

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

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

Docket No. N2012-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO APWU INTERROGATORIES APWU/USPS-T9-10 THROUGH 15
(February 13, 2012)

The United States Postal Service hereby provides the responses of witness Marc Bradley to the above-listed interrogatories of the American Postal Workers Union. Responses were due on February 10th and are being filed one business day laet. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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APWU/USPS-T19-10

In your response to APWU/USPS-T9-2 you state that you “calculated savings for a future network based on the preliminary analysis described by witness Rosenberg.” Specifically that you identified inactive sites (denoted by “N” in the column “Model Open” in LR.USPS.34.xls) and calculated the savings associated with those sites.

a) Were all facilities listed in LR.USPS.34.xls that had “N” in the “Model Open” column in LR.USPS.34.xls considered to be inactive in your cost savings analysis or only those that had “Y” in the “Current Open” column and “N” in the “Model Open” column?

b) Please confirm that the savings that you calculate become part of the overall \$2.6 billion in savings that Mr. Bradley estimates for this initiative?

c) Twenty-six of the facilities with “Y” in the “Current Open” column and “N” in the “Model Open” column have been the subject of AMP studies prior to this initiative and have already undergone implementation of a reduction in the mail processing at the listed facility (either originating, destinating or all mail processing). How did you take that into account in your calculations?

d) Fifty-four of the facilities with “Y” in the “Current Open” column and “N” in the “Model Open” column have been the subject of AMP studies prior to this initiative and have already had a reduction in mail processing activities approved. Doesn't counting the savings from these facilities overstate the savings associated with this initiative since those AMP studies were approved under the assumption that the current service standards remain in place? If not, why not.

e) Four of the facilities on this list have “Y” in the “Current Open” column, “Y” in the “Model Open” column and have either had their mail processing operations reduced through an implemented AMP or will have them reduced due to an approved AMP. How did you treat those facilities in your analysis?

RESPONSE:

a. Not all Model Open=N facilities were included in the Inactive facilities. The main exception is that Model Open=N facilities with MODS Site?=N were not included in Inactive facilities, since my analysis of savings is essentially limited to MODS facilities. In addition, of those facilities with Model Open=N and MODS Site?=Y, there were eight facilities listed as Current Open=N that were not included in the

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Inactive list (presumably not operating in FY2010). There were also 4 other facilities (annexes) with Model Open=N and MODS Site?=Y (with Current Open=Y) not included on the Inactive list since they share a common Finance number with a facility that is Model Open=Y. Most all of the Inactive facilities have Current Open=Y. Included in the 206 Inactive facilities are 27 facilities with Current Open=N, meaning they closed during or after FY2010. Nineteen of those 27 were Air Mail Facilities, Air Mail Centers, Post Offices, Surface Transportation Centers or Annexes.

- b. Confirmed.
- c. I did not take that into account. To the extent any change in mail processing operations occurred in FY2010 or before, it is included in my analysis.
- d. No. The baseline for my analysis is FY2010. To the extent AMP studies led to cost savings that occurred in or before FY2010, they would be included in my baseline.
- e. To the extent any change in mail processing operations occurred in FY2010 or before, it is included in my analysis.

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APWU/USPS-T9-11

In your response to APWU/USPS-T9-3 you stated that the \$448 million in revenues from the sale of vacated buildings were based on current market values generated from "Broker Opinion of Value to sell as is". Were all of the buildings evaluated associated with AMPs that were initiated under this initiative or were some of them associated with AMPs that had already been implemented or approved prior to this initiative?

RESPONSE:

It is my understanding that all of the buildings evaluated were for AMPs associated with Network Rationalization.

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APWU/USPS-T9-12

In your response to APWU/USPS-T9-5 you state that your testimony was based on the fact that at some point our current equipment would need replacement.

- a) What is the actual useful life for each type of equipment used in mail processing?
- b) Over how many years is each type of equipment depreciated?
- c) What is the average age of each of the types of equipment used in mail processing?
- d) Did you determine the impact on the useful life of the equipment that will be used of the increased mail volume that will be processed using the equipment?
- e) If the answer to d is yes, please provide those calculations.
- f) If the answer to d is no, please explain why not.
- g) Did you determine the impact on the cost of maintaining the equipment that will be due to the increased mail volume that will be processed using the equipment?
- h) If the answer to g is yes, please provide those calculations.
- i) If the answer to g is no, please explain why not.

