

# OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL REGULATORY COMMISSION

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In the Matter of: )  
 )  
RETAIL ACCESS OPTIMIZATION ) Docket No. N2011-1  
INITIATIVE 2011 )

VOLUME #1

Pages: 1 through 626  
Place: Washington, D.C.  
Date: September 8, 2011

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C O N T E N T S

## WITNESSES APPEARING:

JAMES J. BOLDT

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
James J. Boldt	22	--	--	--	--
By Mr. Levi	--	312	--	--	--
By Mr. Hughes	--	342	--	--	--
By Ms. Ferguson	--	490	--	--	--

<u>DOCUMENTS TRANSCRIBED INTO THE RECORD</u>	<u>PAGE</u>
Designated Written Cross-Examination of USPS Witness James J. Boldt and Responses to Presiding Officer's Information Requests, USPS-T-1	26
Additional Designated Written Cross-Examination of USPS Witness James. J. Boldt, APWU/USPS-T-1-9 and 10	84
Additional Designated Written Cross-Examination of USPS Witness James J. Boldt, NAPUS/USPS-T-1 through 49	89
Interrogatory Responses of USPS Designated as Written Cross-examination, APWU/USPS-2	132
Responses of USPS to NLP Institutional Interrogatories, NLP/USPS-1, and Revised Responses of USPS to NLP Institutional Interrogatory, NLP/USPS-18	281

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BOLDT  
TO NAPUS INTERROGATORY**

**NAPUS/USPS-T1-4**

Please refer to USPS-T-1, page 13. You state that postal management is not pursuing the RAO initiative to achieve a predetermined operating cost savings. Yet, USPS spokeswoman Cathy Yarosky is quoted in the press as stating: "The projected savings, if every one of the 3,653 offices were to close, is \$200 million annually." Please explain in detail how these savings were calculated.

**RESPONSE**

No detailed calculations were involved. The statement was merely an attempt to illustrate that if the total operating cost of the candidate facilities was approximately \$200 million and all of them were discontinued, then operating costs would be reduced by that amount. The interview from which the quotation appears to have been taken also expresses that it is unlikely that all candidate facilities will be discontinued and offers no estimate of the number expected to be discontinued.

**Keynote Address by John E. Potter, Postmaster General  
and Chief Executive Officer, U.S. Postal Service  
2010 National Postal Forum  
April 12, 2010**

Thank you, Susan, and good morning, everyone. I want to thank you all for coming and joining us at the Forum. It's great to be with you. Your attendance sends the message loud and clear to me and to others that mail matters. The country needs and wants a strong Postal Service, a healthy Postal Service, a viable Postal Service – a channel to communicate and to conduct business now and into the future

Satisfying that need is what I'm going to talk about this morning. You all know that this is a challenging time for all businesses due to the economy. For the Postal Service it is both a challenging and a pivotal time because of the economy — and more importantly — because of the diversion from hard-copy to electronic channels for communication. You know that it has reduced our revenues. Our world has changed dramatically in a few short years. And we – as an industry – have got to change and to adapt to keep up with the times.

But let me assure you, I know we can do it – we've overcome tremendous obstacles before. We've faced tremendous hurdles — in 2001 with the 9/11 attacks, anthrax in the mail and the subsequent recession.

Well, we all know it wasn't easy. It took a lot of hard work. Most of all, it took an understanding that we were all in this together — no one of us could succeed without all of us succeeding. Not only did we get through it, we came out even stronger.

By 2006, mail reached an all-time record of 213 billion pieces. Debt of \$11 billion that we had in 2002 was reversed completely, and we ended up with \$2 billion dollars in equity. And most important, service had reached all-time highs.

Emboldened by this success, Congress passed a new law to guide us into the future. They understood, like all of us, that communications were changing, that the erosion of paper-based mail to electronic delivery-channels was going to continue, and, perhaps, increase in pace.

So the new law created price caps designed to drive up USPS productivity. It made packages competitive and gave us pricing freedom, enabling us to sign contracts with you. It declared the CSRS pension system was overfunded and it diverted overpayments into a Retiree Health Benefit trust fund. And the new law added an accelerated payment schedule to fully fund the Retiree Health Benefits as soon as possible. Why? Because there was concern about the future of the mail and electronic diversion. And it was felt that we were in a better position to pay today than we would be in the future.

But I have to tell you, less than a few years later, here we are and the recession reversed all the volume gains that we as an industry had built. Twenty years of almost constant volume growth reversed itself. And, in three years, volume declined 36 billion pieces to the 2009 level of 177 billion.

I have to tell you that back in 2006 nobody could have imagined how quickly the landscape would change. No one imagined those changes when Congress was drafting the 2006 law. The new law didn't cause our problems — it is not to blame for our current situation. That honor and dubious distinction goes to the economy and the acceleration in the use of other communications channels.

Now, faced with this tough time and this bad situation, Pat Donahoe and his team reacted the way we've grown to expect — they took on the challenge — taking out more than \$10 billion in cost in less than three years. An amazing job — while, at the same time, continuing to improve service. But even these heroic efforts have not been enough.

This fiscal year, the Postal Service projected a \$7.8 billion deficit due to continued erosion of volume and the position we found ourselves in 2009. And looking forward, we forecast negative net incomes as far as the eye can see.

It was this reality that drove us to seek help. We sought out three of the most reputable consultant firms in the world to help us answer questions about the future and chart a new course. First, we engaged the Boston Consulting Group — one of the best in the business to help us project future mail volumes. Boston Consulting knew the best source to help forecast future

mail volumes were the mailers. So, they went out and asked you and talked to you about the future.

