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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

MAIL PROCESSING NETWORK RATIONALIZATION SERVICE CHANGES, 2011	Docket No. N2012-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO QUESTIONS 3-6, 14, 15(a-k), 18(b) AND 21 OF PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

The United States Postal Service hereby files the following responses to portions of questions submitted as part of Presiding Officer's Information Request No. 1, dated December 29, 2011:

- responses of witness Rosenberg (USPS-T-3) to questions 3 and 6
- institutional response of the Postal Service to question 4.
- responses of witness Mehra (USPS-T-7) to questions 14 and 15(a-k)
- responses of witness Whiteman (USPS-T-12) to questions 18(b) and 21.

The responses to remaining questions of POIR 1 are forthcoming.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROSENBERG TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

3. In Docket No. N2006-1, Evolutionary Network Development Service Changes, 2006, the Postal Service used LogicNet Plus software.

a. Please confirm that the model sponsored by witness Rosenberg (USPS-T-3) in Docket No. N2012-1 uses the same software. If not confirmed, please explain.

b. Please describe any differences between the Evolutionary Network Development modeling process presented in Docket No. N2006-1 and the modeling process presented in Docket No. N2012-1 regarding:

   i. scope, such as network structure and/or different constraints;
   ii. inputs;
   iii. outputs; and
   iv. assumptions.

RESPONSE

(a) The Logic Net software was used for both N2006-1 as well as N2012-1.

The model objective is similar to minimize cost subject to a base set of constraints. However, the constraints are different. Note, the LogicNet Model software has been upgraded. The IBM ILOG Logic Net Plus 6.0 XE and LogicNet Plus XE 7.1 was used for N2012-1.

(b)

(i) The scope of N2006-1 included network facilities, while N2012-1 focuses on mail processing plants only. In N2006-1, facility expansion was considered, but that is not the case for N2012-1. In N2012-1, a reduced set of nodes were part of the model as a result of consolidations that occurred between the 2006 and 2012 cases.

RESPONSE TO QUESTION 3 (continued)

(ii) In general, the inputs were the same. Site specific cost data was used for opening and closing costs.

(iii) The outputs are the same, 3-digit customer to plant assignment by product.

(iv) The no expansion constraint is the biggest change in assumptions.

INSTITUTIONAL RESPONE OF THE UNITED STATES POSTAL SERVICE TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

4. Please explain if and how the proposed change in service is consistent with provisions in annual postal appropriations riders that states “that 6-day delivery and rural delivery of mail shall continue at not less than the 1983 level.” S*ee, e.g.,* Consolidated Appropriations Act, 2008, Title V, P.L. 110-161; 121 Stat. 1844.

RESPONSE

The proposed changes do not reduce the number of days that mail delivery is generally provided. Nor the changes effectuate changes affect the mode or frequency of delivery to customers served by rural routes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS MASSE TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

5. On page 4 of his testimony, witness Masse (USPS-T-2) states First-Class Mail volumes will decline significantly over the next nine years from the current 74 billion pieces in FY 2011 down to just 39 billion pieces by FY 2020. In the Postal Service's 10-year action plan released in March 2010, First-Class Mail volume was projected to be almost 53 billion pieces by FY 2020. Ensuring a Viable Postal Service for America: An Action Plan for the Future, March 2010 at 4.

a. Please discuss the changes in the volume forecasts since the release of the March 2, 2010 10-year action plan.

b. Include in the discussion an explanation of the changes in the assumptions used to develop the new forecasts.

c. Please provide updated forecasts of volumes, revenues, and costs with all workpapers underlying these forecasts in the same manner as the original 10-year action plan that was provided in response to Docket No. R2010-4, Presiding Officer's Information Request No. 5, question No. 32.

RESPONSE:

(a, b) The Postal Service's volume forecasts are based on a wide range of factors, including the most recent available data on actual mail volumes. Thus, the McKinsey & Company volume forecast included in the March 2, 2010 10-year action plan relied on volume data through Quarter 3 of FY 2009, whereas the Postal Service's volume forecast presented in witness Masse's testimony (USPS-T-2) relied on volume data through Quarter 3 of FY 2011. The availability of an additional two full years of volume data has allowed the Postal Service to revise and refine the volume forecasts

RESPONSE to Question 5 (continued)

presented in the March 2, 2010 plan to better reflect recent history and revised expectations of the future.

