

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 BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORIES
GCA/USPS-T10-1 THROUGH 12
(March 9, 2012)

The United States Postal Service hereby provides the responses of witness Michael Bradley to the above-listed interrogatories of the Greeting Card Association. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-7178; Fax -5402
March 9, 2012

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-1

You state in your testimony at page 2, lines 9-10, that you assume constant volumes in order to calculate your cost savings.

(a) Please confirm that this approach would be most viable in a steady state condition as regards volume. If you do not confirm, please explain why.

(b) Please confirm that your estimates using this approach would understate “full up” savings in a growing volume environment. If you do not confirm, please explain why.

(c) Please confirm that by the time a full up new network as proposed is configured, volumes will be lower than those reflected in your steady state assumption. If you do not confirm, please explain why.

(d) Using the Postal Service’s latest forecasts for First-Class Letter Mail (FCLM) volume 3 years and 5 years out, by how much would your estimated cost savings change, ceteris paribus?

(e) Suppose USPS volume forecasts for FCLM referred to in (d) are each 25% too optimistic. By how much would that change your answer in (d) 3 years out and 5 years out, compared to the steady state volume estimates in your testimony?

RESPONSE:

- a. Not confirmed. This approach is viable in any volume environment and, in fact, would be most important to apply in an environment in which volume is changing. To see this, one need only note that in a steady state condition, volume is not changing. Therefore, an assumption that volume is not changing is unnecessary.
- b. Not confirmed. The approach I follow would neither understate nor overstate the cost savings arising from the proposed change in service standards. In contrast, not controlling for volume changes could lead to an understatement or overstatement of the true cost savings associated with the service standard change. The reason the approach I follow does not lead to an understatement in a growing volume environment is that it isolates just the cost changes coming

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

from the service standard change and does not confound those estimates with cost changes caused by changes in volume.

- c. Not confirmed. Answering this question requires forming a forecast of volume in a future year, which I have not done. Please also note that what you term a “steady state” assumption does not amount to assuming that volume does not change through time. Rather, it controls for a change in volume when calculating the cost change caused by a change in service standards. Incidentally, the approach I take is more appropriately labeled an exercise in “comparative statics” rather than a “steady state” analysis.
- d. Please see my response to NPMHU/USPS-T10-1.
- e. Please see my response to NPMHU/USPS-T10-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-2

(a) Did your labor cost savings estimates for mail processing take into account the possibility that labor displaced by the changes contemplated in this case would be reassigned, possibly in unproductive or less productive capacities? If so, how, and if not, why not?

(b) Please confirm that in the history of letter mail automation, reviews by the GAO reported (i) reassignment of displaced mail processing labor in substantially the same fashion referred to in (a), and (ii) related diminution in savings from the automation effort. If you do not confirm, please explain why.

(c) Did your labor cost savings estimates for mail processing take into account current agreements and memoranda of understanding with labor unions that might impact your full up savings? If so, how, and if not, why not?

RESPONSE:

- a. My testimony estimates the “full up” costs savings associated with the proposed change in service standards by measuring the cost implications of the operational changes generated by the new service standards. As such, it does not deal with the mechanisms by which the Postal Service would actually implement any of the operational changes. It is my understanding, moreover, that in planning these operational changes, the Postal Service did not plan to assign labor to unproductive activities.
- b. I can neither confirm nor deny the statement as I am not a sufficient student of the history of mail automation to answer the question. I would also note that I did not have to be one in order to complete my testimony.
- c. As explained in my response to part (a), above, my testimony does not deal with the mechanisms by which the Postal Service would actually implement any of the proposed operational changes. It is my understanding, however, that the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

testimony of witness Rachel, USPS-T-8, discusses how the Postal Service intends to reduce and realign its complement of employees under the Network Rationalization initiative.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-3

Not later than June of 2006, the Postal Service OIG concluded that its investment in 3,700 CSBCS was a mistake, predicated on volume growth in FCLM that did not materialize. (USPS, OIG, Report Number AR – 06 – 005, p. 2). Would your costing approach that assumes constant volumes, if conducted before the purchase and operation of CSBCS, have concluded that the purchase was not sound financially? Please explain your answer fully.

RESPONSE:

My analysis is designed to estimate the cost savings associated with the operational changes caused by a change in service standards. It has nothing to do with evaluating the financial soundness of a particular equipment purchase and is thus silent on that issue.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-4

You state on page 2, lines 10 and 11, that “[t]his approach is essential to avoid confounding two potential sources of cost changes, the change in service standards and volume reductions.”

(a) Would you agree that the pressing need to reduce the Postal Service’s growing annual deficits is the major driving factor behind proposals and supporting expert testimony in this case and in the N2010-1 case? If your answer is not an unqualified “yes,” please explain fully; and, to the extent it is negative, please explain what more important goal is being pursued in this case.

