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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

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO QUESTION 16 OF PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

The United States Postal Service hereby files the response of witness Marc Smith to question 16 of Presiding Officer's Information Request No. 1, dated December 29, 2011. The question is stated verbatim and followed by the response.

Responses to outstanding questions of POIR 1 are forthcoming.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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16. In Docket No. N2010-1, the Commission noted the importance of peak load costs in analyzing network changes. Docket No. N2010-1, Advisory Opinion on Elimination of Saturday Delivery, March 24, 2011 at 114-128. The Commission also released a contractor study of peak load modeling, which contains an outline of the data necessary to model peak-load costs. Report on Peak Load Cost Modeling, October 7, 2011 at 40. The report notes that much of the data needed to model peak load costs can be obtained from data currently available to the Postal Service. *Id.* at 4. On page 4 of his testimony in Docket No. N2012-1, witness Smith (USPS-T-9) states that since 1987 "the peak load problem has gotten worse."

    a. Please provide any analysis developed to estimate the peak load costs of the Postal Service for 2010 compared to 1987.

    b. Please provide:

        i. MODS volumes and workhours by plant, by operation, by hour, for FY 2010;
        ii. MODS volumes and workhours by plant, by operation, by hour, for FY 2009; and
        iii. any other information the Postal Service considers important for modeling mail processing peak-load costs.

RESPONSE

a. My statement that the peak load problem had gotten worse since 1987, was not based on any estimates of peak load costs for 1987 verses 2010. Instead it was based on my qualitative consideration of the factors that that drive the peak load problem/costs – and my finding that these factors had worsened between 1987 and 2010. In addition, the point of my statements was not to make a comparison of 1987 verses 2010, *per se*, but rather to give some insight and understanding regarding cost savings estimates put forth collectively by our filing and summarized in witness Bradley's testimony, USPS-T-10 at page 41, Table 16.

RESPONSE to Question 16 (continued)

As I state in USPS-T-9 at page 3, the peak load problem or framework can help us understand how changes in service standards affect costs. This is of course also a major point of the PRC's sponsored "Report on Peak Load Costing Modeling" as well. In this vein, I seek to build on or harken back to the Postal Rate Commission's extensive consideration the peak load issues in Docket Nos. R84-1 and R87-1. The PRC's R87-1 decision[1] had a detailed consideration of workload fluctuations and capacity inflexibilities, drawing on testimonies of Dr. John Panzar in R84-1 (rebuttal on behalf of the American Newspaper Publishers Association) and Dr. Paul Kleindorder in R87-1 (USPS-T-4, USPS-RT-5), both of whom are important contributors to the economics literature in general and on peak load pricing. The PRC found both sufficient capacity inflexibilities and workload fluctuations so as to suggest there could be periods of excess capacity.[2]

My comparison of 1987 with the present hinges on the observation that there are greater production capacity inflexibilities and more uneven workloads, particularly in letter processing. As discussed in my testimony, automation of processing, while providing great benefits, has meant that production capacity has become more inflexible as equipment and facilities costs have become a larger share of total processing costs. The

[1] Docket No. R87-1, PRC Opinion and Decision, pages 126-204.
[2] Docket No. R87-1, PRC Opinion and Decision, pages 157, 161-4, and 191.

RESPONSE to Question 16 (continued)

work load fluctuations, especially related to letter sorting, have grown in magnitude since peak processing has grown, while the off-peak processing has diminished. As I discuss in USPS-T-9, the peak has grown since delivery point sequencing (DPS) requires the sorting all of the letter mail in a narrow time frame. Unlike past processing in 1987, when Standard Mail (then Third-Class Mail) could be used to level the workload to offset the peak associated with First-Class Mail, this is no longer true in the case of DPS. Another important reason that workload has become more uneven is that bulk-entered mail constitutes a higher proportion of the mail mix. In addition, bulk-entered mail has become more heavily workshared (presorted, prebarcoded, dropshipped, etc.) over time. As a result, there is far less need for origin processing and handling and also far less need for non-DPS destination sorting as well. As a result, the peak load problem has grown, leading to low levels of utilization in plant, equipment and, to some degree, labor, as well.

My main point in all of this is that worsening peak load problem highlights an important source of savings associated with changing First-Class Mail service standards. The proposed service standard changes enable longer operation windows, especially for DPS, as discussed by in this docket by

RESPONSE to Question 16 (continued)

witnesses Rosenberg, USPS-T-3, and Neri, USPS-T-4. This enables a great deal of workload leveling, meaning that the same mail volumes can be processed using less capacity –plant, equipment and labor. Thus, changing the service standards, as proposed greatly ameliorates the peak load problem, or problem of low capacity utilization, that has worsened acutely in the past couple of decades. Thus, the peak load framework allows for understanding this significant savings opportunity.

b.

i-ii. Available MODS data are by tour rather than hour. Data by tour are being extracted in the requested format for FY2009 and FY2010 and will be provided in USPS Library Reference N2012-1/48 and USPS Library Reference N2012-1/NP10 as soon as possible.

iii. Concerning processing labor costs, see witness Neri's response to question 7 of this POIR. More, generally, see the testimony and supporting documentation of witnesses Rosenberg, USPS-T-3, Neri, USPS-T-4 and Bratta, USPS-T-5, for more data relating to processing peak load issues.