact of the elimination of Saturday collections and delivery to street addresses can be minimized.
4. The pharmaceutical shippers testimony confirms their preference for the status quo and their ability to adjust.

At the Las Vegas NV and Chicago IL field hearings, respectively, the Commission received testimony from witnesses representing Medco Health Solutions and CVS Caremark, shippers of pharmaceutical products to postal customers, largely in connection with patent health insurance benefit plans. Both witnesses expressed the opinion that recipients preferred to receive shipments on Saturdays but offered no evidence that supported the existence of such a preference.

CVS Caremark asserted that 20 percent of its shipments today are currently scheduled for Saturday delivery (Chicago FH Tr. at 35) and that it might incur $50 million in costs to convert shipments currently scheduled for Saturday delivery from regular mail to expedited delivery. Chicago FH Tr. at 38. CVS Caremark offered no evidence or explanation to suggest that all or any particular percentage of current Saturday deliveries were emergency or time-sensitive shipments for which Saturday arrival was critical. In fact, CVS Caremark's testimony shows that the 20 percent Saturday delivery figure does not reflect any customer preferences for Saturday delivery at all, but simply is the result of heavy processing of incoming orders on Mondays and Tuesdays. Id. at 79.

Medco offered no data regarding the degree to which shipments were time-sensitive or reflected circumstances in which recipients were near the depletion of existing supplies of medicines. CVS Caremark estimated that less than five percent of its annual five million shipments fell in this category. Chicago FH Tr. at 35, 55. Medco identified patient procrastination as the principal source of such
circumstances and declared that improved patient response to supplier reminder systems could mitigate the problem. Las Vegas FH Tr. at 31.

Medco indicated the ability to adjust its fulfillment operations but declined to provide data regarding any costs that might be incurred in doing so. Id. at 36-37, 43-44. Medco asserted that without any operational adjustments, half of its outgoing product shipments would be negatively impacted by the planned service changes. Id. at 14, 32. Even if accepted at face value, the claim is not proof of any adverse impact to the recipient, simply a statement that the mail may be delivered a day later than before.

Likewise, assertions by Medco that transit times of half of its incoming mail prescription orders being adversely affected by the elimination of Saturday delivery to street addresses carefully avoided any acknowledgement that continuity of incoming orders would be preserved after Saturday street delivery was eliminated if they are addressed to a Post Office Box.

Caremark raised the specter of patient health complications resulting from gaps in patient management of prescribed therapies was adding another $300 million to aggregate health care costs annually. Chicago FH Tr. at 37. However, CVS Caremark provided no basis for concluding how much if any of that phenomenon was related to gaps in the continuity of patient supplies of mail order pharmaceutical products or to what degree such supply gaps were the result of late postal deliveries or mismanagement of supply continuity by patients or care providers.
Reference was made to the existence of rural or remotely located mail recipients (Las Vegas FH Tr. at 15, 52; Chicago FH Tr. at 36, 67-68), but no evidence was offered regarding the proportion or time-sensitivity of such shipments. Las Vegas FH Tr. at 52. Accordingly, there is no basis for asserting that Saturday delivery was routinely critical or time-sensitive in such circumstances, or that remote or rural recipients were more likely to be home on Saturdays or less likely to be home to receive shipments Monday through Friday. Las Vegas FH Tr. at 50. Medco asserted that patients needing medicines to be delivered to street addresses on Saturday or over a three-day weekend invariably would resort to expedited delivery. In contrast, CVS Caremark conceded that expedited shipments are often the result of emergencies created by patients who neglect multiple reminders delivered through various media to re-order medicines to preserve continuity of supply. Chicago FH Tr. at 54.

No doubt, there are remote locations of the country for which even the most expeditious postal product, Express Mail, may be offer great convenience but may not be the most expeditious means of filling a time-sensitive prescription, especially in remote locations in Alaska or between the islands of Hawaii. In each of these states, the Postal Service has extraordinary transportation arrangements in place to get mail to its destination. Still, there will be limits to what can be done to accommodate customers who live in places that are 20 or 50 miles away from a pharmacy or a hundred miles from the closest road that leads to one. The Postal Service is expected to afford reasonable levels of
service to small towns and rural areas. It must do so in a manner such that the system as a whole operates economically and efficiently.

Finally, the Postal Service observes that at pages 15-16 of its Initial Brief, the Public Representative encourages the Commission to also consider the comments filed under 39 C.F.R. § 3001.20b(b) by the Pharmaceutical Care Management Association. However, the Public Representative fails to explain how the Commission can properly do so when the comments have not been introduced into evidence or deemed a proper subject for official notice, as required by subsection 3001.20b(c).

In conclusion, the Postal Service submits that the field hearing testimony does nothing to diminish the reliability, probative value or substantial weight of the evidence supporting the conclusion that the Request in this docket complies with the policies of title 39 United States Code.

C. The Statements Offered By United States Senators Should Not Be Accorded Evidentiary Status.

At the September 16, 2010 Washington DC hearing for the receipt of intervenor testimony, the Commission informed the parties that two United States Senators who had hoped that the Commission could have conducted Docket No. N2010-1 field hearings in their states had been granted the opportunity to address the Commission regarding the Request in this docket. On that date, Senator Lisa Murkowski from Alaska submitted a written statement to the Commission and was permitted to offer oral comments, which are recorded at Tr. Vol. X at page 2813 et seq. In response, one Commissioner observed:
the views and comments that you have presented here today will be taken
greatly into consideration, and again your interest in our proceedings add
value and will help us as we deliberate this case.

*Id.* at 2825-26. A second Commissioner observed:

> We value [your] making time to come help us build the record of this
> important concern, and we look forward to hearing from your colleague,
> Senator Akaka as well.

*Id.* at 2826. At the conclusion of Senator Murkowski’s appearance, the Chairman
of the Commission stated:

> With that we will get back to our normal proceedings of our hearings, and I
> will . . . call the meeting to order.

*Id.* at 2828.

At the October 4, 2010 surrebuttal hearing, the Chairman announced that

United States Senator Daniel Akaka from Alaska;

has submitted a statement about his concerns on this proposal. And just
as Senator Murkowski[‘s] . . . statement to us two weeks ago, we will
handle this statement in just the same way in terms of the record.

Tr. Vol. 11 at 3307-08. Senator Akaka's statement was not included in the
October 4, 2010 transcript but was posted on the Commission's website.⁵

The Postal Service infers from the Chairman's September 16, 2010
statement that Senator Murkowski’s oral remarks were not received as part of the
evidentiary record of the Docket No. N2010-1 hearing that came to order after
the Senator’s departure, notwithstanding the fact that those remarks are
transcribed in the Docket No. N2010-1 record, and notwithstanding the above-
quoted comments of other Commissioners seemingly to the contrary. Such

⁵ See http://www.prc.gov/prc-docs/home/whatsnew/Akaka%20Statement%20-
%20PRC%20Five%20Day_1403.pdf
would seem to be the only reasonable inference to draw, given that 39 C.F.R. §§ 3001.20a(c) and 20b(c) operate to segregate from the evidentiary record in a Commission proceeding informal witness statements and public comments that are not:

-- subject to cross examination on the same terms applicable to that of formal participants;

-- formally introduced into evidence; and

-- a proper subject of official notice.

It is the view of the Postal Service that the Senator Murkowski’s statements (both, as transcribed and as prepared) are properly treated as public comments within the meaning of 39 C.F.R. § 3001.20b. The Senator's remarks were not subject to cross-examination. They were provided before the September 16, 2010 hearing was called to order. While the Senator’s remarks contain summaries of other witness statements generated during the course of this docket and extra-record factual assertions that may not be in dispute, the remarks also include disputed and undocumented factual assertions, as well as advocacy and opinions that would seem to disqualify the remarks from being subject to judicial notice under 39 C.F.R. § 3001.30(j). The same description would seem to apply to the October 4, 2010 written remarks submitted by Senator Akaka. Accordingly, the Postal Service assumes that both Senators’ remarks are not in evidence and will be accorded public comment status appropriate under 39 C.F.R. § 3001.20b. With that understanding, the Postal Service will give the Senators’ remarks all due consideration as it awaits and after it receives the Commission’s advisory opinion in this docket.
III. The Contemplated Service Change Is A Reasonable Response To The Totality Of Circumstances Facing The Postal Service

The Initial Brief of the Postal Service summarized on pages 59-65 the cumulative pressures which compelled the Postal Service to seek to undertake the elimination of normal Saturday street delivery and related changes at this time. Several parties directly or implicitly question this determination. In the main, their arguments are encapsulated within the points raised in the briefs filed by NALC and GCA, so this discussion will focus directly on those two briefs. None of the views expressed by any of the parties, however, constitute a valid basis to challenge the grim prognosis of the future which makes the contemplated service change the right step at the right time.

A. NALC Is Mistaken In Its View That The Postal Service Is Facing Nothing More Than A Short-Term Financial Challenge.

NALC has a section in its initial brief devoted to the erroneous proposition that the Postal Service has failed to show that a reduction of one delivery day per week is necessary.\footnote{Before launching into this line of argument, however, NALC does not even bother to attempt to explain why it might believe that the Postal Service is required to show that a contemplated change is “necessary.” One searches section 3661 in vain for any requirement that a contemplated change in nationwide service cannot receive a favorable advisory opinion from the Commission unless it has been shown to be “necessary.” In that sense, therefore, the relevance of this entire portion of the NALC Brief is open to serious doubt, because it addresses a question which the statute does not pose.} NALC Brief at 9-20. In large part (pages 15-20), this consists of an utterly misguided attempt to reject the ongoing reality of electronic
diversion of mail volume. Before jumping into that abyss, however, NALC misconstrues various other portions of the record in ways that warrant correction.

1. The liquidity crisis is merely a short-term manifestation of more significant underlying financial issues.

NALC claims that the “grave and unsustainable financial imbalance” cited by witness Corbett is really nothing more than a “short-term liquidity crisis caused by the unique statutory requirement that it pre-fund retiree health benefits.” NALC Brief at 9. That, however, is neither true, nor what Mr. Corbett said:

The Postal Service is now in dire financial condition. Precipitous and historic declines in mail volumes and revenues, combined with the growing costs of our expanding delivery network, as well as the massive new costs imposed by postal legislation, have resulted in a grave and unsustainable financial imbalance. Despite prudent management of our business and aggressive cost cutting in response to these dramatic changes in the mail marketplace, we have reported a net loss in each of the last three fiscal years and expect to do so again this year.

USPS-T-2 at 3 (underlined added). Mr. Corbett made it very clear that the fundamental problem is the net loss incurred when accrued expenses exceed accrued revenues. He repeated this further down page 3 (“Without critically needed fundamental changes, we expect significant and growing losses in fiscal year 2010 and each year into the near future”). Furthermore, he noted that merely matching yearly costs and revenues is no longer sufficient:

Moreover, not only must the Postal Service make adjustments to allow it to achieve short-term breakeven, it must also make plans to generate additional net revenue to pay down its accumulated debts.
Id. at 18. The scope of the problem, therefore, far exceeds short-term cash flow issues, although those are clearly symptomatic of broader issues and may create the most visible and pressing need for immediate action. Mr. Corbett certainly addressed the matter of liquidity, although he did it in a separate section on pages 6-7 of his testimony.

NALC has framed the issue to ignore the fact that cash is fungible. But to identify one expense as the sole cause of a liquidity crisis, while perhaps expedient for purposes of exposition, can obscure the larger picture. In reality, it is the totality of cash needs exceeding available cash that leads to a liquidity crisis. If, for example, the combined elimination of two smaller obligations would allow available cash to meet cash needs, those two obligations “cause” the crisis every bit as much as one larger obligation which, if removed by itself, would likewise allow available cash to meet cash needs. There is also the issue of the order in which obligations must be paid. If I have $1000 in my checking account, and I write one check for $900 and one check for $200, and the larger check clears first, does it follow that the second check “caused” the shortfall? Clearly not, and yet if I instead write nine checks for $100 and one check for $200, and the nine smaller checks clear first, it would still not follow that the $200 check caused the shortfall.2

2 One reason that retiree health benefit funding has such a high profile in the liquidity discussions is that it involves one annual payment of a relatively large amount that comes at the end of the fiscal year. If payment of the same amount were instead spread out in equal shares for each two-week pay period, the annual effect on net income/loss would be identical. But under such a scenario, for example, chances would increases that some type of bill other than an RHBF
In any event, the claim that “absent the RHBF prefunding obligation, the Postal Service would not have a liquidity problem” (NALC Brief at 9) is speculative, and, moreover, beside the point. First of all, Mr. Corbett aptly testified that:

Nevertheless, over time, without some other structural changes to improve the business model, the other factors discussed in my testimony would likely cause the same type of liquidity crisis to arise even without those [RHBF] payments.

Tr. 3/564. More importantly, neither the Postal Service nor the Commission can remove the RHBF funding burden. As Mr. Corbett also testified, the Postal Service “cannot afford to wait for change in the expectation that the conditions of the new postal marketplace will resolve themselves in our favor on their own.” USPS-T-2 at 18. NALC is perfectly free to argue that it would prefer that the Postal Service were relieved of the RHBF payments, but NALC cannot credibly argue that the Postal Service has failed to show that its proposal is “necessary” because the Postal Service has assumed the statutory status quo.3

3 Similarly, NALC correctly quotes Mr. Corbett to the effect that, if the Postal Service were credited and had access to $75 billion in relief from CSRS overfunding, the proposal to shift to five-day delivery would not be necessary for the foreseeable future. NALC Brief at 14-15. NALC, however, jumps from that counter-factual hypothetical to an unqualified assertion that the contemplated service change should not receive a favorable advisory opinion when the mere possibility exits of the Postal Service obtaining such a credit. Id. at 15. The Postal Service and the Commission, however, must deal with legislative enactments as they exist, not as we might wish for them to exist. This line of argument does not provide a valid basis to assert that the Postal Service has failed to provide an adequate context for the contemplated change in light of current reality.
Finally, as explained above, while the liquidity crisis is a manifestation of the larger problem, the real issue is the ability of the Postal Service to generate sufficient revenues to meet current expenses and pay down debt. As even NALC concedes, the Postal Service “would have lost money in each of the last two years even without the PSRHF payments.” NALC Brief at 11. The intended benefits to the Postal Service from the five-day proposal do not come as immediate relief from the current cash flow situation, but rather from having changes that can be implemented reasonably promptly that would improve prospects over time of having an operating structure that does not cost more than anticipated revenues can sustain. By misleadingly shifting the focus to the “liquidity crisis,” NALC attempts to create a strawman it can then belittle, rather than address the real impetus for the Postal Service’s filing.

2. NALC’s attempt to discount the importance of the decline in revenue per delivery point per delivery day is unavailing.

On page 9 of its initial brief, NALC cites the Postal Service’s response to NALC/USPS-T2-10 (redirected from witness Corbett, June 8, 2010, Tr. 7/2233), and tries to make the point that, from 2000 to 2009, while real total revenue per delivery point per day fell 46 cents (from $1.96 to $1.50, or approximately 23 percent), real total cost per delivery point per day likewise fell “a substantial” 38 cents (from $1.96 to $1.58, or approximately 19 percent). What that decline in total costs per delivery point per day is reflecting, however, are all the factors which cause total costs to change, including improved mail processing productivities from automation, the $4 billion adjustment to RHP payments in FY
2009, etc. A much more relevant comparison is to focus just on the change in real *delivery* costs per delivery point per day over the same period. With delivery costs defined as the sum of accrued Cost Segments 6, 7, and 10 in each year as shown in the Cost Segments and Components Report, delivery costs were $17.374 billion in FY2000, and $22.248 billion in FY2009. Postal Service Response to NALC/USPS-T2-7 (redirected from witness Corbett, June 8, 2010, Tr. 7/2230). Converting these to real costs per delivery point per day, using the same delivery points and inflation factors as applied to the total costs and total revenue figures above, yields real delivery costs per delivery point per day of 53 cents in FY2000, and 49 cents in FY2009. Therefore, compared with a **46 cent** (23 percent) drop in real revenue per delivery point per day, the drop in real delivery costs per delivery point per day was only an “insubstantial” **4 cents** (7 percent).

The disparity between 46 cents and 4 cents, and 23 percent and 7 percent, is what illustrates the relative fixity of the delivery network cost structure, and is symptomatic of the truly troubling long-term trend with which Mr. Corbett expresses concern. Alternatively, another way to highlight the underlying problem using these figures is to note that, expressed in terms of per delivery point per day, the gap between real total revenue and the relatively fixed level of real delivery costs fell from $1.43 ($1.96 - $0.53) in 2000 to $1.01 ($1.50 - $0.49) in 2009. The size of that gap represents the amount available to fund all of the other (non-delivery) costs of the Postal Service, and its dramatic shrinkage between 2000 and 2009 should therefore sound a very loud alarm bell regarding
the inherent challenge in future postal financial viability. By seeking on page 9 to
focus instead on total costs per delivery point per day, the NALC brief is
obscuring the fact that, if savings in non-delivery costs partially masked the
problem over the 2000-2009 period by offsetting some of the revenue declines,
that trend can no longer be assumed to continue. Mr. Corbett explained at length
why such an assumption would be faulty, indicating, for example, that
automation-related improvements in productivity in the 2000-2009 period are
unlikely to be obtainable going forward. Tr. 3/704-06.

3. NALC miscomprehends the nature of the fixity in the
carrier network.

NALC challenges the “fixed-cost nature of the carrier network” on the
basis of recent data that came to light in the Exigent case. NALC Brief at 10.
Specifically, NALC cites the two most recent available quarters of FY10, in which
city delivery workhours were reported to fall faster than mail volume. NALC fails
to take several factors into account, however. First, neither the Postal Service
nor the Commission has suggested that the costs of delivery are entirely fixed
with respect to volume. Instead, for many years, the estimates reflect some
portion of delivery costs that vary with volume, and a remaining portion (relatively
large compared with other postal functions) that are fixed. Thus, as volume falls,
one would expect some decline in delivery workhours, from the portion of cost
that are variable with respect to volume. When volume falls by huge amounts quarter after quarter, though, as seen
repeatedly throughout quarters since 2007, it becomes enormously challenging
to squeeze out workhours at the same pace. Not surprisingly, what results is a
string of quarters in which volume declines outstrip observed cost savings, as the workhour declines lag the volume declines. As the rate of volume decline slows, however, the lagged cost responses to the earlier (and larger) volume declines can begin to catch up to, and perhaps even exceed, the new rate of slower volume declines. In other words, the phenomenon that NALC describes most likely reflects the amount of lag between volume reductions and the Postal Service’s ability to make corresponding reductions in volume-related workhours. It does not support the notion that the delivery cost network has any less fixity than the established methodology estimates. Carriers must cover their routes on every delivery day, and the fixity in costs that logically results cannot be refuted by an examination of quarterly observation of relative workhour and volume declines, particularly one truncated to two quarters. To reduce the fixed network costs, the obvious solution is to reduce the number of delivery days. Any suggestion by NALC to the contrary is simply off base.

4. With mail volumes still falling, it is incorrect to suggest that the recession for the Postal Service is over.

NALC argues that the elimination of Saturday delivery cannot be justified “as a countermeasure to the recession.” NALC Brief at 14. Curiously, NALC fails to identify where the Postal Service purportedly ever proffered such a justification in those terms. But more astoundingly, NALC advances as support for this argument the claim that “[a]lthough its effects linger, notably with high unemployment, the recession has already ended.” Id. While with respect to the economy at large this statement may be true in some technical sense, it is fundamentally irrelevant to any meaningful review of postal finances. Mail
volumes are continuing to decline. It is not only as if the volume losses from the recession have yet to be regained, but, from FY09 to FY10, those losses continued to accumulate.

NALC also cites Prof. Bradley’s testimony to the effect that the economy as a whole is expected to recover to its previous peak level of economic activity. *Id.* But, again, even if the economy as a whole can eventually be expected to recover from the recession, Prof. Bradley certainly offered no assurances that postal volumes lost due to the recession will likewise all be recovered. In the words of NALC counsel, with which Prof. Bradley agreed, “at some point in history in a recession the decline in the buggy whip industry might turn out to be permanent.” Tr. 4/936. Even putting aside the possibility of the dreaded double-dip broader recession, It is grossly premature for NALC, or anyone else, to suggest that the recession has “already ended” for the Postal Service. With respect to postal finances, conceding that the recession’s “effects linger” is at best a substantial understatement.

5. NALC’s claims regarding electronic diversion simply do not comport with reality.

Turning to electronic diversion, however, NALC moves beyond the realm of substantial understatement into the domain of a fundamental misconception of reality. The statement (in a heading on page 15 of the NACL brief) that the Postal Service’s “prediction of a long-term drop in mail volume due to electronic diversion is speculation and unsupported by the record” simply does not pass the straight-face test. In terms of record support, Mr. Corbett testified about the reality of electronic diversion on pages 8 and 10 of USPS-T-2. Further evidence
was provided in response to GCA/USPS-T2-1 and 2 (redirected to the Postal Service, May 17, 2010, Tr. 7/1759-64). The Postal Service’s response to GCA/USPS-T2-2 cited a wealth of testimony provided in past proceedings, most recently by Peter Bernstein in Docket No. R2006-1. Forecasting materials provided by the Boston Consulting Group appear in a variety of interrogatory responses. Tr. 7/1820-21, 1824-2229. These materials provide a solid backdrop for Mr. Corbett’s testimony regarding electronic diversion, as both a historical and ongoing development. If NALC felt the need for further “probing” of such materials, it never made any such request on the record.