RESPONSE:

- a. It is not easy to generalize, some equipment can stay in use long after the original investment is fully depreciated.
- b. The original investment on processing equipment is generally depreciated over 10 years. The actual depreciation associated with a piece of equipment may be extended beyond that if significant new investment is made to upgrade or replace components.
- c. I provide information on the age for six major types of equipment below. Please note that the average age of mail processing equipment can be hard to define since often equipment is upgraded or significant components are added. The

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Postal Service has approximately 5,900 Delivery Barcode Sorters (DBCSs) as I indicate in my testimony, on page 13. About 2,000 of these are 15 years old or older. About another 2,600 DBCSs are 10 to 15 years old. About 1,300 have been obtained 4 to 8 years ago. For the DBCSs purchased before 2003, all have been upgraded with the Wide Field Of View cameras in 2003. Postal Automation Redirection System (PARS) was obtained about 5-7 years ago. Small Parcel and Bundle Sorters were obtained in the late 1990s. Many of those have been or will be upgraded to be Automated Parcel and Bundle Sorters (APBS). The Automated Package Processing System (APPS) was deployed in FY2005 and FY2006. The Automated Flat Sorting Machine 100 (AFSM 100) was deployed between FY2000 and FY2002. Additional modules have been added to further automate tray handling and the feeding of flats about 5 years ago. Finally, the Flat Sequencing System (FSS), most of which was deployed in FY2011, is approaching one year old.

- d. No.
- e. N/A.
- f. I have no information as to what the impact of higher mail volumes is on useful life. Also see my response to NPMHU/USPS-T10-5.
- g. See my response to NPMHU/USPS-T10-5.
- h. See my response to NPMHU/USPS-T10-5.
- i. See my response to NPMHU/USPS-T10-5.

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APWU/USPS-T9-13

In your response to APWU/USPS-T9-7 a) you indicate that your savings calculations assume that the 2,072 zones not currently placed in DPS would be placed in DPS under the network rationalization plan. What factors currently prevent these zones from being included in DPS?

RESPONSE:

It is my understanding these 5-digit zones or offices which would receive DPS under network rationalization, are not currently receiving DPS for a combination of the following reasons. These are offices:

- That have relatively small letter volumes, with relatively small number of carrier routes.
- Located relatively far away from the plant or SCF.

These two factors when combined with the short DPS processing window associated with current service standards make it uneconomical to run this mail on DPS.

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APWU/USPS-T9-14

How do “likely lower mail volumes” impact the calculation of normal costs for retiree and health benefits obligations?

RESPONSE:

As I note in my testimony at page 7 and in my response to APWU/USPS-T9-8, the baseline for my analysis is FY2010. If one were to consider a future baseline year, then one would need to update for all anticipated changes associated with future years, including “likely lower mail volumes” and higher wages.

The normal cost of Retiree Health Benefits, should all else equal, decline with lower mail volumes. The Office of Personnel Management (OPM) calculates the normal cost for a given fiscal year taking into consideration the current number of employees eligible for retiree health benefits and the normal cost per employee (which reflects the costs of future health care). For a given normal cost per employee, the lower the number of eligible employees, the lower the normal costs. If volume decline results in lower total number of employees and presumably lower numbers of eligible employees as well, then the normal cost for retiree health benefits will be lower, all else equal.

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APWU/USPS-T9-15

In your estimates of normal costs, (a) what assumptions did you make about the percentage of workers employed in those operations who would not have any retirement costs associated with their employment?; and (b) did you make any adjustments for noncareer positions that do not have any retirement benefits associated with them?

RESPONSE:

I do not make any estimates of normal cost. The normal costs for retiree health benefits are obtained from the Office of Personnel Management (OPM) as required under the Postal Accountability and Enhancement Act (PAEA).¹

a-b. The savings of retirement benefits is based on the average employee's retirement benefits by craft. As a result, the estimated savings takes into account both those employees with retirement benefits and those without retirement benefits. This is done in the following two ways. First, the use of productive hourly rates or average annual salary and benefits by craft contained in my Attachment 1 is an average covering employees with and without retirement benefits for each craft. Second, the consideration of service-wide benefits savings as discussed in my testimony at page 11, in Table 1 is done using the average ratio for the Postal Service as a whole of service-wide benefits costs to total salary and benefits (aside from service-wide). This ratio is \$111.54 of service-wide benefits savings per \$1,000 of salary and benefits savings.

¹ 39U.S.C. § 8909a(d)(1).