

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

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

Docket No. N2012-1

REBUTTAL TESTIMONY OF
KATHRYN KOBE
ON BEHALF OF
AMERICAN POSTAL WORKERS UNION, AFL-CIO
APWU-RT-1

Revised May 3, 2012

Contents

1 **Autobiographical Sketch..... 2**

2 **I. Purpose and Scope of Testimony..... 4**

3 **II. ASSESSMENT OF THE ASSUMPTIONS UNDERLYING THE SAVINGS**

4 **ESTIMATES 6**

5 **III. THE NETWORK FACILITIES ANALYZED ARE NOT THE CORRECT**

6 **BASELINE..... 7**

7 **IV. THE FY2010 LABOR COSTS ARE NOT THE CORRECT ONES FOR THE**

8 **BASELINE..... 12**

9 A. Postal Support Employee’s Impact Hourly Compensation Rates 12

10 B. Mr. Neri’s Productivity Assumptions Do Not Take Account of Current Flexibilities..... 17

11 C. Employment of Postal Support Employees Will Change Service-Wide Costs 23

12 **V. THE REDUCTION IN MAIL VOLUME SINCE FY2010 SHOULD REDUCE THE**

13 **BASELINE TRANSPORTATION COSTS 25**

14 **VII. TRANSITION COSTS SHOULD NOT BE IGNORED 28**

15 **VIII. THERE ARE MORE THAN JUST TRANSITION COSTS BEING IGNORED.... 29**

16 **IX. CONCLUSIONS..... 34**

17 **Appendix 36**

1 **Autobiographical Sketch**

2 My name is Kathryn Kobe. I am the Director of Price, Wage and Productivity
3 Analysis for Economic Consulting Services, LLC (ECS), a position I have held since
4 October 2003. ECS is an economic consulting company based in Washington DC that
5 has been in business for more than 30 years. Prior to joining ECS, I was Vice President
6 and Chief Economist of Joel Popkin and Company (JPC), also a Washington DC-based
7 economic consulting firm. I worked for JPC for more than 20 years. Prior to working for
8 JPC, I was an economist for the Department of Agriculture and a research assistant for
9 Evans Economics. I graduated summa cum laude with a bachelor's degree in
10 economics from the University of Maryland and have a master's degree in economics
11 from the George Washington University.

12 My areas of research include the forecasting of wage and price trends, both
13 national and company specific. I have analyzed Postal finances for more than 20 years
14 and have analyzed postal rate cases and provided economic consultation and advice on
15 postal rate matters for approximately 15 years. I have prepared price trends and
16 analyses for telephone rate proceedings.

17 I also have done research relating to the state of manufacturing and
18 manufacturing R&D in the United States and co-authored three white papers on the
19 topic published by the National Association of Manufacturers.¹ I have researched
20 several aspects of the economics of small businesses including the calculation of the

¹ The most recent is "Manufacturing Resurgence: A Must for U.S. Prosperity," by J. Popkin and K. Kobe published by The Council of Manufacturing Associations and The Manufacturing Institute of the National Association of Manufacturers, January 2010.

1 costs of employee benefits to large and small businesses and the share of GDP
2 attributable to small businesses.

3 I have testified before the Postal Rate Commission in one prior proceeding, the
4 R2006-1 rate case. I have testified in arbitration cases related to the Postal Service and
5 have provided expert opinions in litigation and before the U.S. International Trade
6 Commission.

1 **I. Purpose and Scope of Testimony**

2 The purpose of this testimony is to focus on some of the factors that should be
3 considered in assessing the net savings estimates presented by the Postal Service in
4 this case. The Postal Service has failed to provide convincing evidence that the net
5 savings will be \$2.1 billion. There are several reasons to believe that the \$2.6 billion in
6 gross savings estimate generated by costing witnesses Bradley (USPS-T-10) and Smith
7 (USPS-T-9) overstates the savings that can be generated from the changes that are
8 directly related to the service standard degradations proposed. There is strong
9 evidence that the potential contribution loss resulting from service standard
10 degradations may be considerably larger than the \$0.5 billion presented by Mr.
11 Whiteman (USPS-T-12). As the difference between these two numbers narrows, there
12 is reason to reassess whether the service degradations and the permanent loss of part
13 of the network outweigh the actual savings that may be achieved.