Moreover, it was entirely reasonable for the Postal Service to expect that all parties would understand the basic reality of electronic diversion, without additional specific testimony in this proceeding to address it. What can very fairly be described as a reflection of the essentially universal consensus on electronic diversion and its effect on mail volume can be found in statements by the Commission itself in the FY2009 ACD (March 29, 2010):

The basic causes of the Postal Service’s financial problems remain. First-Class Mail volumes and revenues have declined sharply as a result of both the economic recession that started in the mail intensive banking and real estate industries, and the continuing substitution of electronic for hardcopy communications. (Page 5)

Another external cause [of the current financial situation] mentioned prominently is the competition provided by the Internet for correspondence and advertising mail. (Page 20)

The economic recession of last year, coupled with the ongoing electronic diversion of mail, had a significant adverse impact on mail volumes. (Page 31)
From 1970 to 1999, the growth of mail volume closely matched the pace of U.S. economic growth. In fact, during the last 30 years of the 20th century, GDP grew at an average annual rate of 3.1 percent, and mail volume increased at a rate of 3.0 percent. Since 2000, however, this close relationship of GDP and mail volume growth has ceased to exist. During the first decade of the current century, GDP grew at an average annual rate of 2.0 percent whereas mail volume declined at an annual rate of 1.3 percent. This created a gap of 3.3 percentage points between the average changes of the two measures. This gap appears to be widening. During the first 9 years of the past decade, volume grew at an average annual rate of practically zero whereas GDP grew at an average rate of 2.5 percent annually. In FY 2009, volume declined 4.6 times faster than GDP. This new and pronounced divergence in the growth patterns between mail volume and GDP makes it unlikely that mail volume will recover when the economy recovers from last year’s recession, and GDP resumes its normal growth. (Pages 30-33, footnote omitted)

One of the major contributors to this decline [in Single-Piece First-Class Mail volume] is the increasing use of the Internet for messaging and online bill payment and banking. This mail volume appears to be permanently lost. (Page 33)

The decline in presort [First-Class Mail] volume can be attributed to electronic presentment of bills and financial statements, and the economic recession, which has adversely affected advertising by the banking industry. (Page 33)

Very similar comments from the Commission can be found in the FY2008 ACD (March 30, 2009) at pages 15 and 34, and in the Docket No. R2006-1 Opinion and Recommended Decision ((Feb. 26, 2007) at pages 8-9. 4

4 NALC is simply mistaken in its claim that “there is no unanimity regarding how the internet will impact mail volume in the long run.” NACL Brief at 2. While questions may remain about timing and magnitude, the Postal Service is unaware of any serious analyst who would any longer dispute the fact that the long-run impact of the internet on mail volume has been, is now, and will continue to be, materially negative. NALC cites no source more recent than a 2003 report prepared for the President’s Commission (id. at 19), and even in the optimistic “growth” scenario of that report, the impact of the internet is expressly negative, but it is merely offset by other types of growth. See NALC-LR-N2010-1/4 at 4. Moreover, the seven years since that report was prepared have led to
In contrast with the testimony of Mr. Corbett, which is consistent with not only other materials on this topic provided by the Postal Service for the record, but also the above very reasonable and uncontroversial statements made by the Commission in its most recent ACD, NALC instead offers the following:

But even if USPS had presented evidence regarding how mail volume may fall in the long-term due to diversion to electronic transmission, such testimony would have to be taken with a healthy dose of skepticism. Alarm about electronic diversion causing future mail volumes to tumble have been sounded before, and past predictions have turned out to be dead wrong. Indeed, hand-wringing about technological threats to the mail is a long-standing postal tradition.

NALC Brief at 16. NALC then proceeds to present examples of studies conducted in the 1970s and 1980s that prematurely predicted the onset of the significant detrimental impact of electronic diversion on mail volume. Id. at 16-17. This line of argument gets NALC nowhere, however. As indicated during redirect examination of witness Corbett, even the authors of the earlier studies acknowledged uncertainly about the timing of electronic diversion, but remained conditions which contradict, rather than support, the “growth” scenario. For example, that optimistic scenario is premised on the assumption that broadband penetration in households peaks at around 40 percent. Id. at 11, 14. In reality, the 2009 Household Diary Study estimates that the 40 percent threshold was passed in 2005 and the current percentage is 68 percent of households. 2009 HDS (July 2, 2010) at 17-18. And while NALC quotes portions of a study presented to the 2003 President’s Commission, NALC does not quote the President’s Commission Report itself, which, even seven years ago, included statements such as the “traditional mail stream will likely continue to migrate to cheaper Internet-based alternatives” (page iv), and the “risk posed by electronic substitution over the long term is undeniable” (page 8), as well as “[i]t would be foolhardy to bet the future of the Postal Service on a slow introduction of electronic alternatives” (id.). NALC does not and can not identify (much less present as part of the evidentiary record) even one dissenting voice from the current consensus views expressed, for example, by the Commission in its ACDs. Those views are echoed on pages 6-7 of the Valpak’s Initial Brief in this proceeding.
firm regarding its inevitability. Tr. 3/706-708. NALC stands essentially in the shoes of someone who, in the middle of World War Two, is criticizing those who, in the mid-to-late 1930s, incorrectly identified various escalating acts of aggressions committed by Hitler as the immediate trigger for massive global conflict. Once the war started following the invasion of Poland, there was not a whole lot of comfort to be obtained that the fact that the ultimate blow-up did not occur until the fall of 1939, and those who had predicted war earlier in the 1930s were “dead wrong.” And as the table showing yearly and cumulative diversion in First-Class Mail provided in response to GCA/USPS-T2-2 (Tr. 7/1762) proves, there simply can be no mistake about it – the electronic diversion “war” started well over two decades ago, we are still very much in the middle of it, and the Postal Service is losing.

About the only thing on which the Postal Service and NALC seem to agree regarding electronic technology and its effects on postal volumes is that the exact future path of diversion remains uncertain. NALC observes that “[i]t is possible that USPS or its consultants are now using a better crystal ball than the one used by those who made erroneous mail volume predictions in the past, but the future, particularly the long-term future, remains unknowable.” NALC Brief at 20. But the plausibility of such an observation in the context of the exact timing and magnitude of volume declines provides no valid basis to ignore the known direction of future trends regarding mail subject to electronic diversion. Even if mail not subject to diversion begins to recover coming out of the recession, the loss of the higher unit contribution from more vulnerable First-Class Mail makes it
highly unlikely that the resulting mix of total mail volume would generate the net revenue necessary to sustain current operating levels. See, e.g., USPS-T-2 at 11. NALC’s brief is entirely silent on the devastating effects of such mail mix changes. NALC’s preferred wait-and-see attitude simply sets the stage for the Postal Service to dig itself into an even deeper financial hole.

B. GCA Cites No Record Evidence To Support Its Flawed Assumption That, Going Forward, FY 2009 Volumes Will Be Abnormally Low.

Unlike NALC, GCA has no problem acknowledging the validity of the Postal Service’s views on electronic diversion and its long-term effect on Postal volumes. We know this, however, not from GCA’s Initial Brief in this case, but from its Initial Comments in the Exigent case (Docket No. R2010-4, Aug. 17, 2010). On pages 10-11 of those Initial Comments, GCA expresses the consensus view that electronic diversion is “a historical process that has been continuous and growing for 22 years.” In that case, GCA was eager to attribute volume losses to electronic diversion, so that it could discount those losses as any possible basis for relief from the damaging effects of exceptional or extraordinary circumstances. In its brief in this proceeding, however, GCA wants to focus squarely on presumably temporary volume losses due to the recession, with scarcely any reference to “permanent” electronic diversion. GCA Brief at 7-8, 11, 39. In essence, GCA has successively taken positions that permanent volume losses due to diversion cannot appropriately provide the basis for higher rates in an exigency proceeding, but they likewise need not be addressed in a service change case intended to achieve structural changes capable of
responding to longer-term trends. Exactly what the Postal Service should do about the financial harm associated with the loss of volume to electronic alternatives, which GCA rather obliquely recognizes in footnote 86 on page 38 of its Brief, is clearly not something which GCA feels compelled to address.⁵

What GCA does want to address, however, is its perception that FY 2009 was an unsuitable year on which to base cost saving estimates, because FY 2009 volumes were “abnormally low.” GCA Brief at 7-12. GCA goes so far as to claim that volumes and revenues were abnormally low in FY 2009 “coming, as it did, at the bottom of the most severe postwar recession.” Id. at 2. There is one major problem with GCA’s arguments in this regard. FY2009 volumes were not at the bottom. In the exigent proceeding, filed after this case, the Postal Service presented the best available volume estimates for FY2010 and FY2011, and estimates for both of those years were lower than actual FY2009 volumes. See Statement of Stephen J. Masse, Docket No. R2010-4, Attachment 1. Certainly volume estimates for those two years give no comfort that FY2009 volumes were

⁵ In its brief, GCA also appears intent on ignoring any possible interaction between the recession and electronic diversion. Mr. Corbett, however, testified that the recession may have accelerated the diversion of mail to the internet. USPS-T-2 at 8-9. The basis for that view was amplified by the Postal Service’s response to GCA/USPS-T2-2 (Tr. 7/1762). Since GCA accepts the logic that losses to the internet are permanent, its apparent expectation that a neat clean line can be drawn between volume declines due to the recession that will bounce back after the economy improves, and volumes lost to diversion that will not, is clearly unfounded.
abnormally low, or that cost estimates based on those years would have been more “suitable” in the subjective opinion of GCA. 6

GCA’s entire line of argument regarding the alleged unsuitability of estimates based on FY2009 costs is explicitly premised on the assertion that low FY2009 volumes are largely due the economic recession “which the Postal Service itself expects will be reversed to a material extent” such that “returning volumes” will absorb excess capacity that existed in FY2009. GCA Brief at 11. In fact, however, while Mr. Corbett did acknowledge (as GCA cites on page 7 of its brief) an expectation that advertising volume is expected to rebound some as the economy improves, he also stated an expectation that it may be a decade before it rebounds fully. USPS-T-2 at 10. Much more importantly, however, Mr. Corbett repeatedly stated an expectation that total mail volume would continue to decline moving forward. Id. at 9, 11, 12, and 13. In response to an interrogatory from NALC requesting the support for this projection, the Postal Service provided a pdf of a presentation by its consultant, McKinsey & Company. Tr. 7/1820-21. Volume forecasts by year, out to FY2020, are presented on pages 4 and 8 of the pdf. On neither page is the forecasted volume for any year higher than FY2009 actual volume. Using this set of forecasts as a basis for comparison, consistent with the testimony of Mr. Corbett, volumes for FY2009 are not abnormally low as GCA contends, but are rather, abnormally high.

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6 Although final figures have not yet been released, sufficient information is now available to know for certain that not just estimated volumes for FY2010 were below FY2009 volumes, but actual FY2010 volumes were as well.
Simply stated, GCA’s Brief fails to cite a shred of testimony on the record of this proceeding which supports mail volume above 2009 levels that GCA presents as the cornerstone of its argument on this topic. GCA presented no testimony in this proceeding, so GCA obviously cannot cite its own witness. But likewise, also looking to the testimony of witnesses for other parties opposing the service change, GCA fails to cite even one who testified in contradiction of Mr. Corbett’s anticipation of continuing volume declines. NALC sponsored witnesses such as Dr. Riley and Dr. Crew, but the direct testimony of neither of them offered any views regarding future trends in total mail volume. On brief, NALC attempts to spin an argument that anticipated volume losses due to the internet are illusory, but, as explained above, that argument is plainly wrong, unsupported by any testimony, and directly contrary to positions taken by GCA. Without any supporting testimony, GCA’s arguments regarding the “unsuitability” of cost estimates based on actual FY2009 volumes and operating conditions are entitled to no weight, and must be rejected by the Commission.7

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7 Moreover, as addressed in the next section on cost savings estimates, GCA’s assertions are incorrect regarding the alleged dependence of those savings estimates on volumes remaining at FY 2009 levels.
IV. Challenges To The Postal Service’s Cost Savings Estimates Raised For The First Time On Brief Provide No Valid Basis To Question Those Estimates

The briefs of several parties criticize the cost estimates provided by Postal Service witnesses in this proceeding, but the most extensive comments are provided by GCA and NALC. In fact, virtually all, if not all, of the points raised by other parties are covered by GCA and NALC as well. Therefore, for organizational purposes, this discussion will be focused on the briefs of those two parties, with references to the briefs of other parties as appropriate. Thus, merely because comments by other parties are not addressed directly does not mean that their views have any validity. In fact, none of the criticisms offered withstand scrutiny, and the estimates provided by the Postal Service experts stand unfuteted as the best available estimates for the purposes for which they are provided.

Importantly, neither GCA, NALC, nor any other party sponsored expert witness testimony to provide a basis for their alleged concerns about the cost savings. Consequently, there is no expert testimony on the record questioning the Postal Service’s estimated costs savings. Unlike the painstaking operational and economic analysis done by the Postal Service, the “analysis” by both GCA and NALC has been done by counsel and presented, without support, in their briefs. Even a cursory review reveals that both parties present “analysis by assertion” and provide no evidence to support their unfounded assertions.

1 The sole exception that comes to mind is a minor part of Dr. Crew’s testimony for NALC that touches upon transition costs. Overall, as the NALC Brief states on page 21, Dr. Crew “did not undertake a study of the USPS’s savings estimates.”
No parties criticized the cost savings estimates for transportation, mail processing, indirect costs, or rural carriers. The primary costs being debated are city carrier variable street costs. As witness Bradley testified, even with no cost savings from city carrier variable street costs, the Postal Service would still have city carrier and rural carrier cost savings of over $2.25 billion per year (as well as non-carrier savings of another $0.55 billion). Tr. 4/958-59.

Both GCA and NALC assert that the Postal Service has overestimated the costs savings, but neither party presents any estimates of how much that overstatement would be. Review of the arguments made by GCA and NALC indicates that if there is any potential overstatement, it is exceeding small. Perhaps this is why they did not bother to quantify the “overestimate.” Finally, there is nothing on the record to indicate that the Postal Service’s cost savings estimates are not squarely in the right ballpark. If there may be ways that the costs are overestimated, there may be equally many ways that the costs are underestimated.

A. GCA’s Criticisms Regarding Use of an Historical Base Year, Excess Capacity, and the Full-Up Approach All Fall Short

GCA’s criticisms of the cost estimates appear on pages 5-17 of its brief, and contains three main criticisms of the Postal Service’s costing analysis. First, GCA claims that the Postal Service has committed a “basic methodological mistake” because the foundation for the costing analysis is an historical “base year,” instead of a rollforward model projecting to a future “test year.” GCA Brief at 5-7. Second, GCA claims that estimated cost savings rely on “excess capacity” which GCA assumes will not exist because mail volumes will increase
rather than decline further. GCA Brief at 7-12. Third, GCA argues that the Postal Service’s focus on “full-up” costs savings is another potential source of error. GCA Brief at 12-17. None of these arguments support the claims that GCA is making.

1. The lack of a need for a rollforward model is an advantage of the Postal Service’s approach, not the disadvantage that GCA claims.

GCA’s first argument is premised on the simple point that because the implementation of five-day delivery will take place in the future, the cost savings estimate should likewise be for a future year. GCA further argues that the Postal Service has often “rolled forward” costs in the past despite the uncertainty inherent in the process, and there is no reason to expect a five-day roll forward to be more difficult than the traditional ones. Id. at 5-6. GCA, of course, cites no record testimony in support of these arguments, because it did not bother to have a witness address them.

GCA, however, inadvertently identifies the flaw its own argument. GCA acknowledges that roll-forwards were necessary in rate cases to allow determination of whether rate changes would allow future revenues to cover future costs. Id. at 6. Importantly, the Postal Service had available ample historical data and models to estimate how mail volumes would respond to changes in rates, and how costs and revenues would then respond to those

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2 In making this argument, GCA ignores entirely the fact that the Commission, when making comparable estimates of the cost of changing from 6-day to 5-day delivery in its USO Report (Dec. 19, 2008), and again in its FY 29009 Annual Report (Jan. 8, 2010), focused its analysis entirely on historical costs (FY07 and FY08 costs, respectively), and made no attempt to take into account that any such change would necessarily occur in the future rather than in the past.
volume changes. All of these provided the basis for the roll-forward process, and careful calibration of cost and revenues to achieve the required financial “breakeven.” In a service change such as this, however, there are no rate changes under consideration, and no need to attempt to match costs and revenues. Moreover, unlike in a rate case, where volume changes are driving both cost and revenue estimates, in this case, the cost estimates have virtually nothing to do with volume changes. Instead, they have to do with fundamental operational changes. And there are no historical data or models upon which to base estimates of the effect of such a major service change.

Thus, contrary to GCA’s unfounded assertion on page 6, the “problem” facing the Commission is quite different from that faced in an omnibus PRA rate proceeding. The fundamental analytic (as opposed to policy) issue to be addressed in this proceeding is obtaining a plausible estimate of the level of savings the Postal Service can reasonably expect to gain from the contemplated service changes.3 With that objective in mind, the next question becomes, would attempting to incorporate the myriad factors necessary for a working rollforward model of some future year or years enhance or impede achievement of the basic objective? The very experts who would be responsible for conducting such an exercise concluded that it would, in fact, impede achievement of that objective. Their reasons for reaching this conclusion are presented in the Postal Service’s response to POIR No. 5, Question 4 (Tr. 7/2282-85).

3 While one could perhaps argue whether the corresponding inquiry into potential volume effects is equally fundamental, it is indisputable that it is largely, if not entirely, independent of the cost savings estimation exercise.
GCA cites this response, yet ignores it, claiming instead that “rollforward techniques could have been applied … here, as they were in rate cases under the 1970 statute,” and “there seems to be no reason why a similar exercise could not have been performed in this Docket.” GCA Brief at 6, 7. GCA misses the point entirely. It is true that the rollforward requires a finite number of inputs, so if one is willing to make some assumption or another for every required input including those for which reliable information is lacking, one could indeed construct and run a rollforward model. This would mechanically convert actual historical costs into estimates of future costs. But merely crunching a set of uncertain numbers fails to address the essential question – does running a roll forward provide a better set of estimated cost savings than using historical data which directly precludes the need to incorporate further uncertainty into the estimate? The Postal Service explained on the record why it does not. If GCA had grounds to disagree, it should have put up a witness to explicitly demonstrate the advantages of its proposed approach. The naked opinions of brief writers, with no apparent hands-on experience in actually constructing a Postal Service rollforward model from all of the necessary inputs, cannot provide an adequate basis to challenge that conclusion now.5

4 It is easy to naively suggest that “there is no reason why such an exercise could not have been performed,” but it is far more difficult to actually perform the exercise. Note that GCA does not even address the many methodological issues that would arise in an attempt to roll forward a service change, let alone make an attempt at doing so.

5 Putting the same points somewhat differently, the key costing issue before the Commission in this case is the change in cost that is caused by moving to five day delivery. Because this proposed operational change is expected to be in place on a long-term basis, it is not particularly important to determine exactly
Finally, GCA argues that this methodological issue matters because the Postal Service is using FY2009 as its base year and implies this “abnormal” year will lead to an overstatement of cost savings. As discussed in a previous section of this reply brief, GCA’s allegation that FY2009 volumes are, looking forward, “abnormally” low, are unsubstantiated by citations to record evidence, and in fact are contradicted by direct testimony as well as what we already know about actual volume levels in FY2010. Moreover, the range of possible consequences from relying on an historical year rather than a projected future year were discussed by witness Colvin in his direct testimony:

how much the cost savings will be in the first year it is in enacted. The exact savings in any given year will depend upon the exact wages, volumes, and technologies in place in that year, and modest variations from year to year can be anticipated. However, those savings will all be in the same ball park.

This means that it is important to assess the order of magnitude of the savings that will occur on a year-after-year basis. This is best done by controlling for other possible changes in the operating environment that could distort the estimated cost savings and by not allowing them to infect the estimated savings. The best way to ensure accuracy is to calculate the cost savings for a recent year in which the operation environment is known. Using such a year to analyze the proposed operational changes ensures that none of the estimated cost savings can come from other sources such as changes in wages, delivery points or technology.

As conceded by GCA, “rolling forward” to a test year necessarily means predicting the unknown values for future wages, volumes, delivery points and technologies. Basing estimated cost savings on the forecasted values imparts both uncertainty and inaccuracy to the cost savings, and makes it difficult to untangle how much of the estimated cost savings comes from the move to five-day delivery, and how much comes from the forecasts of the other variables. Moreover, there is no attendant gain in accuracy of the cost savings estimate. GCA proposes no changes in methodology for its hypothetical test year that would produce more accurate estimates. Rather, GCA erroneously asserts that somehow calculating the cost savings in an uncertain future operating environment can somehow give a more accurate estimate of the year-after-year savings from moving to five day delivery.
Also, these are the savings in terms of FY 2009, as if the five-day delivery plan had been in place and “full up” during FY 2009. Future years will have higher hourly labor costs and input unit costs, a greater number of delivery points to serve, and most likely lower mail volumes. Actual savings obtainable in the coming years will be affected by these somewhat offsetting factors.

USPS-T-7, page 17. Dr. Colvin further explained the various factors in interrogatory responses:

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. Specifically, any future increases in hourly labor costs or other input unit costs will, all else equal, lead to higher savings under five day delivery in future years. Likewise, the likely future growth in the number of delivery points will, all else equal, lead to higher savings for going to five day delivery in future years. The five day delivery savings for future years, however, would be reduced if volumes continue to decline. This would at least partially offset the increases in five-day delivery savings for future years associated with rising labor costs, other input costs and the number of delivery points.

Tr. 4/998,1004. Thus, Dr. Colvin’s record testimony directly contradicts GCA’s unsupported and erroneous assertion that, even if volumes were in the future to exceed volume levels in FY09, the effect would mean that the Postal Service’s cost savings estimates are overstated. In fact, as Dr. Colvin testifies, higher volumes in the future, all else equal, would push actual cost savings from the elimination of Saturday delivery even higher, not lower as GCA implies.

2. GCA fundamentally misunderstands the role of excess capacity in the Postal Service’s cost estimates

For its second argument on cost estimates, GCA alleges that the cost saving are overstated because they are based upon an “excess capacity"
analysis that depends critically on unique and “abnormal” circumstances that occurred in FY2009 and are not likely to occur in the future. GCA Brief at 7-12. GCA argues that FY2009 volumes were low, that the Postal Service relies upon excess capacity to provide cost savings in a five-day environment, and that this excess capacity will disappear as volume returns. Id. at 8-10. GCA further argues that, even with excess capacity, the transfer of volume from Saturday to Monday will cause an increase in hours and cost because of its postulation that costs accelerate due to “peak load” effects. GCA argues that, if volume nearly doubled on Monday, then the Postal Service would have to have a 50 percent excess capacity level to “absorb” the volume without increasing cost. Id. at 10.

Lastly, GCA argues that the Postal Service would have higher operating costs on Monday as a result of ending Saturday delivery, and insists these costs have not been netted out from the Postal Service’s $3.1 billion cost savings. Id.

The Postal Service, however, has not heavily relied upon an “excess capacity” assumption for calculating its cost savings. The majority of cost savings are for fixed costs, not variable costs. The “excess capacity” issue relates only to variable costs in street time city carriers. Even without saving any variable street time, total carrier cost savings are still large, approximately $2.25 billion for city and rural carriers. Tr. 4/958-59.

Moreover, after explicitly quoting Prof. Bradley on page 9 of its brief that, despite its ability to absorb the entirety of Saturday volume on other days, the Postal Service projects there will be additional street time on other days, GCA confoundingly claims that the Postal Service postulated “that no extra labor and
other resources will be needed on Mondays if Saturday delivery is ended.” GCA Brief at 10. GCA thus blatantly ignores the testimony it has just quoted, that “operations experts expect about 10 percent of Saturday’s eligible delivery time will be transferred to other days of the week.” All of GCA’s handwringing (pg. 10) about a “disquieting” 50 percent level of excess capacity is vacuous. For a fuller discussion of capacity issues in a network industry, see the below discussion of related arguments raised by NALC.