For example, the March 2, 2010 plan forecasted First-Class Mail volume to be 77.1 billion pieces in FY 2011. In reality, the FY 2011 volume of First-Class Mail was 73.5 billion pieces, a difference of 4.7 percent from the March 2, 2010 forecast. This is a significant acceleration in the rate of volume decline in First-Class Mail. Because of these types of differences between forecast and actual volumes, the Postal Service has adjusted the assumptions that underlie its forecasts.

The Postal Service has also adjusted assumptions based on more recent economic data. The Postal Service's volume forecasts rely on economic data and forecasts developed by IHS Global Insight. IHS Global Insight releases new economic forecasts on a monthly basis. Thus, in comparison to the forecasts presented in the March 2, 2010 plan, the forecasts presented in witness Masse's testimony have the benefit of two additional years of economic data and analysis from IHS Global Insight. This information has resulted in changed assumptions regarding, for

RESPONSE to Question 5 (continued)

example, the economy's weakened expected growth rate in the wake of the recent recession.

As in the past, in addition to incorporating the most recent data into its forecasts, the Postal Service has also made adjustments based on management's business judgment. Management's regular interactions with mailers give it insight into expected volume and revenue trends that are not captured in empirical data. For example, dialogue with the direct mail industry gives management insight into Standard Mail trends that are not fully reflected in data regarding the general economy.

(c) The March 2, 2010 10-year action plan and the materials provided in response to Question 32, Presiding Officer's Information Request No. 5, Docket No. R2010-4, were developed by McKinsey & Company, based on volume forecasts provided by the Boston Consulting Group. Thus, the Postal Service is unable to provide updated versions of those materials. However, the Postal Service will file its latest volume and revenue forecasts with the Commission on January 20, 2012, in accordance with the Commission's periodic reporting rules.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS ROSENBERG TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

6. Please refer to library reference USPS-LR-N2012-1/14 file "14_Mail Processing Window Scoring Tool.xls" tab "Wrkld Regression" which contains the following table.

LABOR HOURS = **Core** + **Variable** * Volume / 1000

	Small		Medium		Large	
	Core	**Variable**	**Core**	**Variable**	**Core**	**Variable**
CANC	1187	0.144	520	0.194	1630	0.202
L-OGP	829	0.158	-633	0.229	-6426	0.289
L-INP	866	0.182	35	0.214	24896	0.185
L-INS	-165	0.109	-7507	0.136	-11229	0.142

Variable is hours per thousand pieces
Core is hours per annual operation

a. Please define and explain the significance of:

   i. CANC;
   ii. L-OGP;
   iii. L-INP;
   iv. L-INS;
   v. Core;
   vi. Variable

b. Please provide the quantitative definition of "Small," "Medium," and "Large."

c. Please provide the source of the data presented in the table, as well as any underlying studies or workpapers used to develop these data.

d. Please identify where in the IBM LogicNet model this data is used, explain the purpose of this data within the context of the IBM LogicNet model, and explain how this information was integrated into the LogicNet model.

RESPONSE

(a) (i) CANC: FY2010 MODS Cancellation Workload.

(ii) L-OGP: FY2010 MODS Letter Outgoing Primary Workload.

(iii) L-INP: FY2010 MODS Letter Incoming Primary Workload.

(iv) L-INS: FY2010 MODS Letter Delivery Point Sequence First Pass Workload.

RESPONSE TO QUESTION 6 (continued)

(v) Core: The fixed component of the regression to predict labor hours, i.e. not volume variable. The labor hours that exists for setting up an operation to sort either 1 piece or 1 million pieces.

(vi) Variable: The additional labor hours required for each additional piece of mail that needs to be sorted.

(b) Small: Building Square Footage less than 210,000 SF;

Medium: Building Square Footage between 210,000 SF and 450,000 SF;

Large: Building Square Footage greater than 450, 000 SF.

(c) See USPS Library Reference N 2012-1/46.

(d) Line costs are the manufacturing or labor costs. The linear cost functions from the polynomial functions for per piece per day per square foot cost was used to create line options (low volume, medium volume, and high volume) with different costs per piece.

14. Is it likely the number of Detached Mail Units will increase or decrease as a result of MPNR? Please explain the rationale for the answer provided, including any quantification of the change in the number of units that may be projected at this time.