(b) If you answered (a) in the affirmative, would you agree that by the time full up cost savings from the new network is achieved, FCLM volume is very likely to be somewhat lower than the steady state FY2010 volume used for your analysis?

(c) If you answered (b) in the affirmative, would you agree that your estimates of cost savings would be different because in moving to a full up new network, FCLM volumes would be lower than you assumed? Please explain any negative answer.

(d) Is it your understanding, from other witnesses in this case whom you relied on in your own research, that the size proposed for the new network does not incorporate forecasts of volume declines by the time the new network is fully operational? Please fully explain your answer.

RESPONSE:

- a. My testimony does not deal with the reasons that Postal Service filed this case or the Docket No. N2010-1 case.
- b. Not applicable.
- c. Not applicable. However, I would note that a lower level of volume could lead to greater opportunities for rationalization and thus cause greater cost savings, and also that, to the extent the network restructuring takes place at a future date, the cost savings would be increased by any higher wages that exist at that time.
- d. I don’t know.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-5

On page 3, lines 6-7, you note that the ACD process “is focused on product costing, not operational costing”. Since the network changes proposed in this case appear to be almost exclusively related to FCLM, a single product, why can’t the ACD capture all the operational changes you would need for your calculations? Please explain your answer fully.

RESPONSE:

The answer to your question can be derived by examining the context from which you selected the very short quotation in the question. As I explained in my testimony:¹

These principles are followed by the Postal Service in calculating the cost changes caused by the proposed change in service standards. In some instances, the application is straightforward because the change in activities falls within the types of costing changes routinely contemplated by the ACD process. In these cases, the established ACD costing relationships can be directly applied. However, the ACD process is focused on product costing, not operational costing, so there are some instances in which an anticipated operational change falls outside the costing relationships employed in the ACD. In these instances the ACD structure and principles can be applied, but they must be refined and adapted to appropriately analyze the activity changes. Nevertheless, in all instances, the Postal Service has been guided by the Postal Regulatory Commission’s established costing principles and assumptions when analyzing cost changes.

This complete quotation makes clear that the approach I have taken is consistent with the ACD model but notes that the ACD structure did not contemplate all of the types of operational changes proposed in this case. For example, because it is calculated every year, the ACD model does not have an explicit computational structure to implement productivity changes in mail processing operations. Rather, any such productivity changes are embodied in the data collected in a given year. Because this case

¹ See, “Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service,” Docket No. N2012-1, USPS-T-10, at 3.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

includes estimated productivity changes as a result of operational restructuring, an explicit mathematical basis had to be added to the ACD structure to calculate the cost change implications of the estimated productivity changes.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-6

On page 6, lines 8-9, you give a couple of examples of the mail processing technology that will be affected by the new network. Besides DBCS and Cancelling, are there any other mail processing technologies that affect FCLM that will be impacted? If so, please describe them.

RESPONSE:

I don't know the degree to which they impact "FCLM," but other mail processing technologies that are affected are listed in Table 1, on page 10 of my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-7

On page 10, Table 1, you calculate cost savings from the workload transfer contemplated under the new network. For each of the following, please provide a full explanation.

(a) Is most of the savings in the row labeled BCS/DBCS from DBCS? What part of the total savings of \$3,542,000 is from DBCS?

(b) Is the savings mainly or exclusively from higher capacity utilization of BCS/DBCS?

(c) Is most or all of the savings estimated for manual letters, \$2,258,000, due to diverting such mail processing directly to active automation P&DCs?

(d) What accounts for the \$402,000 savings for Presort and the \$165,000 savings for metered letters?

RESPONSE:

- a. As explained on pages 7 through 9 of my testimony, my analysis makes use of Postal Rate Commission defined mail processing cost pools and is not performed at the level of individual pieces of equipment. I thus have no basis to identify what portion of the cost savings comes from DBCS. However, I have been informed that that almost all, if not all, MPBCS have been removed in the last few years.
- b. No. The cost savings come from a reduction in total institutional costs for the cost pool.
- c. No. The cost savings come from a reduction in total institutional costs for the cost pool.
- d. Please note that the cost savings referred to are for the PRC defined cost pools entitled "Presort" and "Mail Preparation - Metered" and are not for individual products. The cost savings estimated for these cost pools come from the fact that

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

the PRC has determined that certain costs in these individual cost pools are “institutional costs” and thus not related to the amount of workload handled in the cost pools. Because the institutional costs are associated with the establishment of an operation, not the workload in the operation, a reduction in the total number of operations will reduce the total institutional cost for the associated cost pool.

The transfer of workload to a smaller number of sites thus reduces the amount of institutional cost that is incurred by the Postal Service.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-8

(a) As a general principle, would you agree that the greatest long run cost savings are likely to be found in mail products that are growing in volume? If your answer is in any degree negative, please fully explain the reasons for it.

(b) Would you agree from the last column in Table 1 that the Postal Service's cost cutting efforts appear to be focused on falling volume mail (e.g. manual letters as opposed to metered letters or Presort)?