Similarly, it is equally erroneous to say that the Postal Service has not “netted out” higher operating costs on Monday. GCA Brief at 10. The Postal Service did. For city carriers, the Postal Service assumed that all variable office hours would be transferred from Saturday to Monday (and other days) and that 10 percent of Saturday delivery time would transfer as well. The Postal Service’s analysis also assumes that all rural carrier variable time is transferred to other days. Finally, it adds additional collection time to Monday. See USPS-T-6 at 14-19, 28.

GCA’s “peak load” argument (page 10), once again offered without any supporting testimony, does not apply to carriers. In fact, contrary to GCA’s presumption that peak-load effects cause unit costs to rise as volume rises, the rate of increase in carrier costs as volume grows can fall as volume rises. One reason that city carrier costs increase with volume is additional coverage. As volume rises, more stops are visited. However, coverage is capped when one hundred percent of stops are visited and additional volume can then no longer create any additional visits to stops. Thus, volume increases at high volume
levels are far less likely to cause an additional stop than volume increases at low volume levels. Thus, in contrast to what GCA asserts, there is no “peak load” effect for city carriers, and it is quite reasonable to expect productivity gains to be greater on high volume days rather than low volume days.

The final claim made by GCA in the portion of its brief regarding what it perceives as the “abnormal” status of FY09 involves the growth rate in the number of delivery points. GCA Brief at 11-12. GCA argues that an economic recovery will lead to a return to a higher annual growth rate in the number of delivery points, causing an increased need for additional carrier capacity and thereby reducing the estimated cost savings. Id. The Postal Service agrees that economic recovery will eventually lead to a return to a higher growth rate in delivery points than that observed in FY2009. But GCA is mistaken in its assertion that an increase in delivery points would reduce cost savings. GCA confuses changes in costs with changes in cost savings. The amount of cost savings from moving to five-day delivery depends, in part, on the amount of costs that exist before it is put into place. The larger the costs are prior to the change, the larger the savings will be. Thus, if additional delivery points increase the cost of the network, they will also increase the cost savings from moving to five-day delivery. This is particularly true for increases in delivery points, which increase “fixed” or “network” costs. There has been no disagreement by parties or the Commission that network costs would be saved by eliminating one delivery day per week. GCA has the cost consequences of additional delivery points totally backwards.
3. GCA’s discussion of the full-up assumption and appropriate wage rates is riddled with factual errors and faulty logic.

For its third argument on cost estimates, GCA claims that the Postal Service’s “full-up” assumption is another source of error, suggesting that the city carrier cost savings are overstated. GCA Brief at 12-17. GCA broadly bases this assertion on two points: (1) a claim that 40 percent of the carriers that work on Saturdays are Transitional Employees (page 17), and (2) Transitional Employees are paid less than full time regular employees (page 15). GCA argues that 40 percent of the city carrier cost savings will thus be represented by low cost transitional employees, and factoring that percentage into the analysis will reduce the costs savings a substantial amount. Id. at 16-17. Once again, because GCA’s analysis is yet again appearing for the first time on brief, rather than in testimony from a witness, it is difficult to discern the full basis for the claims made. In any event, though, GCA is plainly drawing misguided conclusions based on clear factual errors.

The Postal Service’s “full-up” approach seeks to identify the cost savings ultimately achieved after all transition periods to the new environment are complete and, so to speak, the dust has settled. On the one hand, GCA does not appear to reject the full-up approach as a matter of theory. GCA admits that the full-up approach simplifies the analysis, and apparently does not view as disqualifying the fact that a full up approach requires assumptions about the outcome of labor negotiations. GCA Brief at 13-14.
On the other hand, the mode of analysis which GCA appears to apply is nevertheless the antithesis of the full-up approach, refusing to consider any except the very first step in the series of adjustments that would lead to the full-up environment. To the extent that GCA is either intentionally or inadvertently rejecting the full-up approach, however, it fails to recognize that a full-up approach is the appropriate one for a policy maker considering the value of a permanent change (or if not permanent, a change that will be maintained for many years) in policy. In judging such a change, a policy maker should adopt a longer-term perspective and look at the outcomes that will prevail once all the adjustments have been made, rather than resorting to a short-term perspective which fails to allow full transition.

Whether GCA is challenging the theory or the implementation of the full-up approach, however, its challenge fails. GCA has neglected to calculate the quantitative effects of the actual implications of its concerns. When one does so correctly, one finds out they are trivial.

To begin, it is necessary to attempt to disentangle the actual implications of GCA’s concerns, which is not an easy task given the distortions of the record in the GCA brief. Take, for instance, the alleged “40 percent” figure. GCA refers to that figure in three places, but describes it in three different ways:

Mr. Granholm, in answer to a GCA interrogatory, stated that of the carrier employees who “fill in on the sixth day,” 833 are classed as “City Carrier Part Time Regular”; 19,850 as “City Carrier Part Time Flexible”; and 14,136 as “City Carrier Transitional Employee.” Thus approximately 40 percent of the carriers now providing sixth-day relief are Transitional Employees. (GCA Brief, as revised 10/18/10, at 15, citing Tr. 2/351-52, 436-38)
For city carriers, 40 percent of the savings would be represented by low-cost labor, not full-time regular-rate employees. (GCA revised Brief at 17, citing pages 14-15 of its own Brief)

Forty percent of the carriers now working Saturdays are Transitional Employees, whose total compensation may be from 35 to 42 percent less per hour than that of the Carrier Technicians expected, in an unknown but substantial number of cases, to take over their routes. (GCA revised Brief at 17, no cite)

The first and third references are to percentages of carriers, while the second reference is to percentage of savings. Assuming that the second reference is simply a somewhat sloppy shorthand attempt to convey the thrust of the point, let us ignore it and focus on the first and third references, which at least both refer to carriers: “40 percent of the carriers now providing sixth-day relief” and “forty percent of the carriers now working Saturdays.”

Each figure purports to represent the same percentage of a different universe, and both figures are wrong. The first reference (page 15) claims to represent a percentage of carriers “now providing sixth-day relief.” To understand this figure, it is necessary to turn to the portion of Mr. Granholm’s testimony which was the subject of the interrogatory response cited in GCA’s brief. The interrogatory, GCA/USPS-T3-1, pointed to page 13 of USPS-T-3, where Mr. Granholm referred to “the average wage of carrier technicians and other employees who fill in on the sixth day.” Thus, within the universe of carriers who fill in on the sixth day, Mr. Granholm identified two subsets, carrier technicians, and other employees. The GCA interrogatory only inquired about the second subset, other employees, and ignored the first subset, carrier technicians. Accordingly, Mr. Granholm provided the absolute figures relating to
the second subset which are cited on page 15 of the GCA brief, but made no representation regarding percentages, and provided no figures for carrier technicians. Consequently, using the numbers cited by GCA, Transitional Employees are thus approximately 40 percent of a subset of carriers now providing sixth-day relief, not the universe of carriers providing sixth day relief. The first reference to “40 percent” is thus clearly wrong.

The third reference (page 17) claims to represent a percentage of carriers “now working Saturdays.” On its face, this makes no sense, as with rotating days off, most any carrier can and will work Saturdays. To try to make some sense of the situation, however, it is possible to break out Saturday workhours by carrier type, as Dr. Colvin has already provided that information.

<table>
<thead>
<tr>
<th>Carrier Type</th>
<th>Saturday Hours</th>
<th>% of Saturday Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Time Regular</td>
<td>51,841,983</td>
<td>82.2%</td>
</tr>
<tr>
<td>Part Time Regular</td>
<td>88,883</td>
<td>0.1%</td>
</tr>
<tr>
<td>Part Time Flexible</td>
<td>6,535,924</td>
<td>10.4%</td>
</tr>
<tr>
<td>City Carrier Transitional</td>
<td>4,630,396</td>
<td>7.3%</td>
</tr>
<tr>
<td>City Carrier Casual</td>
<td>5,274</td>
<td>0.0%</td>
</tr>
<tr>
<td>Total</td>
<td>63,102,460</td>
<td></td>
</tr>
</tbody>
</table>

Source: Response of Witness Colvin to CHIR 6, Question 17 – Tr. 4/1021

6 To be more precise, witness Granholm provided the total number of current “other employees” in the three categories (of part-time and transitional employees) who “sometimes” fill in on the sixth day, as opposed to the number of “other employees” within those categories who actually do fill in for sixth-day relief, or, for example, are filling in during any given week. Tr. 2/351. Mr. Granholm also indicated that full-time employees (in this particular instance, presumably not carrier technicians) could also fill in using overtime hours. Id.

7 The calculation of “approximately 40 percent” is apparently 14,136 over the sum of 14,136 + 833 + 19,850, or 14,136/34,819, or 40.6 percent.
Instead of representing approximately “40 percent,” Transitional Employees only perform approximately 7 percent of the Saturday workhours. The third reference to “40 percent,” purportedly relating to the universe of “carriers now working Saturdays,” is thus also clearly wrong.\(^8\)

Knowing that these wrong numbers are the foundation for what GCA believes to be the implications of its concern, can we determine what the actual implication of GCA’s concern might be? The concern, broadly stated, is that the Postal Service has applied the wrong wage rate to its workhour savings estimates for city carriers. GCA Brief at 15-17. Specifically, Transitional Employees (TEs) are paid at a lower wage than Full Time Regular (FTR) carriers.\(^9\) GCA appears to argue, for example on page 17, that because it believes that 40 percent of the workers on Saturday are transitional, 40 percent of the savings on Saturday should be valued at the much lower wage rate for TEs. GCA argues that taking this into account would substantially reduce the city carrier cost savings. GCA, of course, does not actually attempt to specify the appropriate wage, nor does it attempt to calculate the impact on cost savings.

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\(^8\) GCA should have realized that the overwhelming majority of carriers that work on Saturday are Full Time Regular Carriers from the fact that the totality of the “other carriers” cited by witness Granholm was just 34,819 carriers (see previous footnote). Obviously, there is no way that less than 35,000 carriers could cover the 130,000 city carrier routes in the network on Saturday.

\(^9\) Confidence in GCA’s general understanding of the details of the Postal Service’s proposal is further undermined by the inconsistency in its brief regarding the actual wage rate employed. On the top of page 14, GCA incorrectly claims that the Postal Service city carrier cost savings estimates are premised on “the salary attached to the Carrier Technician position,” but dutifully (and correctly) notes in the accompanying footnote that Carrier Technicians are paid somewhat more than other regular carriers. One page later, on page 15, GCA then correctly states that Prof. Bradley actually used the full-time regular (FTR) wage rate.
But if GCA’s concern is taken at face value, and the actual implications of the concern are quantified with correction for the misstatement of facts, then it can be seen that the impact of accounting for Saturday’s transitional employees in the manner GCA suggests is trivial.

GCA professes that the wage rate used to value savings should relate to the hours various types of employees in fact work on Saturday, and the compensation they receive. GCA Brief at 17. Using information on the record, it is not difficult to measure the impact of assuming the saved hours are at the average Saturday wage. One need only calculate the average Saturday wage, based upon Saturday hours by carrier type, and then recalculate the cost savings using the average Saturday wage rather than the full time regular wage. The proportions of hours by carrier type (shown in the above table) and the hourly loaded wages (USPS-T-7, Attach. 1, pg. 2) are presented in the following table. These data yield an average “Saturday wage” of $39.91.

<table>
<thead>
<tr>
<th>Carrier Type</th>
<th>Salary and Benefits Per Full Time Hour</th>
<th>% of Saturday Hours</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full Time Regular</td>
<td>$ 41.74</td>
<td>82.2%</td>
</tr>
<tr>
<td>Part Time Regular</td>
<td>$ 39.79</td>
<td>0.1%</td>
</tr>
<tr>
<td>Part Time Flexible</td>
<td>$ 36.33</td>
<td>10.4%</td>
</tr>
<tr>
<td>City Carrier Transitional</td>
<td>$ 24.47</td>
<td>7.3%</td>
</tr>
<tr>
<td>City Carrier Casual</td>
<td>$ 13.09</td>
<td>0.0%</td>
</tr>
<tr>
<td>Average Wage</td>
<td>$ 39.91</td>
<td></td>
</tr>
</tbody>
</table>
With the average Saturday wage in hand, using it to recalculate the city carrier cost savings estimate is straightforward. One need only enter the average Saturday wage ($39.91) in the appropriate cell (Cell B44 in the tab entitled "Ops Approach to Cost Savings") in the Excel file Carrier Cost Savings.xls in USPS-LR-N2010-4/6. The resulting total direct carrier cost savings are $2.28 billion (as shown in Cell N34 of the same tab). This compares with a figure of $2.37 billion that was calculated by the Postal Service (which can be found in cell N34 of the same tab in the version of the library reference filed with the case, but which is also the total city and rural carrier savings shown in the table on page 52 of USPS-T-6, less the savings shown in the row for indirect savings). This difference, less than 4 percent of the total, is a far cry from the dramatic difference that GCA insinuates would be the implication of the concern that it raises, even assuming that concern were valid. But the concern is not valid, and using actual Saturday hours is wrong.

It is wrong because the GCA approach ignores the fact that the Postal Service needs to retain the same flexibility in its five-day carrier force that it currently has in its six-day carrier force. This means that in the full-up savings environment, the saved carrier hours will be full-time hours. While the Postal Service might lose some transitional carriers during the adjustment to five-day delivery, it will need to gradually replace them in order ultimately to restore the same flexibility inherent in the current environment. That requires building up over time the percentage of transitional employees in the five-day environment to the same
level it currently is in the six-day environment. Thus, Mr. Granholm’s correct assertion that, after the transition to full-up savings is complete, the reduction in the number of carriers caused by the change will actually be reflected by a reduction in the number to full-time regular carriers, not transitional employees. Tr. 2/356.

B. NALC’s Arguments Regarding Overtime, Number of Routes, and Other Portion of the Costing Discussion Are Incorrect

NALC presents two primary claims to support its arguments that city carrier cost savings are overstated. NALC Brief at 21-25. NALC alleges that those cost savings are likely overstated because they fail to account for how elimination of Saturday delivery would cause increased letter carrier overtime on other days, and would cause an increase in the number of routes. Both of these assertions are wrong.

1. NALC has the relationship between overtime and the cost savings estimates backward

With regard to the first argument, NALC erroneously claims that the “increased volume from eliminating a day of delivery would almost certainly cause a jump in letter carrier overtime, the cost of which would diminish USPS’s expected savings.” Id. at 22. The statement is partially correct, to the extent that Dr. Bradley’s approach reflects, due to the shift of mail volume from Saturday delivery to delivery on other days of the week, an anticipated increase in Monday to Friday workhours – some of which would be overtime. Witness Granholm indicated that using overtime would be one part of the strategy to deal with the volume shift. USPS-T-3 at 16. NALC certainly agrees with this view, and does
not appear to be challenging the estimate of the overall increase in Monday-Friday workhours.\footnote{Overall, the Postal Service projected that there would be an additional 15.7 million city carrier hours on Monday-Friday. See tab “City Hours” in Carrier Cost Savings.xls. At the FTR city carrier wage, this is an additional projected costs of $653.7 million.} Instead, the sole basis for NALC’s claim that more overtime would erode estimated savings is the unstated, but false, assumption that overtime hours are more costly than straight time hours. In fact, although overtime pay (aside from penalty overtime) is time-and-a-half, the use of overtime actually lowers the average cost per work hour, since no additional leave or other benefits are earned.

Because NALC did not put a witness to testify in support of its erroneous assumption that overtime hours are more expensive than straight time hours, the Postal Service had no opportunity to disprove that assumption on the record. An examination of National Payroll Hours Summary Report information of file with the Commission, however, demonstrates the claim to be false. That information shows that for full-time regular city carriers in FY09, each additional overtime hour worked cost $40.83, versus the average cost per hour worked of $41.91.\footnote{According to the National Payroll Hours Summary Report, Pay Period 20, FY 2009 (filed Oct. 16, 2009), for full-time city carriers in FY2009, the average cost per hour worked was $41.91 (page 34, line 43). However each overtime hour costs $38.43 (page 34, line 2). To be complete, though, we need to add to the overtime figure the Postal Service's additional costs for Social Security and Medicare (which is about 6.3 percent on all salary costs), giving us an hourly overtime rate of $40.83. (The sum of Social Security and Medicare in lines 37 and 38 of page 34 is $644 million, which is 6.3 of the line 25 gross salary costs of $10.304 billion.)} Therefore, increases in the share of overtime hours (non-penalty) in a given year,
holding all else equal, will lower the average cost per workhour. As indicated
above, this occurs because, for a given number of city carrier FTRs, the costs for
annual leave, other leave, and the costs for other benefits are not affected by
additional overtime work. So if the share of overtime hours would be higher with
5-day delivery, then the average cost per workhour would be lower. Had the
Postal Service known the increase in the share of overtime workhours under 5-
day delivery, this would have resulted in a reduction in the average cost per
workhour, and added to the savings. Therefore, NALC’s postulation (page 23)
that the inability to quantify the amount of increased overtime precludes
estimation of the overstatement of carrier saving is completely backwards. If
anything, it actually precludes estimation of the understatement due to this
phenomenon. 12

2. The contemplated service change would not cause an
increase in the number of routes.

NALC challenges the determination of postal operations experts that no
new city carrier routes would be required to accommodate the shift to 5-day
delivery, and claims that costs savings have been thereby overstated. NALC
Brief at 23-25. Once again, however, its arguments do not withstand scrutiny.
The judgment of the Postal Service's delivery operations experts is sound in

12 In their brief on page 19, the Public Representatives appear to have fallen into
the same trap as NALC in assuming that increases in overtime would increase
average hourly rates, rather than, as they actually would, decrease such rates.
concluding that the shift in volumes associated with a change to 5-day delivery could be accommodated without an increase in routes.\textsuperscript{13}

NALC instead argues that the cut in the number of carrier routes has put the average route time closer to eight hours, there is thus no more excess capacity, and to avoid “overburdening” existing routes, the Postal Service would have to create new routes. NALC Brief at 23-24. According to NALC, this would create new cost and reduce the cost savings. NALC further claims that one of the two “dubious” propositions upon which the Postal Service’s contrary determination rests is that additional mail from Saturday would be “absorbed” due to an increase in productivity on other days. \textit{Id.} at 23. NALC’s view is that city carrier routes in FY2008 and FY2009 had less than eight hours and thus had excess capacity. \textit{Id.} On average, the routes no longer do, so NALC contends that

\textsuperscript{13} Disturbingly, NALC cites materials not in the evidentiary record to support its claims about the alleged effect of the proposed service change on the number of routes. Specifically, NALC at pages 20-21 and 23-24 cites materials merely provided as library references without any sponsoring witness. The Commission’s rules are very clear that designation of materials as library reference and the subsequent lodging of them with the Docket Section “do not confer evidentiary status.” Commission Rule 31(b)(2)(xi). The Postal Service had no opportunity to cross-examine the authors of those materials, and no need to request any such opportunity since no effort was ever made to enter those materials into the evidentiary record. Moreover, NALC is not citing those materials for objective data or statistics reported therein, but is citing them for statements made purely on judgment – exactly the type of material that cross-examination is designed to test. Lastly, with all due respect to the authors of those materials, there is no apparent basis to believe that any of them have any hands-on experience grappling with the hour-by-hour, day-by-day, week-by-week, month-by-month, and year-by-year struggle to match carrier workloads with carrier network resources, which is, rather, the life work of the postal operations experts whose conclusions (after months of deliberation and consultation) were entered into the record, and whose judgments were sponsored by a witness available for cross-examination. The Commission is barred from relying in any way on the statements in the library references cited by NALC’s brief on this matter.
they do not have excess capacity and can no longer absorb volume. *Id.* This contention is incorrect.

The mistake that the NALC brief makes (once again without the support of testimony) is erroneously equating the number of hours in the day with the availability of additional capacity. This is erroneous because it assumes that the same number of pieces will delivered per hour in all scenarios, which is not true even in the current 6-day environment. Increases in daily volume are associated with dramatic increases in productivity. *See* USPS-LR-N2010-4/3 at 9. Despite the fall in hours due to recent route adjustment, carrier street productivity continues to fall. The productivity per week even at the end of FY2009 (after route adjustments were made) was well below where it was in FY2008 or earlier in FY2009. *See* Excel File (CHIR6.q5andq6.xls) accompanying witness Granholm’s Response to Q.5 of ChIR No. 6 (July 9, 2010). To handle Saturday’s volume on Monday through Friday does not require a heroic level of productivity, but merely a return to productivity levels that were common in FY2007 and FY2008. *Id.* In a network, “excess capacity” does not typically refer to idle time but rather to the ability to increase productivity as volume rises. Tr. 4/762. Historical data clearly shows that the city carrier delivery network has that potential both now and for the foreseeable future.

NALC is also mistaken to suggest (pg. 23) that part of the pressure to create new routes will come from the need to avoid incurring the cost of substantial overtime. Presumably, this supposed pressure also relates to the effects of recent route adjustments pushing average route time over 8 hours.
NALC Brief at 24. First, while there are limits on the amount of overtime that is rational, the cost of overtime, as discussed above, is not higher than the cost of straight time, so incurrence of overtime is not the anathema that NALC tries to make it out to be. Second, while the share of overtime hours did rise from FY2009 to FY2010, following those route adjustments, the share of overtime hours in FY2010 is still lower than was true for FY2005 to FY2007. As shown on page 40 of the National Payroll Hours Summary Report, Pay Period 20, FY 2010 (filed Oct. 16, 2010), the share of overtime in FY2010 for all city carriers was 9.7 percent (36.7 million of 378.5 million). For FY2009, it was 8.8 percent (or 34.8 million hours out of 393.7 million.) In FY 2005 to FY 2007, however, according to data from previous Payroll Hours Summary Reports, the percentage of overtime for city carriers was over 14 percent, as shown below.

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Workhours (in millions)</th>
<th>Overtime Hours (in millions)</th>
<th>%Overtime</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>442.65</td>
<td>54.5</td>
<td>12.3%</td>
</tr>
<tr>
<td>2004</td>
<td>435.3</td>
<td>57.65</td>
<td>13.2%</td>
</tr>
<tr>
<td>2005</td>
<td>440.5</td>
<td>63</td>
<td>14.3%</td>
</tr>
<tr>
<td>2006</td>
<td>436.74</td>
<td>64.4</td>
<td>14.7%</td>
</tr>
<tr>
<td>2007</td>
<td>431.2</td>
<td>62.5</td>
<td>14.5%</td>
</tr>
<tr>
<td>2008</td>
<td>417.8</td>
<td>44.8</td>
<td>10.7%</td>
</tr>
<tr>
<td>2009</td>
<td>393.75</td>
<td>34.8</td>
<td>8.8%</td>
</tr>
<tr>
<td>2010</td>
<td>378.5</td>
<td>36.7</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

Clearly, despite the recent route adjustments, there is still a material ability to absorb further growth in overtime without creating countervailing pressure to create new routes.