14 The Postal Service, in presenting a net savings of \$2.1 billion from this initiative,
15 is making a cost benefit analysis in which the revenue losses expected from the
16 degradation of its service standards are weighed against the anticipated savings from
17 the consolidations of its processing network and the expansion of its operating windows.
18 In making that cost benefit analysis, the Postal Service is comparing the estimated
19 gross savings of \$2.6 billion, calculated by Dr. Bradley and Mr. Smith from the initial
20 estimated parameters for the consolidations, against Mr. Whiteman's estimated \$0.5
21 billion loss of contribution resulting from the degradation in service that the
22 consolidations and the lengthened operating windows will require. Both of these values

1 are estimated as differences from a baseline of actual FY2010 costs, volumes and
2 revenues.

3 Mr. Williams and others in Postal Service management have chosen to accept,
4 as an accurate estimate of the savings from this initiative, the \$2.6 billion generated
5 from Dr. Bradley's and Mr. Smith's high level, theoretical savings models produced from
6 preliminary assumptions.² However, when doing a cost benefit analysis, it is most
7 informative if one ensures that the benefit generated (in this case the savings from the
8 consolidations) is closely aligned with the cost that is associated with the activity
9 generating the benefit (the degradation of the service standards). Savings that result
10 from activities that do not require the degradation of the service standards should not be
11 counted in this assessment. Those savings can be achieved without the Postal Service
12 incurring the nationwide impact on service that is the focus of this case.

13 There are several factors that should be considered when assessing whether Dr.
14 Bradley's and Mr. Smith's results best represent the savings generated from changing
15 only those activities that the Postal Service could not achieve unless it degrades service
16 standards. My testimony discusses the following factors that need to be evaluated:

- 17 • the use of the FY2010 mail processing network to determine the value of the
18 savings,
- 19 • the use of the FY2010 mail volumes,

² Response of United States Postal Service Witness Williams to Question from Commission Taub During March 20, 2012 Oral Cross-Examination, March 30, 2012, p 7-8.

- 1 • the inclusion in the savings estimates of the closing of facilities whose
2 consolidation was not part of the network rationalization initiative and whose
3 savings were achieved without changing the prior service standards,
- 4 • the failure to include the flexibilities provided by the APWU 2010 national
5 contract in assessing the baseline costs,
- 6 • the failure to subtract from the savings estimate savings projected from the
7 closing of facilities that the Postal Service determined should remain open,
8 and
- 9 • the failure to incorporate the costs of the transportation hub in the analysis.

10 Mr. Williams has acknowledged that the calculated savings from the AMPs do
11 not support the theoretical \$2.6 billion cost savings estimate.³ He argues that a more
12 theoretical model must be used because the AMPs are not “full up” savings and do not
13 capture the full range of productivity improvements that the change in the processing
14 window would capture.⁴ However, there are reasons to think that the AMP cost saving,
15 with some adjustments, may be a better estimate of the benefit from the degradation of
16 the service being proposed by the Postal Service.

17

18 **II. ASSESSMENT OF THE ASSUMPTIONS UNDERLYING THE SAVINGS**
19 **ESTIMATES**

20

21 Dr. Bradley states in his testimony that the

22 “[g]ross cost savings do not account for any changes in mail volume that might
23 occur as a result of the service standard change. They are the “full up” cost
24 savings in the sense they are derived from paring the cost of handling FY2010
25 volume in the existing mail processing and transportation networks with the cost
26 of handling the same volume in the reconfigured mail processing and

³ Id.

⁴ Id.

1 transportation networks. As such, they do not include any transition or
2 implementation costs.”⁵

3
4 Dr. Bradley explained further his rationale for using FY2010 as the basis for his
5 theoretical analysis in his response to NPMHU/USPS-T10-1.

6 To understand the implications on costs of the proposed change in service
7 standards and the resulting network realignment, it is important to control for all
8 other possible variations in cost. Otherwise, one runs the risk of contaminating
9 the calculated cost change with changes in cost that occur for other reasons.
10 Consequently, the costing exercise focuses on just the operational changes for a
11 given level of volume. As such, it is not an exercise in forecasting what the
12 actual costs will be in 2012 under the realigned network.⁶ (Tr. 5/1769)

13
14 For a theoretical exercise, one can understand Dr. Bradley’s point of view.

15 However, a two year old level of volumes and costs does not provide an accurate
16 baseline of how the Postal Service’s network is functioning in FY2012. As a
17 consequence, Dr. Bradley’s model cannot and does not isolate significant variables that
18 are unrelated to the network consolidation effort, most of which have taken place in the
19 interim period between FY2010 and FY2012. For that reason alone, Dr. Bradley’s
20 model fails to estimate only those savings that result from this initiative.