RESPONSE

Yes. Any changes to the number of detached mail units is contingent upon the pending plant consolidation determinations and will occur subsequent to finalization of network changes and potential changes in mailer entry patterns. When such information becomes definitive, the likely change in the number of Detached Mail Units can be quantified.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNES MEHRA TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

15. On page 4 of her testimony, witness Mehra (USPS-T-7) states, “where practicable, BMEUs will remain in the impacted facility. If this is not feasible, acceptance units will be located within relatively close geographical proximity to the impacted facility and mailers will be allowed to retain their SCF discounts for the foreseeable future for mail entered at the BMEUs.”

a. Please estimate the number of BMEUs that will remain open at impacted facilities.

b. What mail processing, acceptance, and transportation related operations will be necessary at BMEUs that remain open?

c. What equipment will need to remain at impacted facilities that continue BMEU operations?

d. How many employees at BMEUs at impacted facilities will continue to accept mail?

e. Please provide an estimate of the cost of keeping BMEUs open at impacted facilities.

f. Will there be a surcharge to mailers entering mail at an impacted facility?

g. What percent of mail volume does the Postal Service anticipate accepting at impacted facilities?

h. If mail is accepted at an impacted facility will it have the same service standards as mail accepted at an operational facility?

i. What is the timeline to phase out acceptance of mail at impacted facilities?

j. Please provide the workpapers used to determine the transportation costs of keeping BMEUs open at impacted facilities.

k. Please provide the workpapers used to determine the mail processing costs of keeping BMEUs open at impacted facilities.

l. USPS-T-4 at 29, figure 12, includes an estimate of platform operation productivity improvement of 20 percent due to the current proposal. How will the ongoing operation of BMEUs at impacted facilities affect this productivity improvement?

RESPONSE OF UNITED STATES POSTAL SERVICE WITNES MEHRA TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

RESPONSE:

(a) See the response to POIR 1, Question 14. The number of BMEUs that will remain open will be determined based on the completion of numerous facility consolidation studies. Mail acceptance will be maintained at the impacted facility or at a location within proximity of the facility.

Further, the feasibility of BMEU operations at any given location is subject to review over time, as local network processing operations evolve, and as mail entry patterns respond to changes in classifications and prices.

(b) I am informed that during the MPNR transition, we expect acceptance operations to remain the same as today, except for possible changes to Critical Acceptance Times (CATs). CATs will be based on outbound transportation schedules to the gaining mail processing facilities. We do not project any mail processing related operations to be needed other than some inventory of mail transport equipment (MTE) for customer use.

(c) We project some inventory of mail transport equipment (MTE) will be required to support mailers who will continue to enter mailings at the BMEU located in the impacted facility or at another location within proximity of the impacted facility.

(d) Staffing needs for specific BMEUs will be assessed based on changes in customer entry patterns resulting from MPNR.

RESPONSE TO

(e) We expect no significant change to operating costs associated with maintaining customer access to BMEUs at, or in proximity to, impacted plants.

(f) No surcharges to mailers entering mail at an impacted facility are planned at this time.

(g) Current annual mail volume being entered through BMEUs at these facilities is approximately 7.4 billion pieces. The changes in this volume can only be estimated after operational changes are implemented and customer entry patterns evolve.

(h) Because end-to-end service standards are being defined by the origin plant service area (OPDC/F), the service standards are the same by the manner in which end-to-end service standards are proposed. The Postal Service does expect to establish earlier critical acceptance times at impacted facilities in order to meet the Day 0 Critical Entry Time that will be established at the gaining facility.

(i) Mail acceptance will be maintained at the impacted facility or at a location within proximity of the facility. The feasibility of BMEU operations at any

given location is subject to review over time, as local network processing operations evolve, and as mail entry patterns respond to changes in classifications and prices. Refer to the responses to POIR 1, Questions 15(a-c).

(j) Redirect to Cheryl Martin. We have not developed these specific transportation costs.

Deleted: Redirect to Cheryl Martin.

(k) Redirect to Frank Neri. No mail processing costs are projected for keeping BMEUs open at impacted facilities.