The second grounds upon which NALC questions the Postal Service’s evaluation of the lack of an effect of the contemplated change on the number of
carrier routes is the alleged dependency of that evaluation on a projection of long-term mail volume decline. NALC Brief at 25. On that page of its brief, NALC cites Prof. Bradley’s testimony at page 16, but Prof. Bradley made no such statement in his testimony. In fact, the conclusion that additional routes will not be needed in a five day environment does not require an assumption of declining volume. Rather, the Postal Service’s analysis indicates that, for any level of volume, moving from a six-day environment to a five-day environment will not require additional routes. A five-day environment will mean additional hours and costs on the other days of the week, but the increases are not so large as to require route reconfigurations. The additional hours can be incorporated into the existing route structure. Tr. 4/754-6 (Bradley). In contrast to the painstaking operational analysis done by the Postal Service, NALC has not provided any operation evidence or any quantitative analysis that supports its assertion that additional routes will be required.14

3. NALC’s other criticisms of the cost estimates do not withstand scrutiny.

NALC offers up several additional reasons why cost savings estimates may be overstated, but each of its arguments is faulty. For example, at pages 25-26 of its brief, NALC claims, citing Tr. 4/976-78, that Prof. Bradley conceded that “USPS will achieve less in savings than it projects because the letter carriers who will lose their jobs as a result of the move to five-day delivery

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14 The Public Representatives’ Brief (page 19) also erroneously assumes that higher base volumes would preclude the conversion to five-day service without additional routes, but is likewise incorrect for the same reasons stated by Prof. Bradley and cited above.
will be those, such as transitional employees, with lower than average wages”. NALC is misconstruing this portion of the transcript. On page 977, Prof. Bradley noted that the operations experts had determined that the ultimate reductions would not be in transitional employees (i.e., they would be in regular employees). The Chairman, however, then wanted to know on page 978 what the effect on the cost savings estimates would be if the wage rates for transitional employees were used instead. Specifically in response to that question, Prof. Bradley made a conditional statement that, if the hour savings were for transitional city carriers, then the cost savings estimates would be reduced. However, as explained above in response to similar erroneous arguments by GCA, the full-up hours savings will not be for transitional carriers, but rather will for full-time carriers. Witness Granholm, to whom Prof. Bradley continually deferred as the expert on this matter (including in the transcript passage cited by NALC), was very explicit on this point. Tr. 2/356, 363, 367, 413. In addition, the percentage of transitional hours use on Saturday is sufficiently small that accounting for the portion of Saturday hours that are transitional does not have a material impact on the estimated cost savings, a point also made by Prof. Bradley in the transcript pages cited by NALC, and also discussed above in response to GCA.

Lastly, NALC postulates that the Postal Service “may be grossly underestimating the transition costs related to implementing five-day delivery.” NALC Brief at 37-39. NALC goes so far as to allege that the Postal Service’s projections assume that transition costs “would drop to zero after the first year of implementation.” Id. at 37-38. The interrogatory response cited in the NALC
Brief in relation to its statement (albeit apparently not intended as support for its statement) appears at Tr. 7/1745, and includes no discussion of any time period whatsoever. While perhaps all of the transition costs could be incurred in the first year, the Postal Service focused more on the amount of those costs, rather than on the timing of their incurrence. No time limit was imposed on the examination of such costs, and the Postal Service certainly did not ignore known costs merely because they were determined to occur beyond the first year. Nevertheless, the Postal Service has been quite candid that additional transition costs could arise as implementation unfolds. In the same interrogatory response cited by NALC, the Postal Service acknowledged:

> While these are the implementation costs identified to date, other implementation costs may arise due to the transition to reduce staffing (relocation costs), or for contract terminations.

Tr. 7/1745. While additional items may later add to transition costs, it is most important to keep things in perspective. The Postal Service quantified the implantation costs it could identify. Relative to the overall estimate of annual full-up cost savings, the estimates of one-time transitions costs are quite small. Even if the estimate turned out to be, to take an extreme example, only one-half of the ultimate actual transition costs, the consequences in terms of the evaluation of the potential long-term financial benefits of the change would be extremely minor.

Even NALC agrees that transition cost estimates included with the Postal Service’s filing are a “negligible” amount. NALC Brief at 39. And while NALC did offer the testimony of Dr. Crew on this topic, Dr. Crew was long on
generalizations (essentially, if this is a big change, there must be big implementation costs), but short on specifics. NALC-T-4 at 10-11. The only specific example offered by Dr. Crew was unsupported speculation that the change might causes the need for additional routes, a claim already examined and rejected above. But specifically in terms of transition costs, even assuming arguendo that there were route adjustments from the instant proposal, we know that NALC already agreed to a significant number of route adjustments in recent years (NALC Brief at 24), and obviously the implementation costs of those adjustments were not a formidable obstacle, or NALC presumably never would have agreed to them. The same is the case here – it would be foolish to walk away from the prospect of billions of dollars of annual cost savings on account of the unsubstantiated specter of unquantified transition costs beyond those that the Postal Service has already identified.

15 Of course, to the extent that the Postal Service is in fact estimating well over $100 million in transition, in most contexts, that is already a very “substantial” amount, to use Dr. Crew’s term. The reason that critics can even contemplate challenging such a large amount as not substantial enough is because it looks so insubstantial relative to the estimated cost savings. Even in this day and age, amounts of $5 million or $10 million can buy a lot, and it would take an extremely large number of “unexpected glitches,” if each hypothetically had a cost in that range, before the cumulative effect would begin to approach a material impact on the estimated amount of transition costs.

16 In its comments on page 9, APWU echoes the sentiment that transition costs have been understated, but offers no analysis of why additional amounts above the over $100 million estimated by the Postal Service would render the estimate more “realistic.” It seems clear that, regardless of the amount the Postal Service had estimated, APWU would have insisted that it was not enough.
V. The USPS Market Research Provides Reliable, Probative And Substantial Evidence In Support Of The Planned Service Changes.

This section of the Postal Service Reply Brief addresses the market research presented by Postal Service witnesses Elmore-Yalch (USPS-T-8) and Whiteman (USPS-T-9); largely hypothetical challenges that “may” impact the market research identified by National Association of Letter Carriers, AFL-CIO (NALC); witness Crew (NALC-T-4); and refutation of each challenge by Postal Service surrebuttal witness Boatwright (USPS-RT-1). Witness Elmore-Yalch, senior vice-president of Opinion Research Corporation (ORC), worked with Postal Service witness Whiteman, senior manager of market research, to develop state of the art qualitative and quantitative market research that served two purposes: refinement of details in the five-day delivery plan developed by the Postal Service, and calculation of the volume changes that would result from implementation of that five-day delivery plan. This market research was criticized by NALC witness Crew, an economist with major gaps in his knowledge of market research, who claimed the research “may” be flawed in several respects that would supposedly be obvious to any economist. Witness Boatwright, a professor of marketing and market research expert, in turn explained how companies use market research to inform their “go / no go” product decisions; that the research undertaken by ORC and the Postal Service is state of the art, reliable, unbiased and does not suffer from any of the problems that witness Crew speculates about.
A The USPS Five-Day Proposal Meets Customers’ Needs For A Financially Stable Postal Service.

The NALC (IB at 46) and APWU (IB at 12-13) argue that ending Saturday delivery would be a strategic mistake that could threaten the Postal Service’s future viability. APWU also argues (IB at 11) that the Postal Service is acting as a monopolist by cutting service and ignoring customers’ needs. As ValPak explains in its initial brief (at 12), the inconvenient truth for all is the direct opposite – failure to implement five-day delivery virtually ensures the Postal Service’s insolvency and threatens its future viability:

If the Commission were to issue an opinion opposing five-day delivery, it would itself become part of the problem. If the Commission tells the Postal Service it cannot use its statutory authority to have an exigent price increase and then tells the Postal Service it cannot reduce certain costs, it would assume responsibility for laying the groundwork for the Postal Service’s financial default.

The Postal Service has done everything it can to cut costs and increase revenues. USPS-T-1 at 2-4. However, that is not enough, leaving the apparent necessity of major changes in its core infrastructure and to increase revenues.

The decision to pursue elimination of Saturday street delivery was made after examining how much money could be saved—over $3 billion in costs that would be saved every year—and confirming via outreach and market research that almost all customers could and would adapt to five-day delivery to help

1 This section of the brief uses “IB” as a shortcut referring to “Initial Brief”. Each participant’s initial brief was filed on October 15, 2010 in accordance with the procedural schedule, with the exception of APWU, whose initial brief was filed three days later. Each participant’s brief indicates by its title that it is intended as a participant’s initial brief.
ensure the financial stability of the Postal Service.\textsuperscript{2} USPS-T-1 at 7-9; USPS-T-2 at 2; USPS-T-9, at 1-3. As the Postal Service sets forth in its initial brief, at 57, the findings of the market research, outreach programs, and independent polls are markedly consistent and confirm the general capability of customers to make the adaptations necessary for five-day street delivery. American consumers and businesses understand that the Postal Service faces systemic, and short- and long-term financial crises. They want and need the Postal Service to be financially stable. As a consequence, they are willing to live with five-day delivery to ensure our financial stability because they are less dependent on mail today in general and even less so on Saturday. USPS-T-9, at 3-5, 8.

NALC (IB at 31, 36, 54), APWU (IB at 12), Mail Handlers (IB at 3), NNA (IB at 9), and GCA (IB at 28-29) argue that the loss of volume estimate provided by the Postal Service understates the volume loss that would flow from five-day delivery. Yet, the bottom line is that the volume loss estimate is the only volume loss quantified on the record. Moreover, even if the volume loss estimate is different from what state of the art market research estimates, its value is modest when compared to the billions in annual savings. As Dr. Boatwright testified: “I view the estimate of contribution loss of approximately $200 million to be a reasonable estimate.” USPS-RT-1, at 3, 4-7.

\textsuperscript{2} To be sure, some small customer groups who face greater challenges adapting are not supporters of a change to five-day street delivery. Moreover, as exemplified by participants’ initial briefs, customers’ first choice is that other answers—ones that are not attainable by the Postal Service itself—instead be used to meet the financial challenges presented.
B. Dr. Crew’s Speculative Criticism Of The Market Research Should Be Afforded No Weight.

Intervenors’ criticism of the market research conducted by ORC and the estimate of volume loss due to implementing five-day delivery is based almost entirely on the testimony of Dr. Michael A. Crew, NALC-T-4. Dr. Crew’s speculative criticisms of the market research are not creditable and are entitled to no weight. He has no experience in managing, conducting or directing market research. Tr. VIII\2390, 2540. He is not an expert on market research techniques and processes. Hence, his views about the validity of the market research are entitled to be considered as those of a layman, not a market research expert. In contrast, the Postal Service witnesses (Whiteman, Elmore-Yalch and Boatwright) do have such expertise. USPS-T-8, at v-vii; USPS-T-9, at ii; USPS-RT-4, at iii - v.

NALC tacitly recognizes this as it refers to Dr. Boatwright as an expert witness on market research. NALC IB at 33. However, it does not describe Dr. Crew as an expert in market research. Instead, NALC says (IB at 33), he is “… a leading expert in postal economics.” NALC does not and could not assert he is an expert on market research. As a result, his testimony is entitled to no more weight then would be given to a layman’s comments about the conduct of market research. See, USPS-RT-1. Hence, the market research conducted by ORC for the Postal Service should be relied on to support the go/no go decision of whether to implement five-day delivery. See, USPS-RT-1.

It should be noted that if there was any real validity to the intervenors’ criticism, they could and should have filed the testimony of a witness who is an
expert in market research. Their failure to provide such a witness is tacit admission that their criticisms are not valid, but are only the opinions of a layman. The Commission should not rely on such opinions when the evidence of record shows that the market research was valid and conducted in accordance with market research industry standards, which is precisely the topic of witness Boatwright’s testimony. USPS-RT-1.

C Eliminating Saturday Delivery Is Not A 17 Percent Decrease In Service.

APWU argues (IB at 2, 10-11) that service will diminish by 17 percent, if the Postal Service implements five-day delivery. That misleading characterization stems from the fact that some Saturday street delivery points would no longer be served that day; but it becomes an exaggeration when described as the loss of one in six delivery days. If the measure is to be the number of deliveries, the appropriate starting point is those delivery points now getting Saturday delivery service which would no longer be served under the Postal Service’s five-day delivery proposal. The approximately 20 million Post Office boxes would retain delivery, as would deliveries to businesses that pick up their mail via caller service or firm holdout. But the starting point also involves the lack of delivery to the 30 percent of businesses who do not get delivery on Saturday because they are not open that day (Tr. II/136). While it may be tempting to measure the impact of five-day delivery by examining the volume of mail delivered on Saturdays, backing out the volume that would still be delivered to PO box customers and caller service/firm holdout businesses, the reality is
that all mail would still get delivered (other than the 0.71 percent volume decrease measured by the market research). Post Offices will remain open and deliveries for customers who pick up their mail at a postal facility will continue; drop shipments will continue to be entered, bulk mail will continue to be accepted and Express Mail will continue to be accepted, processed, transported and delivered. See USPS-T-1, at 9-15. So the much bandied “17 percent” is a deliberately chosen exaggeration.

The 17 percent claim is accordingly misleading despite its utility to those looking for rhetorical flourish. Participants in the qualitative market research had no trouble recognizing how the five-day delivery proposal they were provided (USPS-T-9, App. A) would, or would not, impact their mail related activity, including the recognition that for those delivery points affected by five-day delivery pickup and delivery would be postponed one delivery day.

D. The Qualitative Market Research Provided Valuable Insights About Customer Reactions To The Preliminary Five-Day Delivery Concept.

The Postal Service began its market research with qualitative market research consisting of focus groups and in-depth interviews (IDIs), to develop a “deep understanding” (USPS-T-8 at 74) of how customers would respond to the preliminary five-day delivery concept (Appendix A to USPS-T-9). While qualitative research by definition is not statistically projectable to the nationwide population (USPS-T-9 at 3), this essential reality escaped those participants whose initial briefs criticize the qualitative research for not being statistically
representative of the population in the domestic delivery area, or for not including residents of specific states or respective rural locations.

The purpose of the qualitative research was “to speak with customers about their behavior, perceptions, and expected responses to changes described in the operational concept.” *Id.*  *See also,* USPS-T-8 at 3 (seven specific objectives of the qualitative research).  “The most significant finding from the focus groups was that most consumers and small commercial organizations said that elimination of Saturday delivery to street addresses would have little impact on their consumer or commercial requirements. Most said they would adapt.” *Id.* at 4. While focus groups involved consumers and small businesses, the interests of larger mailers were enlisted using in-depth interviews (USPS-T-8 at 3.) “For [commercial] organizations, the lack of Saturday delivery would have little to no impact.” USPS-T-9 at 5.

In sum, the qualitative market research showed the Postal Service that almost all customers of all types could adapt to five-day street delivery with modest changes to their mailing behavior. The consistency of this customer response across senders and recipients, from consumers to the largest mailers, proves at least that more extensive qualitative research would not have generated materially different or more meaningful results. That is not to say that customers *want* the Postal Service to cease delivering mail to street addresses on Saturdays; rather, such a change is widely recognized as a tool that will help the Postal Service address its financial condition, one that entails cost avoidance year after year, and one that customers can generally adapt to with little difficulty.
1. The market research is representative nationwide of consumer and business attitudes about five-day street delivery.

Several intervenors argue that the focus groups are not representative of American consumers and businesses and cannot accordingly be relied upon to provide meaningful insight about five-day delivery. NALC IB at 37-38; NNA IB at 28-29. APWU (IB at 4-5) and the Public Representative (IB at 8) argue that the qualitative market research is not representative of Americans in rural areas or did not address the delivery of medicines or vote by mail ballots. These claims uniformly lack merit as the evidentiary record shows.

By definition, focus groups are not meant to be statistically representative (supra). Nor is it necessary to conduct focus groups throughout the domestic service area in every region, state, and county (parish) because qualitative research need not be that encompassing to generate meaningful insight. Witness Elmore-Yalch made this point repeatedly during cross examination regarding the appropriate use and interpretation of focus group research (Tr. V\1171, 1293, 1296). Moreover, virtually every market research text written clearly distinguishes between qualitative and quantitative research, noting that the sample is a small number of non-representative respondents and that analysis is not statistically projectable.³

Focus groups are designed to allow a discussion about the topic researched with a reasonably broad cross section of customers that is targeted for the topic researched. ORC’s focus group research was designed to discuss

the impact of five-day delivery on a cross section of households and small businesses, covering different geographic areas and different income levels, with diversity across age and sex. By design, qualitative research is not meant to cover all the detailed segments of the population, but to elicit input from the overall population studied. This was exactly what was done here. See USPS-T-8 at 4-5 and USPS-T-9 at 3-7.

People living in rural America were respondents in the qualitative market research. The focus groups included respondents who lived in the rural areas surrounding Atlanta and Seattle. USPS-T-8 at 8. No need was identified that required recruiting of rural customers from Georgia, Texas or Alaska; the results generally confirmed that consumers and small businesses provided similar information, regardless of their age, income, location, sex or whether they lived in rural, suburban or urban environments. USPS-T-9 at 3-7. Nor is there any record evidence suggesting that the views of focus groups would have differed materially had participants been recruited from other locales. Similarly, no record evidence suggests that use of the mail is markedly different in some particular location where focus groups were not held.4

This issue was also raised during oral cross examination of witness Elmore-Yalch in connection with the quantitative research, which included households and commercial organizations from around the country, including respondents from rural, suburban, and urban areas. Tr. V/1146, 1157-1162.

4 Bypass mail in the non-contiguous states might present an example of a location where the mail is used for a distinct purpose. However, five-day delivery will have no impact on bypass mail, so there was no need for including it in the research.
This allowed the Postal Service to project the results statistically for all customer segments and products to the national population. USPS-T-9, Appendix B. The absence of any respondents from Alaska or Hawaii had no effect on the statistical reliability of the quantitative results, as (1) other respondents from other states would have statistically represented any respondent from these two states and (2) any respondent from these two states would have carried only a very small statistical weight. Tr. V/1157-62. Further, it was the objective of the research to assess the impact of five-day delivery on a national basis, not to study the impact in each state, county, or city.

The delivery of medicines and the mailing of ballots was discussed in the focus groups. USPS-LR-N2010-1/12 (focus group transcripts); see also, USPS-T-8, Appendix C. Transcripts from the focus groups in Atlanta and Chicago contain direct quotes from respondents discussing delivery of prescription drugs. Similarly transcripts from the focus groups in Seattle (the only focus group location where voting by mail is universal) contain direct quotes from respondents discussing the impact of five-day delivery on voting.

APWU (IB at 5) and NALC (IB at 35) argue that the market research results are premised upon a comparison of five-day delivery vs. a large price increase. Both are apparently unable to recognize the mutual independence of the qualitative and quantitative market research. In the qualitative research with consumers and small businesses, ORC asked respondents to consider a question that proved quite effective in stimulating focus group discussion; that question contained a scale with five-day delivery at one end and a 10 percent
price increase at the other.\textsuperscript{5} See USPS-T-8 at 8. The consequent discussion helped the Postal Service understand how five-day delivery would impact customers. Focus group participants were asked about the 10 percent rate increase as a way to solve the Postal Service’s financial problems in a context that asked participants what they would do if they were Postmaster General. Respondents discussed the size of the rate increases. Almost all respondents said rate increases would not completely solve the financial problems. See USPS-LR-N2010-1/12 (both the transcripts and the qualitative research report in this library reference).

APWU further argues (at 5) that ORC presented customers a Hobson’s choice\textsuperscript{6} by asking customers whether they favored five-day delivery or a 10 percent price increase in the focus group discussion. But the purpose of the focus groups was to elicit discussion, a measure by which this question was quite successful. The question really did not need to be answered at all. There was no Hobson’s choice since respondents were not asked to accept the scale or not. Indeed, to the extent it did present a Hobson’s choice, that, too, would elicit discussion thus helping to fulfill the goal of the focus groups. A simple reading of the discussion guide (USPS-T-8, Appendix C), or a more comprehensive review of the transcripts themselves, shows that both ends of the scale became part of

\textsuperscript{5} The genesis of the 10 percent figure drew the interest of many participants. Witness Elmore-Yalch explained her understanding that the figure was “roughly approximate to reduction in service to five days over some period of time,” (Tr. V/1148). Indeed, it is roughly equivalent to the calculated value of five-day delivery over two years.

\textsuperscript{6} Wikipedia defines a “Hobson’s choice” as a free choice in which only one option is offered. As a person may refuse to take that option, the choice is therefore between taking the option or not; ”take it or leave it".
the discussion. The qualitative research constituted an effort to understand customers’ reactions were five-day delivery implemented: how would customers react and what changes might they make in their mailing activity? Participants were asked how a 10 percent rate increase would impact them, and their preference, if any, of one over the other. Because participants did not think a 10 percent rate increase would resolve the Postal Service’s financial difficulty, it was not very popular. A high percentage of participants did not favor a 10 percent price increase as they did not think it would solve the financial problems of the Postal Service. In fact, some said that this would make it more difficult for the Postal Service to solve its long term financial problems. For that matter, some said they would like to see both a 10 percent increase and five-day delivery.

NNA argues (IB at 29) that ORC offered respondents a different Hobson’s choice: “either lose the mail or have a local [P]ost [O]ffice closed. Either lose the mail or experience a rate increase above inflation.” The evidentiary record lends no support for this fanciful assertion, which could explain the total absence of any citations by NNA to support its argument. In fact, the record is clear that closing Post Offices was never a part of the research or the operational concept in this docket.7

APWU (IB at 7), NNA (IB at 21-22) and NNA (IB 20-21) claim the market research omitted key businesses: newspaper publishers or pharmacy benefit management companies. In conducting the qualitative focus groups and IDIs, ORC enlisted a cross-section of major industries. Tr. V/1101; USPS-T-8, App. B

7 As the transcripts show (USPS-LR-N2010-1/12), some respondents did mention closure of offices when asked what they would do if they were the PMG.
(Participant Profiles); see also, USPS-T-8 at 10. However, given the limited number of slots for respondents to participate in the focus groups and IDIs, it was neither possible nor necessary to ensure that companies in all industries would be recruited. Qualitative market research, by definition, is not projectable to any particular population. However, this does not mean that the qualitative market research is flawed, defective or otherwise did not provide insightful information. This was true for all groups, including the ones in Atlanta, where flooding complicated recruitment. Tr. 5/1124.

NNA can be heard arguing in every case that its views, or those of its membership, are given insufficient respect or are not heard. While the small newspapers may be important to some, the fact remains that they are a small segment of the periodicals industry. Yet in this case, NNA was one of the mailer organizations to which the Postal Service reached out directly. See USPS-T-1 at 5-9. So its views got at least the consideration warranted. ORC expressly included newspapers on its screener for the business focus groups. USPS-T-8 at 39, question 3. At least one publisher was interviewed during the IDIs, while participants in all groups were asked what kinds of mail are received at home or at their place of business (USPS-T-8, App. C (Moderator’s Guides)). So newspapers were indeed included in the qualitative research, literally both coming and going. Not one participant in the qualitative research ever mentioned that he or she would miss a Saturday newspaper in a five-day delivery environment.
2. Customers do not state that Saturday collection and processing of mail is that important.