Based on your feedback, Boston Consulting is projecting another 15 percent drop in mail volume over the next decade. That would reduce mail volume to 150 billion pieces by 2020. Just as important, though, in terms of their projection, they also predict a shift in mail mix — with less First-Class Mail — a loss of some 30 billion pieces of First-Class Mail and fairly stable and slightly growing advertising mail.

Now that's important because that's our source of revenue. First-Class, as well all know, has been our chief source of revenue. We already have experienced a significant change in revenue since 2000. Revenue has gone, on a per capita basis, from \$1.80 per delivery per day 10 years ago to a \$1.40 today. In 2000, mail volume stood at 5 pieces per delivery per day. Today it is 4 pieces per day. So, in reality, one in 5 pieces of mail has disappeared.

In another 10 years, think about the BCG projection — we're going to have growing deliveries and we're going to have declining volumes. They are projecting that we'll have 3 pieces of mail going to every door every day and our dollar value going to every door will be down to one dollar. That's the reality that we're facing. Obviously, this poses a huge revenue challenge for the Postal Service.

Knowing that, we asked another consulting group, Accenture, to look at the businesses other world posts are in — like mobile phones, banking and logistics. We wanted to see if there could be a new way for the Postal Service to raise revenue to help pay for universal service. Accenture's response — maybe someday, they said, but not right now. They told us that we simply don't have the cash to make the capital investments necessary to enter those businesses.

But they had some good insights. They told us that mail will continue to have a great deal of value for businesses and the American people for years to come — 150 billion pieces of mail in 2020 is more than any other post in the world today. We will be a very large business. In short, they recommended that we concentrate on our core mailing and shipping businesses—to concentrate on retaining and growing what we have.

Well with the BCG work and the Accenture work, we then turned to McKinsey and Company and what we asked them to do was help us to use that work to develop a future plan. McKinsey projected that without significant changes, the Postal Service faces a 2020 net income gap of \$33 billion dollars. Cumulatively, over the next decade, we are facing a \$238 billion loss. Now the key phrase is “without changes.”

Obviously, we can't let that happen. However, as we tackle the challenge, let me assure you that we are not going to lose our focus on you and your needs today. We're going to bump up value — through service, quality, and the information you need to levels you never imagined. So we're going to innovate, to change our products to meet your changing needs.

You're going to see these changes in packages, advertising mail, and First-Class Mail. As these changes roll out, they are going to make mail even more attractive and help us beat the BCG projection of 150 billion pieces of mail in 2020.

The Postal Service will also focus on the cost aspect of value. Pat Donahoe and his team will continue to aggressively manage costs to help close over half of the \$33 billion 2020 gap that I spoke about. How are they going to do it? Through network adjustments, use of Six Sigma tools, and deployment of new equipment like the flats sequencer. While McKinsey has said that these cost goals are extremely aggressive, I have to tell you, folks, they don't know Pat as well as I do. I wouldn't bet against him. Bob Bernstock and Pat Donahoe will be out talking about their future plans following my remarks for growth and cost control.

We also asked McKinsey to look at our business model. They concluded that we didn't have the flexibility we needed to manage our business through a changing time, in a marketplace that's transforming every day

After evaluating all the McKinsey recommendations, the Postal Service produced a plan that seeks:

- Legislative adjustments to the current Retiree Health Benefit payment schedule — preferably a return to the “pay as you go” mode.
- Legislative changes to allow us to eliminate Saturday delivery — saving over \$3 billion per year.

- Legislative changes that enable us to enhance access to postal products by expanding retail into non-postal locations that are open 7 days a week and up to 24 hours a day and, in the process, closing our current Post Offices where it makes sense.

McKinsey also recommended several other items that are included in our plan such as achieve greater workforce flexibility through the elimination of outdated work rules to assure labor costs are in line with our ability to pay.

Regarding pricing, McKinsey recommended that we ensure that prices of market dominant mailing products are based on demand for each individual product and its costs. Rather than capping prices for every class at the rate of inflation, the cap should be at the market dominant level. And that we use exigent pricing in the current law.

And, lastly, regarding expanding products and services, we are seeking legislation that permits the Postal Service to introduce more new products consistent with its mission, allowing us to better respond to changing customer needs and compete more effectively in the marketplace.

Later this morning and tomorrow at 10, you can hear directly from BCG and McKinsey. They're going to talk about their reports and findings on the different topics they've explored. There will be sessions throughout the week on the Postal Service's plan. Please consider joining these sessions.

Before closing, I know everyone wants to learn about what I meant on March 2<sup>nd</sup> when I said that an exigent rate case is coming. We are still exploring our options. And, I can assure you we will use this tool in moderation and that nothing has been decided. We will give you plenty of notice when that decision is made.

The most important element of this plan we produced is its balance. If we were to concentrate on any one element of the business — for example, if we were to solve the problem simply by raising rates, we could make rates unaffordable. If we were to solve the problem just by going after frequency of delivery and move to three day, I don't think we would have an attractive product. So therefore, we need balance. We need moderation. We need to go in all directions, not simply just one.

I recognize that nothing I've outlined this morning will be easy. It will take a great deal of cooperation and long-term, forward thinking. However, I have seen the postal industry rally together many times in the past. I have seen the industry embrace change and run with it.

The National Postal Forum has always carried the theme: "Partnership for Progress." It has been a true partnership for decades, and I am convinced the Postal Service and mailing industry have a strong, bright future ahead. Although at this instant in time, the challenges look daunting, I remain convinced that this industry has strong, visionary leaders who are committed to building our partnership.

Let's use the next few days here in Nashville to continue the journey that the National Postal Forum started in the early 1970s, and let's ensure the future of America's mail. I'm confident that we can do it.

Thank you.

###

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**Monday, October 10 - Sunday, October 16**

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service.(Parcel Post®, Media  
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**Pickup Summary**

**Total Number of Items 0**

**\*Estimate the total weight. lbs**

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