RESPONSE:

- a. No. There are a number of difficulties with the proposed principle. First, some of the estimated cost savings are for institutional costs and are thus not associated with any product. Second, as explained in my response to GCA/USPS-T10-4, part (c), it is unknown whether network consolidation at a lower level of volume would lead to smaller or greater cost savings.
- b. No. Table 1 presents mail processing labor cost savings by PRC defined cost pools, not by products. Moreover, Table 1 presents \$82.6 million of cost savings out of a total costs savings of \$2.574 billion, so one should be cautious in drawing general conclusions about the Postal Service's cost cutting efforts from approximately 3.2 percent of the cost savings.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-9

The DBCS 7 equipment first deployed in 2008 and scheduled for widespread deployment in 2011 reportedly has a throughput 30% greater than the DBCS 6 machines predominantly in use as of FY 2010. Please assume the truth of these propositions, and on that basis explain in as much detail as possible, how it would affect the cost savings and productivity estimates in your testimony.

RESPONSE:

It would have no effect. My cost savings are based upon a FY2010 baseline so changes taking place in FY2011 will have no impact on them. For a discussion of the issues associated with attempting to calculate cost savings for a FY2011 baseline, please see my response to NPMHU/USPS-T10-1.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-10

One advantage propounded by other Postal Service experts in this case is that the new network will facilitate having manual letters bypass current operations for manual letters, flats and parcels, and instead move directly into automation operations. In light of this, please explain fully why in Table 2 on page 13 you have a productivity gain for manual letters of only 3%.

RESPONSE:

As I explain on pages 12 through 16 of my testimony, I calculate the cost savings associated with the productivity gains estimated by witness Neri, USPS-T-4. Because witness Neri estimates a 3 percent productivity gain for manual letters, I employ that percentage in calculating the estimated productivity-related cost savings for manual letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-11

In Table 2 you list a 22% gain in productivity for OCRs. However, witness Rosenberg's table found on the first page of the attachment to her testimony does not list OCRs at all under the heading EQUIPMENT.

(a) Why do you include such equipment?

(b) How would your cost savings estimates change if OCRs were not included? In responding, please refer to your discussion (USPS-T10, pages 15-16) of the formula for calculating the cost reduction implied by a given productivity increase, and show how your answers relate to it.

RESPONSE:

- a. Please note that my mail processing labor cost savings are estimated for PRC defined cost pools, not for individual pieces of equipment. I include the OCR cost pool because it is part of the FY 2010 baseline costs.
- b. If the OCR cost pool is not included in the realigned network, then I would expect the entire current cost of the OCR cost pool to be included in the estimated cost savings. In terms of the formulas used to calculate cost savings, if an operation's workload (WL) is reduced to zero, then there is no longer a need for that operation. As a result, all of its institutional and attributable cost could be saved.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T10-12

In Table 6 you list "Supervisor Labor Cost Change" of about \$66.4 million, yet you note following the table that "[w]hile a facility's supervisor costs are directly proportional to the amount of direct hours being supervised, the hours for a plant manager are not." You go on to state that when a plant is closed and the work moved to another facility, there is one less plant manager, hence the savings.

(a) Please confirm that when a plant is closed, supervisors at that plant are, or may be, let go, as with the manager. If you do not confirm, please explain why.

(b) You state at page 18, lines 12-14, that the Postal Service generally keeps a "constant ratio between mail processing supervisory hours and the amount of direct labor being supervised." Does "amount of direct labor" as used here refer to labor hours, number of employees, or some other metric? Please explain fully.

(c) You state at lines 11-12 of the same page that transfer of mail processing hours to a new ("active") facility "will create a need for additional supervision[.]" Is this "additional supervision" measured in supervisory work hours, number of supervisory employees, or some other metric? Please explain fully.

(d) Is your \$66.4 million savings figure net of the added supervisory labor in the new network plant implied by your 6.35 percent supervisory ratio, as a result of the added workload?

(e) You state at lines 14-16 of the same page that the constant ratio referred to in (b) reflects an assumption "used by the PRC (and thus the Postal Service) in the ACD process." Please state and explain your understanding as to whether the assumption used in the ACD process was developed, and is suitable, for analyses of the effects of major changes in the size of the mail processing network.

RESPONSE:

- a. Not confirmed. My analysis does not determine whether or not the supervisors in the plant are let go. For example, it is possible that supervisors are transferred to another plant.
- b. It refers to labor hours.
- c. It is measured in supervisory hours.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO GREETING CARD ASSOCIATION INTERROGATORY

- d. Yes
- e. I did not participate in its development, but I would expect that it was developed in response to evaluation of the way in which Postal Service determines the number of supervisory hours that it needs. See Summary Description of USPS Development of Costs by Segments and Components, FY 2010, page 2-2, (filed on July 1, 2011). I think it is suitable for analyzing the change in supervisory hours for a change in the size of the mail processing network contemplated in this case.