The main arguments in the initial briefs of Carlson and Popkin are that the Postal Service should continue collection and processing of outgoing mail on Saturdays. While the structure of the market research was based on a single operational plan (USPS-T-9, App. A), respondents in the focus groups did comment upon elimination of collection and processing of outgoing mail on Saturdays.

Carlson recognizes this as he cites the market research as follows:

The only comments from research subjects on their need for Saturday collections and mail processing came from just nine focus-group participants. DFC/USPS-T9-1 and 3.

Carlson IB at 8. While the two cited interrogatory responses provide examples from focus group transcripts, the factual foundation for his assertion that only nine participants made comments about Saturday collection and processing goes unexplained. The fact that only nine (or more) of 200 participants (USPS-T-8, App. B) commented about Saturday collection and processing of outgoing mail on Saturdays illustrates the value of qualitative research because of the wide net it casts. The comments themselves generally indicate that the loss of Saturday collection and processing does not concern the participants, thus providing little to no support for the Carlson and Popkin version of five-day delivery. While respondents do discuss the Carlson and Popkin topic, it is clear from the actual comments that it was relatively unimportant to them.

Carlson further argues that the qualitative research does not
... provide the level of thought, sophistication, or reflection on which
the Commission should rely to gauge nationwide—urban and
rural—public opinion about the Postal Service’s plan.

**Id.** At least with respect to the Carlson and Popkin version of five-day delivery,
the qualitative market research does provide the insights of American consumers
and businesses on which the Commission can rely to reject their alternative
vision outright.

Yet the qualitative market research did generate discussion of the effect
on customers of not collecting and processing mail on Saturday.  USPS-T-8,
App. C.  In fact, bulk mailers said in the qualitative research that not accepting
their mail on Saturdays would cause them problems.  Similarly, bulk mailers said
that they also needed to be able to make drop shipments on Saturdays.  This
input was of sufficient import that the Postal Service chose to modify its
operational plan to include Saturday and Sunday acceptance of bulk mail and
facilitation of drop shipments.  This development accurately implies that if the
market research had revealed a similar level of interest in the Carlson and
Popkin version of five-day delivery, the Postal Service would at least have re-
examined additional elements of its original plan.

Carlson recognizes that Saturday collection and processing of mail was
discussed in the focus groups and that participants said they could live with it.
There was no indication from the focus group participants that they had any
problems with eliminating Saturday collection and processing.  Hence, no
changes were made of that ilk to the operating concept.  This conclusion was
reinforced by the input of mailers where they identified collection and processing
of mail on Saturday as one of the 21 issues they had with the initial operational concept. See USPS-T-1 at 5-8 and USPS-LR-N2010-1/1. However, after the adjustment for bulk mail, mailers said they and their customers could adjust to the loss of Saturday collection and processing.

Overall, the research clearly demonstrates that customers understood the key changes to be made with implementation of five-day delivery. Customer feedback led to adjustment of the operating plan and there is no basis in the evidentiary record for concluding that customers were confused or did not understand the proposal when they overwhelmingly indicated they could adapt to five Day Delivery. USPS-T-9 at 1-2.

E. The USPS Market Research Results Are Reliable And Are The Only Accurate Measure Of Volume Changes Caused By Implementation Of Five-Day Delivery.

NALC argues (IB at 31) that “another problem is that ORC conducted its quantitative research during just one limited period in time, in September-October 2009.” NALC further argues that “estimates that survey respondents give during just one short timeframe provide scant basis for predicting how they will behave for years to come.” Finally, NALC states that the “problem is exacerbated here by the fact that the timeframe used for ORC’s survey was highly atypical: in 2009, the economy was suffering from what the Postal Service accurately describes as the worst economic downturn since the Great Depression.” GCA makes (IB at 28-29) a similar argument, citing to witness Crew’s opinion:

It is hard to imagine how this extreme macroeconomic environment could not have colored the perspectives of the businesses and consumers respondents. For example, a business experiencing
severely diminished activity as a result of the recession might have seen five-day delivery as impacting it less than during times of normal business activity.”

Witness Elmore-Yalch observes (USPS-T-8 at 8) that the quantitative research was designed to estimate, by customer segment, the percentage by which each applicable product’s volume would increase or decrease if five-day delivery were implemented within the next 12 months. The research was undertaken at the point in time when the Postal Service needed reliable and conservative estimates of the effect on mail volume as one of many critical inputs to its decision whether to propose going forward with five-day delivery. Dr. Boatwright clearly describes in his testimony (USPS-RT-1 at 10) the importance of valid market research data to support this proposal; in Dr. Boatwright’s opinion, based on his experience in academia and working with major companies, the market research conforms to that of leading academics in the fields of new product development and market research:

When making decisions about changes to existing product or launching new products, market research is often conducted to support the basic “go” / “no-go” decision. I use the word “product” in its general sense, including services, software, systems, and technologies. Customer views constitute critical input to product decisions, so both qualitative and quantitative marketing research methods are typically employed to obtain customers’ perspectives.8

The Postal Service accordingly followed basic and well-documented business processes to collect information necessary to an informed go / no-go decision. As Dr. Boatwright further explains (USPS-RT-1 at 18):

In the present case, the Postal Service has assembled data to assist in making an informed decision as to whether eliminating Saturday street delivery is an appropriate strategy to address its financial challenges. This is a classic business decision—should the Postal Service eliminate / not eliminate six-day delivery service.

No one at this point in time can predict what mail volumes will be when the economy fully recovers. In fact, no one can, at this point in time, accurately predict when the economy will recover fully. No responsible business today, answerable to its stakeholders, would delay the need to make business decisions in light of some potential unknown event. If significant time elapses between the current decision and full implementation of five-day delivery, additional research may well be undertaken to inform any adjustments to forecasts and business strategies.

Dr. Boatwright also recognizes the possible need for additional research (id.):

Depending on the length of time between this go / no-go decision and its implementation, a meaningful change in the marketing and operating environment may require further analysis and even new research to determine whether the projected impacts have varied enough such that one should consider modifying the operational strategies to mitigate any impacts. It is important to note that based on the analysis done here, any such change would have to be very substantial to warrant new research.

From the witness stand, Dr. Boatwright elaborated further (Tr. XI/ 3216):

All companies … have a sequence of decision points, and at each decision point they evaluate what's the cost of the additional research, what am I going to gain from the additional research, and they make their judgment accordingly on [whether to] do … additional research. … When the benefits [of additional information] outweigh the costs [of collecting that information] they hopefully decide to conduct additional research.
Whether the Postal Service will need additional information in the future as five-day delivery is implemented can only be addressed when a better understanding of the economic and operational environment emerges at that time. There is no indication that the current environment has changed sufficiently that the estimated volume analysis is no longer reflective of the current marketplace response. That is, the economy remains stagnant and current mailing volumes have not meaningfully changed from the point in time when this research was conducted. Therefore, it is appropriate for the Commission also to use this market research analysis, especially given that it is the only valid source of market change information on record. No other witnesses presented any data indicating the invalidity of the volume changes presented by witness Whiteman.

F. Use Of The Likelihood Scale In The Quantitative Market Research Is Necessary and Valid.

The likelihood scale is a common and standard approach in industry, supported and employed by extensive academic and practitioner literature as Professor Boatwright testified (USPS-RT-1 at 8-13). For its own reasons, NALC chooses to ignore the testimony of Dr. Boatwright, the use of the likelihood scale and of the unfamiliarity of its own witness with the use of the likelihood scale. Witness Crew admitted his ignorance of or did not recognize this standard methodology (NALC-T-4 at 6).

The likelihood scale is also mathematically necessary for unbiased estimates (USPS-RT-1 at 8-13), a fact NALC also manages to ignore in its brief. NALC’s claims that the likelihood scale introduces bias similarly ignore the
mathematical proof provided in Professor Boatwright’s testimony, perhaps illustrating NALC’s misunderstanding of how it is employed. As discussed below, GCA agreed with the need for a likelihood scale (GCA IB at 29) and proposed an even more extensive use of a likelihood scale at a different level of data aggregation.

NALC also expresses concern that survey respondents were uncertain about their own future mail behavior. The fact that survey respondents are uncertain about the future is not a cause for concern but rather the basic structure of the problem at hand, a problem requiring the use of the likelihood factor. As detailed in the discussion of expected value by Dr. Boatwright in USPS-RT-1, the expected value formula (taught in basic statistics classes throughout the world) fully addresses this uncertainty. The fact that the NALC brief expresses concern again reveals a basic misunderstanding of the equations in use, possibly due to witness Crew’s lack of expertise in market research methodology.

NALC’s naïveté also shows itself (NALC IB at 33) in questions about whether the likelihood question was “compound,” or to use market research jargon, “double barreled”, despite Professor Boatwright’s clear explanation of why it was not. (Tr. XI/3246) In its brief, NALC simply reiterates various arguments that were refuted by Dr. Boatwright, without even attempting to address USPS-RT-1, pointing again to testimony of witness Crew who admitted being unfamiliar with the use of the likelihood scale. The NALC brief did add an example to its brief, a problem of a coin toss. Yet its coin toss example has a
different structure from the equations discussed in USPS-T-8 and in USPS-RT-1, again revealing NALC’s lack of understanding how the likelihood factor should be used. In sum, the NALC concerns do not address actual issues with the likelihood factor but rather are unfounded fears based on misunderstanding.

GCA agreed with the need for a likelihood scale and that it can be correctly reduced to the widely used “expected value” equation (GCA IB at 29). GCA proposes, however, that a likelihood scale be used at a less aggregate level of data, where a likelihood would be measured and employed for each combination of product and mailer type. The proposed approach of GCA is a viable one that would not meaningfully impact the estimated net $3.1 billion savings of the five-day delivery proposal. The likelihood question 10k (USPS-T-8 at 74, 104, 123, 142 and 161) was measured at an aggregate level, capturing the probability of a change in overall volumes. GCA’s proposal has merit, in that measurement by product and mailer segment serves as an alternative approach. The level of aggregation is a typical decision that must be made in such research, a choice that involves tradeoffs. On one hand, the more disaggregate the data, the greater the potential precision in the estimates. On the other hand, each respondent would be required to answer more questions, increasing the time needed for a telephone questionnaire and consequent respondent fatigue. In this instance, the decision was made to obtain detailed data on volume at the application and segment level but to then minimize the length and complexity of the questionnaire by using a single likelihood scale. Both approaches are reasonable. As can be seen by the sensitivity analysis performed by Dr.
Boatwright (USPS-RT-1 at 19), the estimated financial benefit of multiple billions of dollars will be robust to variations of methodology.

GCA also would like for estimates of volume changes to account for the uncertainty in “future maintenance of current volumes.” GCA IB at 26. Standard statistical practice would account for this uncertainty through calculations of variance and/or confidence intervals. The variance estimates produced by witnesses Elmore-Yalch and Whiteman, and confidence intervals in Dr. Boatwright’s testimony (USPS-RT-1 at 26 and Tr. XI/3250-55), account for variation across respondents, which is standard practice when variance across respondents would be expected to be much larger than the type of uncertainty questioned by GCA, often called measurement error. As can be seen by the sensitivity analysis (USPS-RT-1 at 19), the estimated financial benefit of multiple billion dollars will be robust to variations of methodology.

Finally, GCA thought there should be descriptions (often called “anchors”) on each of the points of the 11-point scale (GCA IB at 27), suggesting that lack of anchors “introduces a degree of fuzziness” into the data collected. Standard research practice allows variation in number of scale points and how the scale points should be anchored. The larger the number of points, the more powerful the scale is in discriminating; but at a certain point (e.g., 100 points), respondents become unable to make fine distinctions and thus round off. Moreover, there is agreement that magnitude estimation scales must have fixed anchors, or

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9 See Responses of the United States Postal Service Witnesses Elmore-Yalch and Whiteman to Bench Requests for Estimation of Variance Associated with Market Research Conducted by Opinion Research Corporation (Percentage Changes by Product and Segment) and Subsequent Estimation of Volume Changes by Product Undertaken by Witness Whiteman (August 26, 2010).
reference points at the end-points. No body of literature clearly states whether any one approach is better than the other—e.g., every scale point anchored versus end-points only. The literature does suggest that the best approach to use is dependent on the data collection method. While a greater number of anchors can at times bring greater clarity, too many anchors in telephone surveys will require lengthy explanations as well as an assumption that respondents presented with aural stimuli will be able to keep visual anchor points in their head. The common belief is that this will lead to confusion on the part of the respondent such that most telephone surveys only use end anchor points. This is one of the many reasons why organizations hire professional market research firms such as ORC that are adept at crafting surveys to avoid measurement error (USPS-RT-1 at 14).

G. The Market Research Was Designed To And Does Avoid Bias.

NALC argues (IB at 27-28) that ending Saturday street delivery would likely cause a larger drop in mail volume than USPS anticipates because the volume questions are hypothetical, and without time to study, customers could not give reliable answers. As Dr. Boatwright found in his testimony, the approach used by ORC is “consistent with those used in practice by other professional market research firms; the research protocol, procedures and materials are designed to address potential biases that exist in such studies.” USPS-RT-1 at 18. NALC’s broad-brushed criticism would invalidate any research that seeks to estimate a future happenstance simply because projection of future behavior is necessarily hypothetical. The Commission—long reliant upon market research
supporting future classification changes—should accordingly not abide by NALC’s argument.

NALC argues (IB at 29) that the different phrasing of the volume questions could cause unreliable volume estimates. There has been no testimony indicating that the phrasing of the volume questions created any confusion for respondents in providing estimates of their volumes prior to implementation and post implementation of five-day delivery. Moreover, the research team that fielded the research also did not hear complaints of confusion from respective respondents. The questionnaire was designed by a highly respected national market research firm whose work has drawn compliments in past Commission opinions; the Commission should accordingly look no farther than the review of the market research undertaken by Dr. Boatwright, an expert in marketing and market research.

NALC claims (IB at 30) that respondent bias arose from respondents trying to please the interviewer and from a self interest in giving low volume estimates to preclude a future price increase. Dr. Boatwright directly addressed this claim that there could have been “social desirability bias” by explaining how ORC used telephone interviews and structured the questionnaire by decomposing the volume questions to reduce and avoid such bias. There could have been no “self-interest” bias as no mention of any forthcoming price increase was included in the quantitative questionnaire. USPS-RT-1 at 16.

NALC claims (IB at 31) that nothing in the record shows how customers responded to the likelihood question. While nothing precluded NALC from
requesting information it now claims was necessary to its understanding of the market research, values for responses to the likelihood question are included in the documentation submitted with the Request when it was filed. USPS-T-9 at 13-14; USPS-T-8 at 31-37. The pattern of responses on the likelihood question was also raised by the Chairman (Tr. 5/1290), to which witness Whiteman responded on July 29, 2010. This response clearly demonstrates that a high percent of respondents indicated that Five Day Delivery would not cause them to make changes in their mailing programs/procedures. See also, USPS Initial Brief at 51.

H. Use Of An Econometric Model Would Not Be Valid Or Useful.

NALC asserts (IB at 33) that

… postal operators elsewhere in the world have used econometric studies when seeking to assess demand elasticity in connection with contemplated service changes…

and that

…a customer survey alone is a thin reed on which to make a decision to implement an unprecedented and likely irreversible change in operations.

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10 The likelihood values were filed with its direct case and Request in USPS-LR-N2010-1/NP2, filename USPS 5-Day Delivery – Business Data File and Forecasts_final.xlsm. The likelihood data are in the tabs labeled National Accounts – Column AL, Premier Accounts – Column CP, Preferred Accounts – Column CP, Small Businesses -- Column AI. The calculations can be followed in these tabs as well. Similarly, likelihood data for consumers are located in filename: USPS 5 Day – Consumer Data File and Forecast – 11-22-2009.xls, in column W of the “Consumer data” tab.
NALC provides no examples of postal administrations who have done what it asserts. This assertion is based on Dr. Crew’s testimony, who admitted he was not aware of reasons why foreign postal administrations decided to eliminate Saturday delivery or whether any had relied on an econometric model to make this decision. Tr. VIII/109, 265.

Moreover, the assertion is actually contrary to what other postal administrations have said is the basis for their decisions to eliminate Saturday delivery. For example, in February, 2010, Singapore Post announced that it would discontinue delivery of mail on Saturdays effective May 15, 2010. Singapore Post made its decision based on declining mail volumes and changing lifestyles. According to the cited News Release, Singapore Post also based its decision on:

[a]n independent survey [that] was carried out in March 2009 to gauge the response of both the public and the businesses to a 5-day mail collection and delivery service. Ninety-one percent of the survey respondents who were recipients found it acceptable to receive mail items on the following Monday and 92 percent of senders found it acceptable that their recipients receive the mail items on the following Monday.

The fact is that well-managed postal administrations, like Singapore Post (see Tr. VIII/265), have based their decisions to eliminate Saturday delivery on market research similar to what the Postal Service has done here.

Witness Crew expressed a generic wish for econometric analysis without giving any detail as to how such analysis could be conducted, without describing

\[\text{11 See }\text{www.singpost.com/downloads/media/press_release/10/PR20100210.pdf for the Singapore Post News Release announcing elimination of Saturday delivery. A copy is attached as Appendix A to this section (V) of the reply brief.}\]
the nature of the data that would need to be available to do so, and notably without characterizing the level of accuracy that he would expect from such models. The issue is not getting just any estimate but rather getting an estimate that is precise enough to be useful to reduce the level of uncertainty in the decision making process. Professor Boatwright, who has extensive experience in econometric models as well as new product research, noted that econometric models would not be a reasonably reliable method here, due to insufficient relevant data from which to estimate such models (USPS-RT-1 at 23).

The reality is that the Postal Service used a standard and reasonable methodology to estimate volume declines (USPS-RT-1 at 20), yielding a reliable estimate with a range of uncertainty that is extremely small, and orders of magnitude less than the financial gains of the cost savings. Even if such an econometric study were conducted, assuming that it were plausible, it would be exceedingly costly if such a study were to delay the “go” / “no-go” decision of implementing the five-day delivery proposal (USPS-RT-1 at 24-26).

I. The Confidence Intervals For The Quantitative Market Research Show Its Statistical Validity.

NALC argues (IB at 61) and in testimony appended to its brief called “Technical Appendix” states that confidence intervals provide an estimate of how sure a survey researcher is about the value of a particular statistic that arises from a survey and that “no such confidence intervals are provided in the initial ORC testimony.” NALC went so far as to provide another formula.
It is correct that a confidence interval was not provided in the original testimony. However, confidence intervals are part of the record in this docket (*supra*), although it is not clear whether NALC is aware of or simply ignoring that evidence.

Witness Elmore-Yalch was asked by Chairman Goldway if a confidence interval could be conducted. Witnesses Elmore-Yalch and Whiteman provided that response as discussed above on August 26, 2010. It provided confidence intervals computed for each product within each customer segment along with a detailed explanation of how the confidence intervals were calculated. NALC’s statement that Dr. Boatwright attempted to rectify the lack of the availability of confidence intervals in his testimony on October 4, 2007 is therefore wrong—nothing required correction.

The detailed confidence intervals provided by the Postal Service’s market research team in response to the bench request clearly demonstrated that in most cases the variance was relatively small. In his testimony, Dr. Boatwright provided another computation using a well-known standard formula that documented again that the variance surrounding the estimates in the market research data is relatively small. NALC suggests that Dr. Boatwright’s calculation is incorrect. NALC then goes further and presents a complex set of formulas with no documentation as to the source of the formulas; yet those formulas are based on the same assumption that NALC questioned when used by Dr. Boatwright.
There are many correct ways to calculate confidence intervals (USPS-RT-1 at 26), and the multiple estimates consistently show that revenue losses are quite near $200M where the range of uncertainty is +/- $100M (USPS-RT-1 at 26), an amount that is dwarfed by the cost savings estimate of $3.3B.

Although Professor Boatwright’s use of the binomial distribution is correct, NALC claims that Professor Boatwright’s confidence interval calculations were “flawed” because he used formulas based on the binomial distribution (NALC IB at 33). Clearly NALC does not understand the binomial distribution, because NALC proposes an alternative confidence interval formula that itself is based on the binomial distribution (NALC IB at 59.) As such, NALC’s faulty claims stem from its own misunderstanding of basic statistical equations.

In the technical appendix (NALC IB at 58-61), NALC discusses confidence intervals in more detail. Although NALC attempts to mislead the reader with a naïve claim that there exists a unique correct formula to estimate confidence intervals, when as already addressed various mathematically correct formulas are in widespread use. As a simple, illustrative example, there are multiple ways to solve for half of four. One can subtract half of (4-2=2) or one can divide by 2 (4/2=2). In his testimony, Professor Boatwright states “Other standard error estimates could be used in lieu of this one. Of those I considered, all yielded outcomes reasonably close to that given here.” (USPS-RT-1 at 26) There are many correct formulas, all of which will provide equivalent answers to what was done here, when used correctly.
The analytical method and results of ORC are reasonable, accurate and reliable. NALC attempts to cast doubt on the market research by twisting the purpose of the Professor Boatwright’s testimony on confidence intervals, claiming that it was performed “to rectify” the omission of such confidence interval (or variance) estimates by ORC (NALC IB at 58). However, the calculations made by Professor Boatwright were to aggregate the confidence intervals up to the level of total sales (Tr. 11/3254). The confidence intervals calculated in the August 26 pleading used a different but nonetheless correct formula, notwithstanding divergence from those suggested in NALC’s brief, which were calculated by product and by customer segment. For clarity in his discussion of confidence intervals, Dr. Boatwright preferred an aggregate confidence interval to use “as an example for a ballpark estimate.” (USPS-RT-1, p. 26)

Although NALC attempts to cast doubt upon the results by introducing a new confidence interval equation that is not part of the evidence to date, the existence of an alternative correct equation poses no problems for correct equations already in evidence. In fact, the confidence interval proposed by NALC would be expected to yield equivalent answers to those already included in evidence. The difference in NALC’s formula is that it calculates variance at the individual response level, then aggregates to the population estimate, while the estimate included in Dr. Boatwright’s testimony, describe as providing a ballpark estimate, calculates variance directly at the aggregate level. Multiple confidence interval equations yield equivalent confidence interval estimates, whether calculated at an aggregate or a disaggregate segment level.
Also in the technical appendix, NALC poses a hypothetical wherein larger mailers have greater uncertainty on the parameter $p$. Not only does NALC fail to provide data that would suggest this hypothetical situation to be even remotely plausible, this hypothetical is opposite of what would be theoretically expected, where more data leads to greater precision. As such, this hypothetical is irrelevant to the arguments on confidence intervals.