(l) Redirect to Frank Neri. The ongoing operation of BMEUs at impacted facilities will not affect this productivity improvement.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNES MEHRA TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

15. On page 4 of her testimony, witness Mehra (USPS-T-7) states, “where practicable, BMEUs will remain in the impacted facility. If this is not feasible, acceptance units will be located within relatively close geographical proximity to the impacted facility and mailers will be allowed to retain their SCF discounts for the foreseeable future for mail entered at the BMEUs.”

a. Please estimate the number of BMEUs that will remain open at impacted facilities.

b. What mail processing, acceptance, and transportation related operations will be necessary at BMEUs that remain open?

c. What equipment will need to remain at impacted facilities that continue BMEU operations?

d. How many employees at BMEUs at impacted facilities will continue to accept mail?

e. Please provide an estimate of the cost of keeping BMEUs open at impacted facilities.

f. Will there be a surcharge to mailers entering mail at an impacted facility?

g. What percent of mail volume does the Postal Service anticipate accepting at impacted facilities?

h. If mail is accepted at an impacted facility will it have the same service standards as mail accepted at an operational facility?

i. What is the timeline to phase out acceptance of mail at impacted facilities?

j. Please provide the workpapers used to determine the transportation costs of keeping BMEUs open at impacted facilities.

k. Please provide the workpapers used to determine the mail processing costs of keeping BMEUs open at impacted facilities.

l. USPS-T-4 at 29, figure 12, includes an estimate of platform operation productivity improvement of 20 percent due to the current proposal. How will the ongoing operation of BMEUs at impacted facilities affect this productivity improvement?

RESPONSE to Question 15 (continued):

(a) See the response to POIR 1, Question 14. The number of BMEUs that will remain open will be determined based on the completion of numerous facility consolidation studies. Mail acceptance will be maintained at the impacted facility or at a location within proximity of the facility.

Further, the feasibility of BMEU operations at any given location is subject to review over time, as local network processing operations evolve, and as mail entry patterns respond to changes in classifications and prices.

(b) I am informed that during the MPNR transition, we expect acceptance operations to remain the same as today, except for possible changes to Critical Acceptance Times (CATs). CATs will be based on outbound transportation schedules to the gaining mail processing facilities. We do not project any mail processing related operations to be needed other than some inventory of mail transport equipment (MTE) for customer use.

(c) We project some inventory of mail transport equipment (MTE) will be required to support mailers who will continue to enter mailings at the BMEU located in the impacted facility or at another location within proximity of the impacted facility.

(d) Staffing needs for specific BMEUs will be assessed based on changes in customer entry patterns resulting from MPNR.

RESPONSE to Question 15 (continued)

(e) I am not a costing witness, but I am informed that there are no bulk mail entry unit cost estimates or BMEU cost change estimates filed in support of the Request in this docket.

(f) No surcharges to mailers entering mail at an impacted facility are planned at this time.

(g) Current annual mail volume being entered through BMEUs at these facilities is approximately 7.4 billion pieces. The changes in this volume can only be estimated after operational changes are implemented and customer entry patterns evolve.

(h) I am informed by witness Williams that because end-to-end service standards are being defined by the origin plant service area (OPDC/F), the service standards are the same by the manner in which end-to-end service standards are proposed. The Postal Service does expect to establish earlier critical acceptance times at impacted facilities in order to meet the Day 0 Critical Entry Time that will be established at the gaining facility.

RESPONSE to Question 15 (continued)

(i) Mail acceptance will be maintained at the impacted facility or at a location within proximity of the facility. The feasibility of BMEU operations at any given location is subject to review over time, as local network processing operations evolve, and as mail entry patterns respond to changes in classifications and prices. Please see the response to POIR 1, Questions 15(a-c).

(j) I am informed that the testimony of witness Bradley does not consider BMEUs when calculating transportation cost savings.

(k) Please see the response to subpart (e).

(l) [Redirected to witness Neri for response.]

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS WHITEMAN
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1

POIR1, Question 18. Please refer to library reference USPS-LR-N2012-1/NP1.

* * *

b. Please provide a cross walk which links the data found in "Network Rationalization Volume Revenue Contribution Loss-Final2.xls" tab "Nat'l, Premier & Preferred" in the table beginning in cell E55 with the source data found in "CBCIS-Account Type_Products.xls."