21 **III. THE NETWORK FACILITIES ANALYZED ARE NOT THE CORRECT**
22 **BASELINE**
23

24 First, Dr. Bradley and Mr. Smith analyzed the 2010 network and looked at the
25 facilities that were designated active or inactive based on Ms. Rosenberg’s (USPS-T-3)
26 model runs after they were modified by internal input from area management and

⁵ Direct Testimony of Michael D. Bradley on Behalf of the United States Postal Service, Docket N2012-1, USPS-T-10 at 39. (revised March 21, 2012).

⁶ Tr. 5/1769.

1 presented in Library Reference USPS-LR-N2012-1/ 34.⁷ As I understand it, Dr.
2 Bradley used the facilities in this Library Reference that were open at some point during
3 FY2010 and had MODS information.⁸ This seems to have allowed him to match the
4 hours for each operation code to each of the facilities on the list. He then divided the list
5 of facilities in his analysis between active and inactive based on the results of Ms.
6 Rosenberg's model. Mr. Smith follows a somewhat similar set of steps, also using Ms.
7 Rosenberg's list, to assess the cost savings generated by deactivating the facilities in
8 the network that Ms. Rosenberg's model suggested will no longer be needed once the
9 processing windows have been expanded and the service standards have been
10 degraded.

11 However, as indicated in the Processing Facility "Fact Sheet," the Postal Service
12 reduced the number of processing facilities by 23 percent between 2009 and 2011.⁹
13 That reduction includes facilities that Dr. Bradley and Mr. Smith are using in their
14 analyses. Furthermore, in the AMP process it was determined that those facilities could
15 be closed or consolidated and the network would remain robust enough to meet the old
16 service standards. Until this initiative began, the AMPs were being tested against
17 meeting the old service standards, not the new standards made necessary by this

⁷ Ms. Rosenberg's model actually generated a different list of facilities for closure than those presented in USPS-LR-N2012-1/34. Based on page 17 of her testimony (USPS-T-3), the model activated 177 processing facilities but after a preliminary assessment of those facilities by Area managers, sixty-one of those facilities were deactivated and replaced with 71 different facilities. It is my understanding that it is the hybrid list that is presented in USPS-LR-N2012-1/34 and used by the costing witnesses.

⁸ Dr. Bradley's list consists of 391 facilities and is somewhat shorter than Ms. Rosenberg's list because he is not including non-mods facilities.

⁹ *Fact Sheet Processing Facilities*, USPS-LR-N2012-1/84.

1 initiative. Therefore, any savings resulting from the facilities in the network that were
 2 shut down due to AMPs conducted prior to the beginning of this initiative are not
 3 properly counted as savings resulting from this initiative, with its associated reduction of
 4 service standards.

5 As can be seen in Table 1 below, a number of the facilities on Dr. Bradley's list
 6 were consolidated as a result of Postal Service cost-cutting efforts in FY2010 and
 7 FY2011.

Table 1: Facilities Used in the Costing Estimates that Underwent an AMP Consolidation Prior to the Start of This Initiative			
Facility Name	Open in LR-34 (Y/N)	Prior AMP activity	Number of FY2010 MODS Hours assigned
ASHLAND P&DF	N	O&D (AMP approval 4/28/2011)	102,847
CHARLOTTESVILLE P&DF	N	O&D 2010 (OIG 1/9/12)	196,509
DAYTONA BCH P&DF	N	O&D 2011 (OIG 1/9/12)	334,713
FLINT P&DC	N	O&D (AMP approval 9/9/2011)	394,167
FORT SMITH PO	N	O&D 2011 (OIG 1/9/12)	138,768
FREDERICK P&DF	N	O&D 2011 (OIG 1/9/12) & AMP	363,351
HUNTINGTON P&DF	N	O&D 2011 (OIG 1/9/12)	168,409
LIMA P&DF	N	O&D 2011 (OIG 1/9/12)	162,610
LINCOLN P&DF	N	O&D (AMP approval 9/8/2011)	329,911
MANSFIELD PO	N	O&D (AMP approval 10/28/2011)	267,750
MARYSVILLE P&DF	N	O&D 2010 (OIG 1/9/12)	161,582
MOJAVE PO	N	O&D 2010 (OIG 1/9/12)	41,889
O'HARE AMC	N	Closed 2010 (Network Summary)	546,893
PORTSMOUTH P&DF	N	O&D 2011 (OIG 1/9/2012)	301,447
SEATTLE AMC	N	Closed 2010 (Network Summary)	406
SIOUX CITY PO	N	O&D 2011 (OIG 1/9/2012)	409,171
SPRINGFIELD L&DC MA Same address as P&DC	N	O&D (AMP approval 12/2/2011)	521,406
SPRINGFIELD P&DC MA	N	O&D (AMP approval 12/2/2011)	649,004
TEXARKANA PO	N	O&D 2011 (OIG 1/9/2012)	142,033
UTICA P&DF	N	O&D (AMP approval 11/2/2011)	226,741
WATERTOWN PO	N	O&D 2010 (OIG 1/9/2012)	30,852
WICHITA FALLS PO	N	O&D 2011 (OIG 1/9/2012)	131,015
WILKES-BARRE P&DF	N	O&D 2010 (OIG 1/9/2012)	80,813
YAK-MAIN OFFICE STA	N	O&D (AMP approval 11/8/2011)	270,458
ZANESVILLE OH	N	O&D 2011 (OIG 1/9/2012)	187,331
OXNARD P&DF	N	O&D 2011 (OIG 1/9/2012)	345,452
OIG 1/9/2012= U.S. Postal Service Past Network Optimization Initiatives Audit Report CI-AR-12-003			