In closing arguments on page 61 of the technical appendix, NALC resorts to hyperbole, nonetheless consistent with its efforts to sow confusion. NALC also returns to the original arguments made by witness Crew, weak and at times erroneous arguments that revealed witness Crew’s own lack of expertise in market research. These arguments as shown above lack any merit.


The Public Representative (PR IB at 7) and GCA (IB at 18) argue that in the survey, the price increase may have had the effect of influencing respondents to prefer a service cutback. However, these arguments are not factually correct as the record shows that the price increase was not asked in the quantitative market research survey. USPS-T-8, Appendices E and F. These arguments also show that both GCA and the PR cannot distinguish between the qualitative and quantitative market research. Hence, their arguments are entitled on their face to no meritorious consideration.

Even if these arguments were not confused, they would still be factually incorrect because the qualitative research created no bias inducing respondents
to indicate that they prefer five-day delivery over a price increase. All one has to do is to read the discussion guides in USPS-T-8, Appendices E and F, to see the fallacy of the argument. The discussion guides show how the objective of the qualitative research was implemented by allowing customers to discuss how five-day delivery would affect them and, if implemented, what changes, if any, they would make to their use of mail. The research sought to understand how customers viewed five-day delivery and a 10 percent price increase in the context of what they viewed were the best ways to ensure the financial stability of the Postal Service. However, this discussion did not affect the discussion on how they would be able to adapt to five-day delivery and how it would impact their use of mail. See USPS-T-8, Appendix C.

GCA argues that the research improperly calculated the volume estimates of home based businesses by assuming that their mailing profiles resemble more closely those of households than small businesses. IB at 31-33. This is nothing more than smokescreen as GCA fails to explain what the effect of this might be beyond questioning witness Whiteman’s judgment. The fact is that home based businesses with no employees were included in the calculations of the volume loss. USPS-T-9, Appendix B; Tr. V/1223. As witness Whiteman explained, it is his judgment—a professional lifetime of supervising Postal Service market research—that such businesses behave more like individuals and mainly use the basic services such as First-Class Mail, Express Mail, and Priority Mail, and mail at full rate with stamps, PC Postage, or Click N Ship, just as households do. Tr.V/1223.
GCA also criticizes (IB at 32-33) the removal of two “outliers” from the household sample. In Witness Elmore-Yalch’s testimony (USPS-T-8 at.30) she discussed that removal of two respondents because their volumes were much larger than other households and thus they “may be operating a business in the home.” This step of removing outliers is a basic step in quantitative research which is undertaken with all samples when a specific respondent acts significantly different from other customers in that segment. If there were many such situations in the consumer sample frame, that would have been an indication that our assumption was wrong; however, as this was not the case, it supports the assumption we made that home-based businesses were more like households than small businesses.

GCA argues (IB at 33) that it makes these arguments to show that the Postal Service did not consider these businesses to have different needs for Saturday mail service than do consumers. However, GCA is once again confusing the objectives of the qualitative and quantitative market research. The need for Saturday service was explored in the qualitative research. In contrast, the quantitative research was designed to produce an estimate of the volume loss due to implementing five-day delivery.

GCA argues (IB. at 34) that failing to offer other alternatives in the market research biased the results. This claim ignores the basic point that evaluation of other alternatives was never a goal of the study. Volume and revenue impacts of the five-day delivery proposal were the exclusive goal of the quantitative market research. No study of other alternatives, and their volume and revenue impacts,
was ever part of the picture. The research was designed to assess how customers would respond to one change: implementation of five-day delivery.

As Dr. Boatwright says in his testimony (USPS-RT-1 at 4):

Predicting the future involves some degree of uncertainty, including prediction of future costs, volumes, and revenues. To reduce the uncertainty surrounding a new product decision, firms conduct market research, forecast sales volumes, and analyze projected costs. However, in such research, the organization will only study the proposal being considered.

NALC argues (IB at 41) that five-day delivery will weaken the Postal Service brand and image. Yet no support exists in the record for this broad assertion. The Postal Service agrees that implementing five Day Delivery will have negative impacts as discussed throughout witness Whiteman’s testimony. Volume will be lost. Customers will experience a reduction in service and this could impact brand perception. However, customers also recognize the importance that the Postal Service remain financially viable. Customers will be able to adapt to five-day delivery and, in general, there will be only a small impact on volume and revenue. USPS-T-9.

K. The Competitive Situation Was Considered By Respondents To The Market Research.

APWU (IB at 10), NNA (IB at 30-31) and NALC (IB at 2, 5, 40-42) argue that the competitive situation was not taken into account by the Postal Service or the respondents to the market research, and that the Postal Service made no effort to determine the value of its competitive advantage. APMU also argues (IB at 3) that a change to five-day delivery will lead customers to use the services of the Postal Service’s competitors, and to increase their use of alternate methods
of communication such as online bill payments and online banking. This in turn is argued to lead to a decline in the volume of different types of mail, particularly package delivery and First-Class Mail letters. These arguments are not supported by the evidentiary record. Moreover, respondents in the market research did consider the competitive situation.

The Postal Service recognizes that eliminating Saturday street delivery would impact the value of mail service and mail volume, offering an opportunity for competitors to grow their business. This is one of the many reasons the market research was conducted. In turn, the research brings understanding of the impact so a sound business decision can be made, one the Postal Service hopes the Commission agrees with. This is reflected in the estimated volume loss reported from the quantitative market research. USPS-T-9, Appendix B.

Respondents to the market research considered and took into account what competitors might do and how customers would use competitors in a five-day delivery environment. In the design of the quantitative research, competitive alternatives were inherently part of the situation presented to the customers. Dr. Boatwright agrees (USPS-RT-1 at 22, and Tr. XI/3299) that respondents would have considered competitive alternatives in their answers.

No other participant in this docket provided factual information on specific competitive actions which reflect a much larger impact on volume than estimated by the Postal Service. The assertions of Dr. Crew (NALC-T-4 at 7-8 and Tr. VIII/2471, 2483, and 2486) that competitors may step in to divert postal business,
offer no more of an evidentiary basis for concluding anything beyond mere possibility, which in the legal world is always tautological.

L. Saturday Is The Day That Delivery To Street Addresses Would Be Eliminated.

APWU (IB at 4-5) and NNA (IB at 32-34) complain that the Postal Service only considered and the market research only studied the impact of eliminating Saturday street delivery; they suggest that another day be considered for elimination: Monday. APWU goes further and says the market research did not show that customers have a “preference for Saturday.” These arguments show that neither party has even read or apparently understood the Postal Service testimony.

The Postal Service focused on Saturday, but it was not foreclosed. As witness Puclrano stated:

Any determination to focus on Saturday as the second non-delivery day would be made with full awareness that there are five alternative candidates (Monday through Friday) for the second non-delivery day. Consideration of alternatives was not foreclosed. However, the work of the five-day delivery team did not identify a compelling basis for seriously analyzing any alternative to Saturday or for recommending to senior management that the focus shift to such an alternative. Tr. II/70.

The Postal Service decided to eliminate delivery on Saturday because that is the day that would least impact American consumers and businesses. The market research shows clearly that Americans have a preference for eliminating Saturday delivery and no other day. As witness Puclrano testified: “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.”

Tr. II/104; see Tr. II/105. Witness Pulcrano explained that Saturday was the best day to eliminate delivery to street addresses because:

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. Tr II/102.

APW U argues (IB at 5) that the Postal Service did not consider the impact on individual consumers and the 70 percent of businesses that are open on Saturday. This is incorrect as in both qualitative and quantitative research included households and businesses, so that the qualitative research included a broad cross-section of customers (recognizing that qualitative research is not meant to be statistically representative) and that the quantitative research samples for both households and businesses were representative of all customers.
GCA says (IB at 22-23) views of larger mailers may not be represented (based on feedback from MMA at the field hearing in Dallas). There is no basis in the evidence of record for this assertion. The evidentiary record shows that the market research and outreach efforts included interviews with National Accounts and a specific sample of National, Premier and Preferred Accounts in the quantitative study. GCA should not rely on individual comments at field hearings as those who testify selected themselves and there was no cross-examination of their testimony.

M. The Market Research Accurately Presented Five-Day Street Delivery As Potentially Adding Days In Transit.

Carlson argues (IB at 9) that eliminating Saturday delivery would add two days to delivery of mail (three days if Monday were a holiday). The question about market research respondents’ understanding of when mail would be delivered instead focused upon delivery days; respondents were well aware that (except for Express Mail) Sundays are not a delivery day, and that five-day street delivery would not entail commencement of delivery on Sundays. As such, they had no trouble understanding that if Saturday was not a delivery day, Monday would become the delivery day (assuming it was not a holiday. Tr. V/1065-66, 1071,, 1078, 1263-65; see also, USPS-LR-N2010-1/12 (focus group transcripts).
APPENDIX A

SINGAPORE POST NEWS RELEASE

SingPost implements 5-day mail collection and delivery service
• Extended posting hours on Fridays • No change in service level

Singapore, 10 February 2010 - In response to lifestyle changes, customers’ changing mailing habits and declining mail volumes, SingPost will cease to collect and deliver mail on Saturdays, streamlining its operations with effect from 15 May 2010.

Over the years, public letter mail (i.e. stamped and franked mail) has been on the decline with the emergence of new communication tools such as email, SMS and other technological platforms. Today, each person posts on average of only six letters/cards per year. That and the fact that many companies and organisations are now operating on a 5-day week have led to significantly lower volumes on Saturdays.

Mr Ng Hin Lee, Deputy Group Chief Executive Officer of SingPost said, “Globally, postal organisations are facing declining letter mail volumes due to changing lifestyle preferences. SingPost has been actively managing the increasing cost of providing an efficient mail service. Implementing this initiative will help us to optimise resources to stay competitive while upholding the high level of service. We will extend the posting hours on Fridays as an added convenience to customers”.

Changes Reflect Evolving Demand

Currently, Saturdays see the lowest posting and mail collection volume. Changing lifestyles have altered customers’ mailing habits, affecting the usage of the posting boxes. Moreover, many companies are open on Mondays to Fridays and those operating on Saturdays have shorter operating hours. Discontinuing mail collection and delivery service on Saturdays offers optimisation of resources and helps maintain costs, enabling SingPost to remain competitive.

In tandem with this, SingPost will extend the collection timings on Fridays by an hour. Please see Annex 1 for reference.

An independent survey was carried out in March 2009 to gauge the response of both the public and the businesses to a 5-day mail collection and delivery service. Ninety-one per cent of the survey respondents who were recipients found it acceptable to receive mail items on the following Monday and 92 per cent of senders found it acceptable that their recipients receive the mail items on the following Monday.
Aligning to Global Postal Trend

Over the years, e-substitution, globalisation and rising customer demands for new options have affected the letter mail volume, leading to its stagnation or decline. Many postal organisations have gradually converted to a 5-day mail delivery service or are embarking on it to remain relevant.

Today, about 70 postal administrations in countries like Australia, Brunei, Canada, Korea, Sweden and The Philippines have adopted a 5-day mail delivery service. The United States Postal Service in January 2009 sought the Congress’ approval to stop delivering mail on Saturdays1.

In Singapore, public mail volume (i.e. stamped and franked mail) has declined by some 22% from 181.1 million mail items in FY2002-03 to 139.7 million mail items in FY2008-09. Correspondingly, the total amount of mail items collected from posting boxes has also reduced.

No Change in Service Level

There will be no change to the Quality of Service i.e. 99 per cent of mail posted within the Central Business District (CBD) and over 98 per cent posted outside the CBD will be delivered by the next working day.

There will be no change to the collection and delivery schedules for Mondays to Thursdays. There is no mail collection or delivery service on Sundays and Public Holidays. Please see Annex 1.

Alternative Available

Customers who require urgent delivery on Saturdays can use SingPost’s Speedpost service. They can contact its hotline at 1800-2225777 to arrange for collection and delivery.

Discounted Stamp Booklets and Rebates for Franked Mail Customers

SingPost will offer a S$0.15 discount for 5.5 million 1st local stamp booklets/stamp sheets of 10 from 15 May 2010 onwards. Each 1st local stamp booklet will cost S$2.40 after discount (the current price is S$2.55).

Franked mail customers will enjoy up to 5% rebates for a period of 12 months from 1 June 2010 till 31 May 2011.

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1 No final decision has been made by the Congress on USPS’ request.
Better Work Life Harmony for Postal Workers

Mr Logarajah JK Sabapathy, General Secretary of Union of Telecoms Employees of Singapore (UTES) said: “There should be a balance between work and family and social life. By implementing a 5-day mail collection and delivery service, SingPost has further helped promote work life harmony. Such move not only enables postmen to engage in personal and recreation time, but also helps SingPost to retain its valued employees in whom it has invested heavily.”

One of the long-serving postmen, Mr Rahmad Chik, who is 47 years old and has been with SingPost for 14 years, appreciated the move. He said, “I am happy that the company will be implementing a 5-day mail collection and delivery service. It will mean that I have more time with my family and can also take courses during the weekends to upgrade myself.”

Operating Hours of Post Offices Remain Unchanged

The operating hours of SingPost’s 62 post offices remain unchanged. Please refer to our website, [http://www.singpost.com/downloads/POLists/POList_Main.pdf](http://www.singpost.com/downloads/POLists/POList_Main.pdf) for information on the operating hours.

Channels of Communication

Public and businesses will be informed of the change in the mail collection and delivery service through various channels:

- SingPost hotline 1605
- SingPost website, www.singpost.com
- Posters at all 62 post offices
- Posting boxes etc

- End -
About Singapore Post Limited
(Reg. No. 199201623M)

SingPost, the designated Public Postal Licensee for Singapore, offers reliable and high quality domestic and international postal services as well as end-to-end mail solutions including data printing, letter-shopping, delivery and mailroom management. It is also the leading logistics provider in the domestic market, with global service offerings to more than 220 territories/countries. SingPost has earned the honour of being the only postal company to have won the EMS Cooperative Certification Gold Level Award by the Universal Postal Union (UPU) for its Speedpost Worldwide service for eight consecutive years since 2001. As the owner of one of the largest retail distribution networks through its tri-channel platform of post offices, Self-service Automated Machines (SAM) and vPOST, its internet portal, SingPost provides convenience to its customers for a wide range of products and services, including agency, postal and financial services. SingPost’s regional footprint spans 10 countries territories in Asia Pacific where it offers cross-border mail services.

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For general information on SingPost, call 1605 toll-free or visit us at www.singpost.com
ANNEX 1

Extension of Collection Timings on Fridays

<table>
<thead>
<tr>
<th></th>
<th>Current (Mondays to Saturdays)</th>
<th>Effective 15 May 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outside CBD</td>
<td>5 pm</td>
<td>5 pm</td>
</tr>
<tr>
<td>Within CBD</td>
<td>7 pm</td>
<td>6 pm</td>
</tr>
</tbody>
</table>

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NO change to the following collection and delivery schedules

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Effective 15 May 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mondays to Thursdays (Before collection cut-off times(^1))</td>
<td>Delivered by next working day</td>
<td>Delivered by next working day</td>
</tr>
<tr>
<td>Saturday (After collection cut off times(^2))</td>
<td>Delivered on following Tuesday</td>
<td>Delivered on following Tuesday</td>
</tr>
<tr>
<td>Sunday (Anytime)</td>
<td>Delivered on following Tuesday</td>
<td>Delivered on following Tuesday</td>
</tr>
</tbody>
</table>

CHANGES to the collection and delivery schedules

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Effective 15 May 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Friday (Before collection cut-off times(^3))</td>
<td>Delivered on Saturday</td>
<td>Delivered by next working day, i.e. Monday</td>
</tr>
<tr>
<td>Friday (After the collection cut-off times(^3))</td>
<td>Delivered on following Monday</td>
<td>Delivered on following Tuesday</td>
</tr>
<tr>
<td>Saturday (Before collection cut-off times(^2))</td>
<td>Delivered on following Monday</td>
<td>Delivered on following Tuesday</td>
</tr>
</tbody>
</table>

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\(^1\) The mail collection cut-off times for Mondays to Thursdays remain unchanged, that is 7 pm within CBD and 5 pm outside CBD.

\(^2\) The current collection cut-off times for Saturdays are 7 pm within CBD and 5 pm outside CBD. With effect from 15 May 2010, there will be no mail collection and delivery on Saturdays.

\(^3\) The new collection cut-off times for Fridays will be 8 pm within CBD and 6 pm outside CBD.
VI. The Service Change Plan Reflects Thorough Consideration of Customer Concerns By Postal Management.

In their Initial Briefs, various parties assert that the planned service changes do not reflect adequate regard for applicable statutory considerations and the potential impact on customers. Many of their arguments were anticipated and addressed in the Initial Brief of the United States Postal Service filed on October 15, 2010. Below, the Postal Service responds to additional intervenor arguments that merit rejoinder.

A. The Postal Service Has Acted In Accordance With The Statutory Scheme.

1. The various policies and objectives must be read together and not in isolation.

At pages 4-5 of its Initial Brief, the Public Representative references several of the relevant statutory policies of title 39, United States Code and expresses the view that the planned service changes reflect an imbalanced consideration of those policies. In particular, the Public Representative highlights:

the function of the Postal Service to bind the nation through the correspondence of the people (subsection 101(a)); and

the duty to develop and promote services (subsection 403(a)); and

the obligation to provide a maximum degree of effective and regular services to areas, communities, and small towns (subsection 101(b)) where post offices are not self-sustaining.

However, as demonstrated below, the Public Representative can point to no substantial evidence that relevant statutory policies and goals will not be met when the planned changes are implemented.
Each of the objectives and duties referenced by the Public Representative must be read in concert with the numerous other relevant policies and duties throughout sections 101, 403 and 3661:

The Postal Service is directed by subsection 101(a) to serve all areas in a prompt, reliable and efficient manner. Under subsection 101(b), services in rural areas must reflect a maximum degree of effectiveness and regularity. Subsection 101(e) requires that the highest consideration be given to expeditious delivery of important letter mail. Transportation mode selection is required by subsection 101(f) to be based on considerations of promptness and economy. Under subsection 101(f), facility locations must reflect consideration of customer convenience and cost control.

Subsection 403(a) requires that the entire population of the United States be served, as nearly as practicably. Efficient collection, sortation and delivery are prescribed by subsection 403(b)(1). The character and location of postal facilities must reflect considerations of ready access to essential services consistent with reasonable economies of operation, according to subsection 403(b)(3). Subsection 403(c) dictates that no unreasonable discrimination may be made among mail users or undue preference granted to any users.

The products and services developed and promoted under subsection 403(a) are required by subsection 3661(a) to be adequate and efficient.

The policy to bind the nation together is unadorned by specifications regarding the days of the week or the hours of the day during which postal retail facilities must be open or the frequency with which mail must be delivered each
day or each week. Fulfillment of the subsection 403(a) duty to develop and promote services is reflected in the array of postal products made available to customers and efforts made to encourage their use. At page 4 of its Initial Brief, the Public Representative argues that the testimony of several intervenor witnesses expresses concern about whether the planned service changes reflect that postal management has elevated cost considerations (to “king” status) above all others. Echoing this argument at page 2 of its Initial Brief, the Mail Handlers Union references the testimony of APWU witness Riley (APWU-T-4) and implies that the service change plan under review reflects “a single-minded focus on cost.”

It is the case, as reflected in the testimony of the Chief Financial Officer of the Postal Service, Joseph Corbett (USPS-T-2), that the circumstances that have driven the Postal Service to conceive the planned service changes include very troubling postal financial and revenue trends. However, those trends are founded in part on profound changes in postal customer behavior that have resulted in staggering decreases in mail volume, much of which is not likely to return to the mailstream. These factors motivate the Postal Service to pursue a multi-faceted strategy that includes limited service reductions that can significantly contribute to the financial stability of the Postal Service. In determining what service changes to pursue, the Postal Service engaged in extensive customer consultation and market research before settling upon an

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1 Nevertheless, for more than a quarter of a century, Congress has enacted a series of temporary measures in successive fiscal years to preserve six-day delivery from one year to the next. The most recent such measure expired on September 30, 2010, at the conclusion of fiscal year 2010.
operating plan, making significant modifications to that plan in response to
customer concerns. The direct case of the Postal Service shows that sufficient
weight has been accorded to the preferences of diverse types of mail senders
and recipients. The relevant statutory criteria regarding service have been
considered contemporaneously with those that relate to efficiency and economy.
Pursuit of the maximum degree of effective and regular rural service, for
example, is tempered by commands to take into account the need for cost
control and to proceed economically and efficiently and to provide adequate
service. Saturday service changes planned in rural collection and delivery reflect
adjustments no greater than those slated for urban and suburban locations.
Rural routes that are currently fewer than six days in frequency will be equitably
adjusted. Arrangements will be made to ensure that rural Post Office Box
service on Saturdays continues, even if alternative transportation must be
arranged to relay Post Office Box mail to remote locations on Saturdays.

The statutory scheme gives broad discretion to postal management in
determining how to fulfill the various objectives in title 39. Reasonable minds
may disagree as to how much weight should be given to each of the various
factors the Postal Service must consider when planning a service change. In this
regard, the observation of the United States Court of Appeals for the District of
Columbia Circuit is illuminating. In addressing another portion of title 39 that
required consideration of a wide range of inter-related factors in postal
ratemaking, the court observed that:

the factors listed were not analogous to a table of atomic weights, or to a
multiplication table. The factors are reminders of relevant considerations,
not counterweights to be placed on scales . . . . No one who seeks fairly and equitably to determine a complicated rate structure ought to suppose that there is a correct answer, or even that in the final mix there should have been added a specified number of spoonfuls of each of the ingredients. A conscientious, competent rate-making body proceeds by opening its mind to relevant considerations, and closing its ears to irrelevant ones. It is governed by policies, not politics.

*Association of American Publishers v. Governors of the United States Postal Service*, 485 F. 2d 768, 774 (D.C. Cir. 1973). The same principle applies here. A service change plan motivated by financial considerations must reflect the influence of a fair and equitable mix of efficiency and service considerations. Single policy objectives cannot be isolated. All must be considered and given reasonable consideration based on the circumstances of the case. Even then, there is no single “correct” answer. Such is the case in Docket No. N2010-1. The Postal Service can no more provide service irrespective of cost than it can reduce costs irrespective of the impact on service. The Postal Service has carefully weighed its statutory service and efficiency obligations in deciding to pursue the elimination of Saturday delivery to street addresses and the related service changes at issue in this proceeding. Neither objective is “king” in the Postal Service’s plan. The nation can and will remain bound together through its correspondence delivered to street addresses on one fewer day of the week. The Postal Service is not seeking a diminution of the important role it plays as part of the communications infrastructure of the nation; however, technological and economic forces largely beyond its control are affecting its place in that infrastructure and its financial stability. Numerous strategies are being employed
to address these realities. The service changes under review here are only a part of the picture.