RESPONSE:

The requested cross walk for data found in "Network Rationalization Volume Revenue Contribution Loss-Final2.xls" (hereafter Table A), tab "Nat'l, Premier & Preferred", cells E55, E57-59, E61-63, F55, F57-59, F61-63, G55, G57-59, and G61-63 are pulled from "CBCIS-Account Type_Products.xls", tab "Sheet1" in column F titled "FY10 Total Volume." The specific crosswalk of the cells in tab "Nat'l, Premier & Preferred" to the cells in "CBCIS-Account Type_Products.xls", tab "Sheet1" is as follows:

"Nat'l, Premier & Preferred"	**"CBCIS-Account Type_Products.xls"**
E55	F31
E57	F43
E58	F38
E59	F37
E61	F28
\ E62	F30
E63	F41
F55	F53
F57	F65
F58	F60
F59	F59
F61	F50
F62	F52
F63	F63
G55	F9
G57	F21
G58	F16
"Nat'l, Premier & Preferred"	**"CBCIS-Account Type_Products.xls"**

G59	F15
G61	F6
G62	F8
G63	F19

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The data in the table in cells E56, E60, E64, F56, F60, F64, G56, G60, and G64 are taken from cells G72, G73, G74, H72, H73, H74, I72, I73, and I74 in the tab titled "Network Rationalization Volume Revenue Contribution Loss-Final2.xls" as shown below.

"Nat'l, Premier & Preferred"	**"Nat'l, Premier & Preferred"**
E56	G72
E60	G73
E64	G74
F56	H72
F60	H73
F64	H74
G56	I72
G60	I73
G64	I74

The data in cells E65, F65, G65, and H65 are the summed data in cells E55-E64, F55-F64, G55-G64, and H55-H64 as shown below.

Total Line	**Source Cells**
E65	E55-E64
F65	F55-F64
G65	G55-G64
H65	H55-H64

The data in cells H55-65 are the summed data as shown below.

Total Line	**Source Cells**
H55	E55-G55
H56	E56-G56
H57	E57-G57
Total Line	**Source Cells**
H58	E58-G58
H59	E59-G59
H60	E60-G60
H61	E61-G61
H62	E62-G62
H63	E63-G63
H64	E64-G64
H65	E65-G65

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS
WHITEMAN TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1

POIR-1, Question 21. Please refer to USPS-T-12 at 22, chart 1, titled *Volume, Revenue, Cost, and Net Contribution Changes with First-Class Mail Service Standard Changes*.

a. Please confirm that the analysis summarized in chart 1 predicts that combined Express Mail and Priority Mail volumes will be impacted the most (on a percentage basis) of all the listed items. If not confirmed, please explain.

b. Please provide any analysis performed specific to the impact of MPNR on Express Mail and Priority Mail volumes.

c. Please confirm that neither Express Mail nor Priority Mail service standards will be impacted by the current proposal. If not confirmed, please explain.

d. Please provide any insight or explanation as to why customers indicated that use of Express and Priority Mail would be more negatively affected by the proposed service standard changes than any other type of mail?

RESPONSE:

a. Confirmed.

b. The only and limited analysis performed on the impact of MPNR on Express Mail and Priority Mail volumes appears in my testimony.

c. Confirmed.

d. Express Mail and Priority Mail volume impacts, when reported in percentage terms, appear larger than the actual volume and revenue impacts and were a secondary focus of the market research. The primary focus of the market research was the impact on First-Class Mail, Standard Mail, and Periodical Mail..

The market research estimates the overall revenue impact at $1.340 billion and the estimated impact from Express Mail and Priority Mail is less than 25 percent of this estimate. Further, the quantitative research was not designed to evaluate reasons for the estimated volume impact. It is entirely reasonable to expect that the actual impact, when the Network Rationalization Plan is implemented, will be less than estimated from the market research.

An explanation for why the combined percentage decrease for Express Mail and Priority Mail is larger than the percentage decrease for other products can be found in the impact of the small volume bases for these two products. For example, if a small business

ships 10 pieces of Express Mail a year and, as a result of the implementation of the Network Rationalization reduces its volume to 9 pieces a year, the resulting percentage decrease may appear large at 10 percent. If that same small business ships 12 pieces of Priority Mail a month and, as a result of the implementation of the Network Rationalization, reduces it volume to 11 pieces a month, the resulting percentage decrease would be 8.3 percent. Thus, even the smallest possible volume decreases for Express Mail and Priority Mail would appear to produce a “high” percentage change.