2. The parties cannot re-write the statutes to require six-day delivery.

The existence of the United States Postal Service is rooted in the United States Constitution at Article I, Section 8. The Postal Service was created to fulfill its mission in accordance with specific policy goals and objectives codified in title 39, United States Code and enumerated and discussed throughout the Request in the docket and in the Initial Brief of the Postal Service at pages 32-33. The service obligations of the United States Postal Service are reflected in above-referenced statutory policies and objectives. None requires a specific frequency with which mail must be delivered per week. Accordingly, it is misleading to imply, as the National Newspaper Association (NNA) does in section II of its Initial Brief, that the universal service obligation of the United States Postal requires that regular mail delivery be provided six days a week.

In its Initial Brief, NNA recites the historical success of the newspaper publishing industry before the Postal Reorganization Act (PRA) of 1970 in persuading the Congress to establish preferential postal rates and mail classifications designed to make the use of the postal system more affordable for those publishers. NNA also summarizes how the PRA carried forward the preferential rate and classification treatment for such publications and the extent to which newspapers still enjoy preferential prices since the passage of the Postal Accountability and Enhancement Act of 2006. NNA references the Commission’s Docket No. PI2009-1 Report on Universal Service and the Postal
Monopoly, Order No. 152 (December 19, 2008). However, nothing in title 39 United States Code or the Commission’s USO Report can fairly be read to declare or imply that the universal service obligation of the United States Postal Service is conditioned upon a requirement to provide regular mail delivery in accordance with a particular frequency or specified number of days per week.

The Postal Service has been authorized to take the lead in managing the tension inherent between the service-related and efficiency-related operational objectives of title 39 and in striking a reasonable balance between the two countervailing forces. The statutory scheme gives the Postal Service broad latitude in doing so, subject to Commission review for certain purposes. As the Postal Service emphasized in response to interrogatory NNA/USPS-T1-8(a), the statutory factors that warrant preferential pricing treatment for newspaper publishers do not dictate preferences across-the-board in newspaper mail acceptance, processing, transportation and delivery. Tr. Vol. VII at 2253-54. Nor do these factors require that the preferences of publishers regarding postal delivery frequency trump all other postal operational, financial and customer considerations. The Postal Service is no more required by title 39 or the USO to deliver mail on Saturdays because some newspaper publishers strongly prefer it than it is to deliver mail on Sundays because some publishers would strongly prefer it.

As the evidentiary record shows, the Postal Service consulted with publishing industry stakeholders regarding the planned service changes. USPS Library Reference N2010-1/1, at 11; Tr. Vol. II at 108-109. NNA witness Heath
seems disappointed that the publishers he represents were not initially invited to briefings focused exclusively on their interests, but he provides no evidence that the concerns of his constituent publishers were not considered, or that they were denied any request for one-on-one consultations. Tr. Vol. X at 2902. While disappointed that the extensive consultations produced no special Saturday postal street address newspaper delivery accommodation, witness Heath concedes that his organization exercised the opportunity to appeal to the Chairman of the USPS Board of Governors to express the concerns of NNA members. Id.2

Given the diversity within the industry, it was no surprise that some publishers responded to the Postal Service by indicating that they could adjust their publishing and mailing practices. Nor was it a surprise that others said that they either could not or would not adjust their publishing practices and would consider expanded use of or a return to available alternative modes of delivery. Tr. Vol. II at 108-109. The Postal Service considered the varied preferences of mailers and recipients in balancing the service and efficiency objectives of title 39. However, the Postal Service is not required to satisfy every customer preference or demand for a particular delivery frequency or speed in order to fulfill its statutory mandate. The statutory scheme leaves such operational determinations to be made after consideration of a variety of policies and objectives related to service and efficiency.

2 Thus, it is of no consequence for NNA to argue at page 7 of its Initial Brief that no newspaper publishers participated in the ORC market research small business focus groups.
3. The statute grants the Postal Service considerable discretion in formulating service changes.

Section 3661 is structured such that the Postal Service has considerable discretion in formulating its service change proposal. The provision’s critical requirement is that the Postal Service “develop and promote adequate and efficient postal services.” There can be multiple ways to provide adequate and efficient postal services, and parties will understandably differ in their preferences as to what types of changes would best result in adequate and efficient services. By not directing the Postal Service to provide adequate and efficient services in one specific manner or in the manner most preferable to certain customers, the statute grants the Postal Service considerable discretion in structuring a service change proposal.

This discretion is significant in considering intervenor Douglas Carlson’s argument that the Postal Service should retain the collection and processing of outgoing mail on Saturday. It may have been reasonable for the Postal Service to propose eliminating street delivery on Saturday while retaining collection and outgoing processing. Similarly, it may have been reasonable for the Postal Service to propose eliminating both street and Post Office Box delivery while retaining collection and outgoing processing. And, it may have been reasonable for the Postal Service to propose eliminating all processing but retaining all delivery and collection. The possible permutations are numerous.

The key issue for the Commission, however, is whether the Postal Service has presented a reasonable proposal that satisfies its responsibilities under title 39. In regard to Saturday collection and outgoing processing, the primary reason
the Postal Service proposed eliminating Saturday collection and outgoing processing was that most collection mail comes from delivery points. Because the elimination of street delivery would mean that there would be no collection from delivery points, most collection mail would not arrive at processing plants, and therefore it made sense operationally to eliminate outgoing processing as well as collection from non-delivery points. Tr. Vol. II at 89.

As to cost savings, Mr. Carlson asserts his belief that the 15 to 25 percent of the total projected savings that result from the elimination of Saturday collection and outgoing processing is not worth the loss of these operations. Again, using its discretion, the Postal Service reasoned that 15 to 25 percent of the total savings – or an annual savings of slightly over $450 million to slightly over $750 million – is significant. Parties may reasonably disagree, but the issue before the Commission is whether the service changes proposed by the Postal Service comport with title 39. They do.

Mr. Carlson also argues that the Postal Service can forego eliminating Saturday collection and outgoing processing but still realize a portion of the 15 to 25 percent savings by initiating additional Saturday mail processing plant consolidations. In support of his argument, Mr. Carlson points to the approximately $258,000 per year cost savings estimated by Tennessee District personnel (prior to the Saturday consolidation of Chattanooga’s outgoing processing to Nashville) and states “so opportunities for significant additional savings exist.” Carlson Brief at 11. Notably, Mr. Carlson uses the $258,000 estimate from the Chattanooga/Nashville consolidation rather than the
approximately $136,000 estimate from local personnel for the San Jose to Oakland consolidation or the approximately $70,000 estimate from local personnel for the La Crosse to Rochester consolidation, both of which are also in the record. However, even if $258,000 is assumed to represent the average savings that would result from further consolidations, and even if further consolidations are viable, the resultant annual savings are not significant. For example, if the elimination of Saturday street delivery means that the Postal Service is able to conduct twenty-five new consolidations (a generous number), at approximately $258,000 per consolidation, the resultant savings are $6.45 million. Substituting the $136,000 or $70,000 estimates as the average cost savings results in even less savings. Compared to the $450 million to $750 million that the Postal Service would save from eliminating Saturday collection and outgoing processing, $6.45 million is minute. It is reasonable for the Postal Service to exercise its discretion to enact a service change proposal that results in the continuation of adequate and efficient services but saves $450 million to $750 million, rather than foregoing that change and saving only $6.45 million or less.

4. NNA misreads the postal statutory mandate.

At pages 22-23 of its Initial Brief, NNA references the anti-discrimination/preference language of 39 U.S.C. 403(c) and the portion of section 101(b) directing that the Postal Service:

3 And leaving aside the accuracy of the relatively unsophisticated pre-implementation estimates made by local personnel using non-standard methodologies.
provide a maximum degree of effective and regular postal services to rural areas, communities and small towns where post offices are not self-sustaining.

At page 23, NNA argues that:

Read together, the law suggests that giving an extra measure of consideration to rural areas and small towns does not amount to undue discrimination, but in fact enables the [Postal] Service to perform the universal service expected by Congress.

It is the view of the Postal Service that subsection 101(b) serves as a directive to consider the interests of rural and small-town customers in balancing all of the relevant service and efficiency and anti-discrimination policies of title 39. The Postal Service submits that subsection 101(b) is intended to trigger consideration of rural/urban differences that might exist, to ensure that residents in more sparsely populated areas have reasonable (if less than equal) levels of access to postal services despite inherent logistical challenges in serving rural areas. NNA argues at page 23 of its Initial Brief that when implementing service changes, the Postal Service must not disproportionately harm rural areas and small towns. Accordingly, the Postal Service has taken great care to assess the potential impact of five-day delivery on rural residents through its market research. As explained in the USPS Initial Brief and reiterated later below, there is a lack of reliable, probative and substantial evidence that the harms to rural residents about which various intervenors express concern will result from the planned service changes.

5. NNA misunderstands the purpose of section 3661 review.

At page 31 of its Initial Brief, NNA’s fundamental criticism about the decision to propose Saturday as the day on which services would be reduced is
that it was the product of a supposedly flawed process. According to both NNA and the APWU, the flaw appears to have been that the postal experts involved did not initially approach the task by checking their combined knowledge and experience at the door.\footnote{Essentially the same argument can be found at pages 4-5 of the American Postal Workers Union Brief.} Instead, the USPS Five-D ay Team members relied on their considerable knowledge of postal operations and customer service expertise and began their analysis with the understanding that Saturday was the logical candidate day to study for service reductions. Their approach was to focus on the ramifications of that selection unless compelling information emerged that suggested a superior alternative. Tr. Vol. II at 70. No such alternative emerged. Id.

The question posed by the request in this docket is not whether the Postal Service has proposed “the perfect” or “the right” or “the best possible” or an “absolutely necessary” service change for the Commission to consider from among an infinite array of possible scenarios. Section 3661 proceedings are not competitions in which Postal Regulatory Commissioners opine about the relative merits of one or a set of service changes vs. another. The purpose of a section 3661 proceeding is to examine the service change selected by postal management for implementation and to develop a record basis for reaching a conclusion as to whether that change is being pursued for reasons consistent with the policies of title 39 and can be expected to result in service consistent those policies. Other reasonable minds, if charged with the responsibility of managing the Postal Service, might have made different choices. However, that
is not the standard by which postal management’s determination is to be judged. The Postal Service has clearly described the service changes it plans to implement and the underlying policies of title 39 that the resulting service would satisfy, the potential impact on it volumes and finances, and what it intends to do to help customers adjust to the changes. Through the direct testimonies of witnesses Pulcrano (USPS-T-1) and Corbett (USPS-T-2), the Postal Service has articulated how the resulting service, while reduced below current levels to some degree, will remain adequate and continue to reasonably serve customers throughout the nation, and that the expected efficiency gains will improve the agency’s financial stability.

6. Mr. Carlson does not substantiate his assertion that the Postal Service’s proposal fails to satisfy subsection 403(a).

Mr. Carlson notes that, under subsection 403(a), the Commission must “determine whether the Postal Service would continue to provide adequate and efficient postal services if it implemented the change in service.” Mr. Carlson provides no evidence that the Postal Service’s proposal would result in less than adequate and efficient services. Rather, he simply complains that evaluating adequacy of service is difficult, that customers’ indications of their ability to adapt should not be taken into account, and that making the service changes proposed in the docket in order to achieve the cost savings projected by the Postal Service “would not promote efficiency.” He makes no effort to substantiate his assertions. In contrast, the Postal Service’s witnesses have provided extensive

5 Douglas F. Carlson Initial Brief, at page 4.

6 Id. at pages 4-5.
evidence – for example, by describing operational effects, impacts on service, customers’ views, savings, etc. – to support the Postal Service’s position that the service changes at issue in this docket would result in adequate and efficient service.

7. Mr. Carlson misinterprets subsection 403(b)(2).

Mr. Carlson notes that, under subsection 403(b)(2), the Postal Service has a responsibility “to provide types of mail service to meet the needs of different categories of mail and mail users.” He then states that “rural customers and customers who are not mobile or healthy” are categories of mail users within the meaning of this subsection. Although he stops his discussion of subsection 403(b)(2) there, presumably his implication is that the service changes at issue in this docket do not meet the needs of rural customers or customers who are not mobile or healthy.

The Postal Service has addressed elsewhere the issue of whether its proposal meets the needs of its various customers. It is important to note here, however, that Mr. Carlson attaches an entirely novel meaning to subsection 403(b)(2). The provision essentially tasks the Postal Service with providing a range of products and services that meet the needs of different categories of mail (e.g., letters, parcels, mail that is urgent, etc.) and mail users (e.g., individuals, newspapers, fulfillment companies, etc.). The Commission has consistently

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7 Douglas Carlson Initial Brief at 5.
interpreted section 403(b)(2) in this manner. Mr. Carlson’s adoption of an entirely new meaning for the provision reflects a somewhat cavalier approach to the statute.

B. Expression Of A Concern Is Not Substantial Evidence Of An Insurmountable Challenge.

1. Continued collaboration between local postal managers and elections officials is the key to continued success of Vote By Mail.

The Initial Brief of the Public Representative highlights the gap that can exist between the expression of a concern by a witness and the presentation of probative and substantial evidence to support a conclusion by the Commission about the magnitude or likelihood of the phenomenon about which the witness testified.

At page 12 of its Initial Brief, the Public Representative points to the testimony of its witness Brown (Tr. Vol. IX at 2611) that the planned service changes “would jeopardize a critical part of the voting routines that have been such a familiar part of . . . [Oregon’s] vote-by-mail experience.” In support of this concern, the Public Representative references witness Brown’s testimony (id.) that as many as a third of the ballots are delivered in the 48 hours before the election, on Monday and Tuesday. However, as indicated at pages 2642-81 of

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8 See, e.g., Docket No. PI2008-3, Attachment A to Order No. 71 at 3, Discussion Memorandum for Use in Preparing Comments on Universal Postal Service and the Postal Monopoly Laws (April. 18, 2008), (linking section 403(b)(2) to the Postal Service’s obligation to provide a range of products); PRC Op. R2006-1, Vol. I at 395 (linking a mailer’s proposed changes to a product in the Mail Classification Schedule to the Postal Service’s responsibilities under section 403(b)(2)).
Tr. Vol. IX, only approximately 10 percent of ballots arrive by mail during this window and more than twice as many “last-minute” ballots are hand-carried by voters to designated ballot depositories. Thus, witness Brown’s own data demonstrate that the universe of ballots even potentially affected by the planned elimination of Saturday collections is considerably smaller than claimed at page 2611.

After reviewing the data provided in support of the Surrebuttal Testimony of Melissa Starr on Behalf of the United States Postal Service (USPS-RT-4; Tr. Vol. 11 at 3325-26), Mr. Popkin argues that “as much as 48.5 percent of Oregon’s . . . [rural to urban First-Class M]ail will take 2 or more calendar days to deliver” (footnotes omitted). He argues that this will result in “a very significant percentage of late [Vote By Mail election] ballots.”

For clarity, the Postal Service invites the Commission’s attention to the fact that the data provided by witness Starr are for all rural origins to all urban destinations in Oregon. The data relate to mail which has either an overnight or a two-day service standard. Tr. Vol. 11 at 3321. Thus, the data can be expected to include (a) inter-county mail from remote 5-digit ZIP Code areas in far-flung corners of the state to 5-digit ZIP Codes in urban centers like Portland as well as (b) intra-county mail from rural 5-digit ZIP Code areas of Multnomah County into Portland. In many cases, inter-county rural-to-urban mail will have a two-day standard; in all cases, intra-county rural-to-urban mail will have an overnight standard.

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9 APWU raises a similar concern at pages 6-7 of its Initial Brief.
The rural-to-urban data provided by witness Starr rebut the general assertion by Public Representative witness Brown that First-Class Mail to and from rural points in Oregon normally takes five calendar days. Logic compels the inference that the mail pieces most likely to be delivered overnight are intra-county pieces with an overnight service standard. Vote by Mail ballots are, by their nature, virtually all intra-county. Witness Starr’s rural-to-urban data include statewide inter-county origin-destination patterns that are uncharacteristic of intra-county Vote By Mail ballots returned by voters to their county registrars. Witness Starr’s data are not disaggregated in a manner that reveals differences one would logically expect to find between intra-county rural-to-urban Vote By Mail ballots and inter-county rural-to-urban mail generally. Therefore, it would be inappropriate to try to infer from her aggregate data some conclusion about the intra-county rural-to-urban component of that mail – as Mr. Popkin does.

Mr. Popkin’s argument fails to acknowledge the already relatively small percentage of voters who apparently wait until a few days before Election Tuesday to mail their ballots and the fact that the overwhelming majority of voters during this period already are depositing ballots at designated collection points. See Tr. Vol. IX at 2642-81. He also does not acknowledge the Postal Service’s plans for working with elections boards to communicate necessary five-day related information to voters. USPS Library Reference N2010-12/1 at 11. Nor does he mention the already successful partnership alluded to at pages 2608-09, 2624, 2686-88 at Tr. Vol. IX that the Postal Service and Public Representative witness Brown intend to continue. That partnership can be expected to keep
customers informed, to minimize mail processing and delivery delays, and to encourage voting by mail sooner rather than later in the election cycle. Mr. Popkin’s characterization of the potential impacted mail volume is incomplete insofar as it excludes any discussion of the “as little as” end of the spectrum of the range of estimated percentages of ballots that could end up late. The general rural-to-urban data provided by witness Starr are a reminder that the Postal Service’s systemwide operational objective of continuous improvement in service standard achievement is the correct one. Accordingly, the Postal Service will continue to seek improvements in service standard performance, even for the relatively small volumes of rural-to-urban mail in Oregon.

Witness Brown’s testimony reflects the already extraordinary efforts undertaken by the Postal Service in Oregon to move ballots in the mail as the Election Day deadline approaches (Id. at 2608-09, 2624, 2686-88). The materials summarized and cited at page 88 of the USPS Initial Brief provide substantial evidence that the state of Oregon is expanding the methods employed to inform voters about the timely use of the mail and providing incentives to expedite the entry of ballots into the mailstream. The Postal Service agrees that voter participation could be jeopardized if it and the state of Oregon were to inexplicably retreat from their proactive and cooperative approaches to making Vote By Mail work. However, there is no evidence of any such retreat in the offing when the planned changes are implemented and, therefore, no basis for claiming that voter participation would be jeopardized or that voter confidence will be reduced.
At page 12 of its Brief, the Public Representative raises the specter of elections workers who work on Saturday not receiving ballots by mail on that day to process and prepare for the big tally on Tuesday night, and those workers consequently being swamped by ballots that arrive on Monday. As indicated at page 88 of the USPS Initial Brief, the prospect of continued Saturday delivery to a Post Office Box would seem to provide an accessible and inexpensive solution to smooth incoming mailflows.

At page 2 of his Brief, Mr. Popkin argues that the planned elimination of Saturday outgoing processing “will result in the delay of a considerable volume of mail from a Saturday dispatch to a Monday dispatch.” Mr. Popkin apparently is skeptical of the extensive and rigorously designed market research showing that the overwhelming majority of the single-piece mailing public can be expected to adjust their mail sending practices. He apparently doubts that they will significantly reduce the amount of mail entered on Saturdays by shifting it to the preceding Friday or to the next regular service day, Monday. Mr. Popkin is apparently concerned that the status quo will play out among the public at-large, despite execution of the Postal Service’s multi-media communications plans (USPS-T-11) which is intended to prepare the public for the service adjustments. He is entitled to be skeptical, but offers no basis for the Commission to be similarly predisposed.

Mr. Popkin does not quantify the “considerable” volume of mail that he claims will be dispatched on Mondays instead of Saturdays, but his description of its sources is revealing. At pages 2-4 of his Initial Brief, he identifies “leftover”
mail from Friday, some of which he says *deserves* initial processing on Friday despite being entered *after* the Friday Critical Entry Time, or because local postal officials have allegedly conspired to improperly manipulate Friday collection box last pick-up times. At page 5, he identifies the other component of this “considerable” volume as “normal” Saturday outgoing mail which currently on Saturdays is:

-- tendered to carriers on their routes, or
-- retrieved from those blue collection boxes that have Saturday pick-up, or -
-- deposited in postal retail lobby chutes, or
-- accepted at postal retail windows.

At pages 6-8 of his Initial Brief, and again without evidentiary record citation, Mr. Popkin appears to have provided data purporting to reflect the percentage of postal retail locations in each administrative district that have Saturday retail hours. At page 5, he selects percentages at each end of the spectrum and asserts: “This disparity should be resolved.” However, he has not submitted testimony and he neglects to argue in his Initial Brief why, as a matter of law or policy, the district-to-district differences in the percentage of retail locations open on Saturdays are relevant to the Commission’s advice regarding the service changes under review in this docket. Without such a guidepost, it is not reasonable to expect the Postal Service to discern from Mr. Popkin’s

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10 On this latter point, the Commission will find no record evidence. Mr. Popkin includes a spreadsheet in his Initial Brief that purports to relate to the 453 3-digit ZIP Code area, but fails to identify any source in the evidentiary record or explain the meaning of the data reflected therein, or how one 3-digit ZIP Code area’s data are representative of anything beyond that area.
reference to the percentage differences what he is implying. Saturday retail hours are local decisions made on the basis of standard criteria and local traffic. These decisions are periodically reviewed today and that will be the case in the future. Variations can be expected to exist, given the different local circumstances and local manifestations of demand.

2. The newspaper witnesses have failed to carry their burden to establish harm on the basis of record evidence.

At page 13 of its Initial Brief, NNA criticizes the Postal Service for not “quantifying or even describing the potential harms” that newspaper publishers could experience as a result of the elimination of Saturday delivery to street addresses and for not giving “further consideration to . . . potential solutions . . . .” as part of its direct case. At page 22, NNA criticizes the Postal Service for not providing empirical analysis of the impact of the planned service changes on rural newspapers.

First, it should be emphasized that the Postal Service was explicitly aware of the potential impact of the proposed service change on publications that had a strong preference for Saturday delivery to street addresses to be retained. See USPS-T-1 at 6-7; also USPS Library References N2010-1/1 at 11 and N2010-1/20, Tab C. Second, it should be observed that the volume and revenue impact analysis conducted by Postal Service witness Whiteman (USPS-T-9) includes analysis of the potential reduction in Periodicals volume. See USPS-T-9 at 13-15 and Appendix B; also USPS Library References N2010-1/NP2 and N2010-1/NP8.
The Commission hardly needs reminding that the Postal Service cannot be expected to possess such detailed internal information about the capabilities, operations and finances of each member of the publishing industry as to provide a granular assessment of the potential positive and/or adverse consequences of five-day delivery for constituent members of that industry. However, parties like NNA that purport to speak for such industries can reasonably be expected to possess or have access to such information. Accordingly, it is parties like NNA, not the Postal Service, who are obliged in proceedings before the Commission to produce reliable, probative and substantial evidence in support of claims of adverse impact on their members that could result from a service change. The absence of specific allegations of harm and supporting evidence bears on the Commission’s consideration of the potential adverse effects of Postal Service proposals. See 39 C.F.R. § 3001.20a(c). Accord, PRC Op. R2000-1 at 5786.

At Tr. Vol. X at 2894-96, and 2900, NNA witness Heath references four witness statements provided by newspaper publishers invited by the Commission to speak at several of its Docket No. N2010-1 field hearings, and a submission in the Commission’s 39 C.F.R. § 3001.20(b) public comment file. By operation of 39 C.F.R. § 3001-20b(c), the Commission is generally precluded from relying on materials in its public comment file as evidence and no exception is warranted here. In any event, if taken at face value, there is no basis for knowing how representative the concerns of these particular publishers are. Even Mr. Heath admits that NNA does not survey its members. Thus, he can present no information as basic as the number of NNA members with Saturday editions who
use the mails. See Tr. Vol. X at 2928. The Commission has no basis for evaluating how or whether the circumstances of the handful of publishers identified by witness Heath are representative of publishers generally, or even those who could have to change their operations in response to the elimination of Saturday delivery to street addresses.

3. NNA’s sense of the role of Saturday newspapers in the daily lives of rural residents is not borne out by any evidence.

Not unexpectedly, NNA does not acknowledge that the extensive qualitative market research conducted by Postal Service witness Elmore Yalch (USPS-T-8) was designed to elicit comments from focus groups respondents about their “mail moment” routines and how those routines differed Monday through Friday, compared to Saturday. NNA cannot find, and the Commission will not find, a single rural focus group participant who identified waiting for mail or receipt of the Saturday newspaper by mail as critical to their Saturday routines. Whether urban or rural, respondents generally structured their Saturdays around other activities or leisure.

At pages 28-29, NNA criticizes the Postal Service’s qualitative market research results by arguing that the results would have been different if the Postal Service had surveyed other people in other rural areas. The APWU Brief repeats the same assertion at page 5-6. Both APWU and NNA even provide a list of locations where they say the Postal Service should have conducted its focus group research and apparently would have gotten different results. NNA’s
response to the market research is to dismiss it because the rural focus group participants were not NNA-certified “truly rural” residents. NNA Initial Brief at 29.

In contrast, the Commission will observe that the testimony of NNA’s own witnesses\(^{11}\) provides no evidence of the views or concerns of the “truly rural” (or any) subscribers to NNA member newspapers who receive them on Saturdays by mail. The Postal Service does not presume to speak for its customers. Its testimony regarding customer impact would deservedly be criticized by the Commission had the Postal Service not conducted the extensive customer outreach and qualitative and quantitative market research that it did. The standard by which any market research should be judged is not whether it can be proven perfect, but whether it meets accepted standards and produces reliable results. Critics of the USPS/ORC market research – whether NNA, APWU or NALC – are not the voice of newspaper subscribers, residential mail recipients in general, or the recipients of pharmaceutical products by mail. Their anecdotal expressions of concern for mail recipients are no match for the substantial evidence presented by witness Elmore-Yalch in USPS-T-8. Under the direction of witness Pulcrano, the Postal Service conducted extensive consultations (with NNA among others) and rigorous market research of mail recipients to assess the potential impact of five-day delivery on urban and rural mail recipients. The resulting evidence may not be consistent with the pre-conceived notions of NNA or others, but it is reliable, probative, substantial and unrebutted.

\(^{11}\) Whether they testified at the Washington DC hearings or at any of the field hearings.
Based upon its market research and its extensive customer outreach, the Postal Service can echo what its customers have said – that the overwhelming majority of them can be expected to adjust to the elimination of Saturday delivery to street addresses. Accordingly, it is reasonable for witness Pulcrano to have stated, after consultations with the pharmaceutical shipping industry and reviewing the market research, that “just because you go to five [delivery days] it doesn’t mean that the whole world collapses for them.”12 While there are occasional emergencies, many of which can be accommodated by expedited delivery, witness Pulcrano’s testimony highlights a critical fact that others have labored to obscure: for the most part, pharmaceutical shipments are prescription refills that are scheduled for arrival in advance of the depletion of existing supplies. In the main, with relatively little effort, shippers and recipients can ensure continuity of supply in a five-day delivery environment.

No sociologist, no expert in rural postal issues, and a newspaper columnist more than a quarter-century removed from his stint as a rural newspaper editor, NNA witness Cross (NNA-T-2) talked to a few journalist colleagues in what is described an “informal survey” at page 20 of the NNA Initial Brief. He skimmed a few random Internet news articles, relied on demonstrably inaccurate descriptions of the service changes by a letter carrier at the Rapid City field hearing, and admitted to not having read core testimony filed in support of the Request. His testimony deserves no weight by the Commission. See USPS Initial Brief at 106-08.

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12 Tr. Vol. II at 165, as cited by APWU at page 11 of its Initial Brief.
As the head of a national organization of farmers that prefers six-day delivery to rural customers, but that has no data regarding the varied needs of its members, Public Representative witness Luttrell offers testimony (PR-T-2; Tr. IX at 3007 et seq.) that is, at best, anecdotal, reveals his personal family mailing experiences, but otherwise provides little in the way of probative or substantial evidence regarding the potential adverse impact of the planned service changes on categories of rural residents identified in his testimony.

Expressions of concern about certain broad categories of mail recipients, by themselves, are not evidence of potential harm to those recipients. Although the NNA Brief also alludes to the testimony of Public Representative witness Brown (PR-T-1; Tr. IX at 2603 et seq.), the USPS Initial Brief at pages 84-92 demonstrates that there is insufficient evidence to suggest that the planned service changes will have any impact on Vote By Mail that cannot be minimized through the collaborative partnership of state/local governments and postal managers working together as they do today.

Disparaging the Postal Service’s market research as an effort to “demonstrate that Americans do not care whether they receive their mail” or “that there is no need for its service” (NNA Initial Brief at 28, 29) is no substitute for persuasive argument on the merits of that market research. Moreover, the Postal Service is puzzled why NNA would characterize the USPS research as having presented postal customers with a choice between the elimination of Saturday street delivery and the closing of their Post Offices. Id. at 29. NNA
either has misread the research or is relying on very unreliable mischaracterizations of it.

C. Legally Defensible “Creative Solutions” Can Be Elusive.

Despite the consultations in which NNA participated, NNA argues that the Postal Service failed to seek out “creative solutions” to the elimination of Saturday delivery to street addresses for community newspapers in rural areas. NNA Initial Brief at 34-36. As for potential postal solutions to the elimination of Saturday delivery to street addresses, NNA made it clear throughout its consultations with the Postal Service: some NNA members may withdraw their newspapers and Standard Mail from the postal system. USPS Library Reference N2010-1/20, Tab C.14 As an alternative, NNA witness Heath proposed that the Postal Service create a local dedicated Saturday delivery force. Tr. Vol. X at 2904. Apparently, these postal delivery personnel would be deployed on Saturdays whenever and wherever requested by NNA member publications and the costs would be spread among as many mail products as the law allows.

At page 14 of its Initial Brief, NNA supports its Saturday postal newspaper delivery proposal by arguing that since the Postal Service is preserving seven-day-a-week delivery for Express Mail, it can preserve Saturday delivery for rural

13 See Tr. Vol. X at 2925.

14 See also Tr. Vol. X 2898, when NNA witness Heath makes clear that NNA members monitor the costs of comparative delivery options and shift in and out of the mail when it makes economic sense for them to do so.
newspapers.\textsuperscript{15} As the Commission reviews the Request and the direct testimony of witness Pulcrano (USPS-T-1), NNA’s tendency to misread the record becomes more apparent. The Postal Service is indeed preserving the \textit{status quo} for Express Mail because it has a specific statutory obligation to give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail. 39 U.S.C. § 101(d).\textsuperscript{16} No similar statutory operational and service policy was enacted for newspapers. In very simple terms, the direct testimony of witness Pulcrano (USPS-T-1 at 10-11) makes clear the discriminatory implications of granting exceptions for mail within various “regular” products or rate categories on the basis of representations by senders or recipients about the intrinsic value or time-sensitivity of the particular contents of such mail.

Postal delivery of newspapers on a Saturday can be as important to a publisher as the postal delivery of prescription medication on Saturday may be for a person who ran out of pills on Friday because she forgot to order a refill two weeks ago. The sender of a gift to a child celebrating a Saturday birthday may place great importance on the parcel arriving on The Big Day. A retailer may prefer the delivery of a One-Day-Only sale coupon on the Saturday sale date rather than the day before. Each sender, no doubt, would place significant value on Saturday delivery and would regard each mail piece as having “value,

\footnotesize
\begin{itemize}
\item\textsuperscript{15} Or, viewed another way, what NNA seeks is same-day Saturday delivery for newspapers at a minute fraction of the cost of next-day Express Mail delivery.
\item\textsuperscript{16} Express Mail also can serve other mail users who require expeditious overnight or two-day delivery.
\end{itemize}
importance or time-sensitivity” within the meaning of the NNA Initial Brief at 14. However, the Postal Service has no intention of implementing Saturday street delivery exceptions that have as their principal effects (1) the sowing of confusion and dissension about what mail “deserves” to be eligible for Saturday street delivery and (2) the promotion of full employment for members of the postal bar prosecuting complaints at the Commission under 39 U.S.C. § 3662 alleging unreasonable discrimination and undue preference under 39 U.S.C. § 403(c).

D. Educating Customers Is A Reasonable Preventative Measure Against Backlash From Uninformed Customers.

Witness Heath proposes what he describes as an alternative solution to “that would help to avoid reader backlash” among newspaper “readers who will not understand why some patrons [those who rent Post Office boxes] can get their newspapers by mail [on Saturdays] and others [who rely on delivery to street addresses] cannot.” Put aside for the moment that Mr. Heath presents no evidence regarding actual newspaper subscriber reaction to the elimination of Saturday mail delivery to street addresses. Mr. Heath apparently believes that his newspaper readers are not sufficiently sophisticated to understand any explanation for why the service changes would be implemented and are absolutely incapable of comprehending that mail would be made available to Post Office boxes on Saturdays by clerks who are on duty, but mail would not be loaded into vehicles and driven for delivery by letter carriers who would not be on duty that day. Mr. Heath’s opinion appears grounded in the fact that he has not
read the market research of witness Elmore-Yalch (USPS-T-9), \(^{17}\) and therefore, is relying instead on his own opinion of the general public’s ability to understand the operating concept of the five-day delivery plan and ability to adjust to it.\(^{18}\) Mr. Heath is handicapped by not having read the Postal Service witness Kearney’s testimony (USPS-T-11) explaining the extensive plans for educating customers about the rationale for and timing of the service changes.

Mr. Heath’s solution for preventing newspaper reader backlash in the five-day street delivery environment is to risk mailbox clutter, confusion, and insecurity. Mr. Heath suggests that the current very limited administrative exception\(^{19}\) that permits placement of unstamped Sunday editions of newspapers (otherwise delivered by mail) in postal customer mail receptacles on Sunday by private carriers should be extended all weekend and apply to any person engaged in delivery of matter to a mailboxes.\(^{20}\) NNA is encouraged to review the

\(^{17}\) See Tr. Vol. X at 2953.

\(^{18}\) Mr. Heath has failed to have read Postal Service witness Elmore-Yalch’s market research results (USPS-T-8) revealing the high degree of general customer understanding and acceptance of the delivery service changes, or the public opinion survey results referenced by Postal Service witness Kearney (USPS-T-11). This would seem to explain his misperception that Postal Service witnesses like Mr. Pulcrano – by simply summarizing the results of the market research in evidence – are being “high-handed,” arrogant or insensitive in asserting that the overwhelming majority of customers, to use Commissioner Blair’s expression, “would just adjust.” Tr. Vol. X at 2978.

\(^{19}\) In Domestic Mail Manual 508.3.2.10.

\(^{20}\) Thus, perhaps the suspicious characters rummaging through Mr. Heath’s mailbox for credit cards and checks may put his mind at ease by simply saying that they’re “delivering something” and are not the thieving crystal meth addicts they otherwise appear to be. Postal Inspector Scott Helton would likely encourage Mr. Heath to be more vigilant. See Tr. Vol. IX at 2769.

E. The Mail Processing Network Cannot Remain Static And Can Be Adjusted.

At page 9 of its Initial Brief, APWU references the current deployment of Flat Sequencing Systems (FSS) and the ongoing examination of mail processing plant operational consolidations through the Area Mail Processing (AMP) review process. APWU then argues that the Postal Service has failed to consider the potential impact on service of the planned reductions in Saturday delivery with these initiatives. On the issue of AMPs, APWU is encouraged to review Postal Service witness Neri’s response to APWU/USPS-T4-9, designated into evidence by an APWU motion dated July 22, 2010. That response states:

> If it is determined that there is a need to increase capacity at locations where there are current AMP studies or approved but not yet implemented studies, this will be accomplished prior to five-day delivery implementation, as we would for any other site. By design, AMP post-implementation reviews will be used to analyze impacts that may require an adjustment to local processing plans.

Implementation of five-day delivery is subject to legislative and political considerations beyond the ability of the Postal Service to control. The Postal Service is aware of no basis for freezing AMPs and FSS until all of the five-day delivery dust settles. There is no record evidence of incompatibility of current FSS implementation or AMPs with five-day delivery. Postal management is
poised to be flexible in coordinating the various strategies for making mail processing more efficient.

F. The Parties Must Mind The Gap Between Some of Their Arguments And The Evidence.

1. The record is clear that five days is not the norm.

The Public Representative Brief also highlights the gap between the record evidence and its arguments. At page 13 of its Initial Brief, the Public Representative asserts that:

witness Starr agreed that the results she presented were consistent with several conclusions about service, including that the norm for [intra-Oregon First-Class Mail] is up to five days for delivery. Tr. IX/3342.

The Postal Service invites the Commission’s attention to the transcript page cited by the Public Representative where Postal Service witness Melissa Starr actually testified:

There are instances of mail taking as much as or longer than five days. . . .

I thought the witness [Brown] was saying that it normally takes that amount of time, and that was part that we took exception to, that that is not what we observed in the EXFC data that it’s normally 5 days or more.

Tr. Vol. 11 at 3142. Thus, as the record makes clear, witness Starr never characterized the norm as being up to five calendar days. She merely acknowledged that some pieces did in fact inexplicably take five or more calendar days for delivery. As for the norm, the Commission can examine the EXFC data provided by witness Starr. Those data demonstrate that 99 percent of EXFC First-Class Mail test pieces were delivered within five calendar days (Tr. Vol. 11 at 3323), and that for every category of mail analyzed, at least
approximately 88 percent of test pieces were delivered within two calendar days and approximately 97 percent were delivered within three calendar days. See Tr. Vol. 11 at 3325-26. Accordingly, there is no basis for asserting that the norm is anywhere within spitting distance of five days. Without any facts at her fingertips, witness Brown can be forgiven for asserting that it normally takes five days for intra-Oregon First-Class Mail to get to and from rural locations. With overwhelming contrary record evidence at its disposal, there is no excuse for the same, now totally refuted claim to appear as an allegation of fact or to be attributed to Postal Service witness Starr in the Public Representative’s brief.

2. Chronic mischaracterization of the record only erodes a party’s credibility.

The surrebuttal testimony of Postal Service witness Pulcrano (USPS-RT-4) lays bare the degree to which NNA witness Heath sacrifices his credibility in a vain effort to portray the Postal Service as arrogantly disregarding the respective roles of Congress and the Commission in communicating with customers while developing the service change plan under review in this docket. Accordingly, it is both troubling and revealing that NNA would repeat the same misjudgment at pages 27-28 of its Initial Brief.

On March 30, 2010, the Postal Service filed its Request in this docket, completing one phase of a project that began with Mr. Pulcrano at the helm a year earlier. Tr. Vol. II at 70. The filing of that Request under Mr. Pulcrano’s direction is an obvious acknowledgement and recognition of the Commission’s important advisory role. At page 10, the Request explicitly acknowledges the relevant roles of both the Commission and the Congress. The Library Reference
associated with Mr. Pulcrano’s direct testimony (USPS-T-1) (both also filed on March 30, 2010) references those roles three different times. Thus, when read in conjunction with its associated Library Reference and the Request, the testimony of witness Pulcrano describes what the Postal Service “will” do and what it “intends to implement” -- if Congress does not prevent it from moving forward and the Commission’s non-binding advisory opinion does not discourage it from doing so. Therefore, it is puzzling why NNA would persist by arguing at page 28 of its Initial Brief that:

Only when pressed during cross-examination [on July 14, 2010] does . . . witness Pulcrano concede that Congress and the Commission have an important role in the discussion.

. . .

It may be true that it is management’s responsibility to determine the most efficient way to provide service, but the multiple mandates that constitute the USO provide irrefutable evidence that it does not alone decide on its scope of service: it is the Congress, with the Commission’s counsel, that has the final word on universal service.

Whether or not NNA has read the Request or the first library references that accompanied it, the evidentiary record speaks for itself.

NNA’s resort to hysteria (“franchise-killing error”) is no substitute for record evidence to support its hyperbole. The criticism at page 28 of the NNA Initial Brief that the Postal Service has no contingency plan for reversing course seems premature for various reasons. They include the present uncertainty whether Congress will prevent the Postal Service from moving forward, the pendency of an advisory opinion from the Commission, no decision yet by the Postal Service

21 See USPS Library Reference N2010-1/1 at Executive Summary and pages 5 and 25.
to set an implementation date for the changes to take effect in the first place, no implementation yet, not to mention the absence of any experience or basis to suggest a need to consider reversing course after implementation.

In further support of its Saturday rural postal newspaper delivery force proposal, NNA cites Tr. Vol. II at 211 and argues at page 35 of its Initial Brief that its proposal may be viable because witness Pulcrano “agrees that the cost of rural delivery is less expensive than that of urban delivery.” As the Commission will observe, witness Pulcrano made no such statement. He merely acknowledged that there is a differential in the expense for a city carrier workhour and a rural carrier workhour. Mr. Pulcrano did not hold himself out to be a costing witness. He provided no analysis of aggregate unit costs for rural delivery operations vs. city delivery operations. NNA will have to look elsewhere than page 211 for guidance on whether unit rural delivery costs are greater or less than city delivery costs.

Likewise, despite the insinuation at page 14 of NNA’s Initial Brief, the Postal Service gave no thought at any time to whether any particular mail product was currently covering its costs in determining whether to consider any exception from the general elimination of delivery to street addresses for those products. The assertion (NNA Brief at 14) that NNA members were awarded no extraordinary Saturday delivery accommodation “because there is no single ‘customer’ to consult” makes no sense. The testimony of NNA’s own witness Heath reveals that the Postal Service included NNA in its operational concept consultations and that NNA representatives attended multiple such sessions. Id.
at 2925. Outside of those broader efforts, NNA communicated its specific
concerns one-on-one to witness Pulcrano and to the Chairman of the USPS
Board of Governors. Id. at 2902.

3. More than a “passing glance” at the record leads to a
different understanding than that suggested by NNA.

NNA’s argument that its concerns were given a “passing glance” because
the Postal Service “considers itself now to be an advertising medium . . . that
might compete with newspapers” is a distortion of the response of witness
Pulcrano to interrogatory NNA/USPS-T1-9. To illustrate the gravity of the
distortion, the question and answer are reproduced below:

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.

Tr. Vol. II at 110. Thus, the testimony of witness Pulcrano merely acknowledges
that throughout its history, the Postal Service has served as a medium for the
transmission of advertising messages – just as it has served as a medium for
personal correspondence, parcels and periodicals. Thus there is no basis for the
insinuation that the five-day delivery concept was developed by the Postal
Service as part of a nefarious scheme to enhance its role as an advertising
medium in competition with newspapers.

Likewise, at page 11 of its Initial Brief, the APWU cites Tr. Vol. II at 337 as
evidence that the Postal Service has no overall plan to uniformly adjust collection
box schedules in the five-day environment. However, APWU neglects to acknowledge that the Postal Service’s current collection box policies reflected at pages 305-36 require local periodic evaluation of collection times based on considerations of local demand. These policies will continue in effect. Thus, local adjustments deemed appropriate for local circumstances in the five-day environment are not out of the question.

At page 11 of its brief, APWU is correct that the Postal Service has no plan for automatically increasing retail hours across-the-board at all locations in anticipation of a likely increase in retail parcel pick-up traffic. However, Postal Service witness Granholm was explicitly clear when he testified:

*Based on customer demand by location*, additional retail hours may be put in place to accommodate pickup activities due to no carrier redelivery services on Saturday.

USPS-T3 at 3. (Emphasis added.) *See also*, USPS Library Reference N2010-1/2 at 3. Decisions about extending retail opening and closing hours will continue to be made on a local basis depending on local circumstances.

4. Red herrings such as “the next service cut” should be summarily dismissed.

APWU argues against the planned service changes because “the Postal Service is relying on an incomplete picture of what the actual impacts will be to its customers.” APWU argues that the delivery to Post Office boxes at stations and branches and rural post offices:

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.
APWU Brief at 10. APWU has resorted to fiction to “complete” the picture. There is no record evidence of any such service changes even having been contemplated. At page 10, APWU alludes to Docket No. N2009-1 and argues that the Postal Service plans to close numerous stations and branches which would require relocation of Post Office boxes. At last report, 162 stations and branches nationwide out of 32,000 total retail locations remained as candidates for potential consolidation as a result of the Docket No. N2009-1 review process. APWU points to no evidence of overwhelming Post Office Box demand in the five-day environment that cannot be met through the rental of existing vacant boxes and the provision of Caller Service, or through the addition of new boxes or the relocation of vacant box units in response to isolated spikes in demand.

5. Service standards should not be confused with service standard measurement.

The argument at page 26 of the NNA Initial Brief reflects its fundamental confusion about service standards and performance measurement. The Postal Service is of the view that NNA might benefit from spending less effort trying to twist the words of witness Pulcrano and more effort reading the testimony of Postal Service witness Thomas Day (USPS-T-10), who explains why service standards are not affected by the planned operational and service changes, but that service measurement will be.

22 See http://www.prc.gov/Docs/66/66588/Lib_Ref_4_Preface_5th_rev.doc.
VII. Conclusion

For the foregoing reasons, the Postal Service submits that the Postal Regulatory Commission should opine that it has received substantial evidentiary record explanation of the factual and policy bases for the planned service changes and why those changes reflect a reasonable balancing of the various service and efficiency objectives of title 39, United States Code. The Commission should find that the parties opposed to the service changes have raised concerns worthy of serious consideration, but have offered insufficient evidentiary, policy and legal arguments to justify a different conclusion. Accordingly, the Postal Service respectfully requests that the Commission issue an opinion that is based on a properly-defined evidentiary record and that advises that the service changes under review are ones that the policies of title 39 permit the Postal Service to implement.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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