1 Those facilities should not be included in determining the savings from the current
2 initiative. The decision about whether or not to close those facilities was made based
3 on the service standards in effect during FY2010 and FY2011.¹⁰

4 It has been somewhat difficult to determine which facilities are part of the network
5 at any given time since virtually every list of facilities submitted to this docket has been
6 slightly different, and the same facility can have more than one name. Table 1 shows
7 the list of facilities to which Dr. Bradley assigned mail processing hours in USPS-LR-
8 N2012-1/20 are additionally shown as having been made inactive by Ms. Rosenberg's
9 model, and whose mail processing activities were approved for removal prior to this
10 initiative. While some of the facilities with late approval dates may still be transitioning,
11 these facilities all received approval for consolidation of all of their mail processing
12 activities prior to the end of 2011.

13 Table 2 provides a list of facilities classified by the costing witnesses as inactive
14 but the Postal Service has determined will remain open, or is still studying whether the
15 closure is feasible. Accordingly, these additional 21 facilities should not be included in
16 the estimated savings from this initiative. Dr. Bradley indicated in his interrogatory
17 responses that his numbers will change if the list of active and inactive facilities is

¹⁰ There should, perhaps, be more facilities on this list. The major examples are the AMCs. The fact sheet shows that there is only one remaining AMC in the system and it is in Puerto Rico. However, Dr. Bradley's list of facilities includes several with AMC in their description. The ones that were included in Table 1 are those where there was specific mention of the facility in a listing of closures.

- 1 changed.¹¹ One assumes the inclusion of these facilities in his savings calculations will
- 2 be something that Dr. Bradley will revise at a later date.¹²

Table 2: Facilities Used in the Costing Estimates that the Postal Service has Determined will Remain Active or is Still Studying		
Facilities That Will Remain Open	Open in LR-34? (Y/N)	Number of FY2010 MODS Hours Assigned
BEAUMONT P&DF	N	234,663
BURLINGTON P&DF	N	201,245
CEDAR RAPIDS PO	N	445,043
CINCINNATI P&DC	N	2,337,949
DELAWARE P&DF (Wilmington)	N	879,631
DETROIT P&DC	N	2,372,229
DMDU CANTANO ANNEX	N	236,637
FAYETTEVILLE PO AR	N	269,821
FT MYERS P&DC	N	876,570
GRAND FORKS PO	N	213,571
IRVING PARK RD P&DC	N	1,185,746
FAYETTEVILLE PO AR	N	738,642
MCALLEN P&DF	N	165,095
FT MYERS P&DC	N	289,205
GRAND FORKS PO	N	213,571
IRVING PARK RD P&DC	N	644,100
MANCHESTER P&DC	N	738,642
MISSOULA PO	N	289,205
MT HOOD DDC	N	390,343
NASHUA L&DC	N	644,100
RAPID CITY PO	N	278,885
SAN BERNARDINO P&DC	N	1,406,475
WATERLOO PO	N	327,960
Facilities Still Under Study		
BROCKTON P&DC	N	771,826
EASTON P&DF	N	228,044
MANASOTA P&DC	N	538,666

¹¹ Tr. 5/1778

¹² There is one other large facility that was included in savings presented in Dr. Bradley's testimony that has not been included in this table. USPS-LR-N2012-1/34 shows the Boston P&DC as a facility to be closed and therefore it was included in the cost savings numbers of Dr. Bradley. However, the Postal Service did not even do a full AMP analysis for Boston before deciding to maintain it as an operating facility in the network. Therefore, the savings associated with that facility needs to be removed from Dr. Bradley's analysis. However, there are some nearby facilities that were considered operational under the rationalized network presented in USPS-LR-N2012-1/34 and the Postal Service has now decided to partially consolidate them and some of those savings should be added back in. Obviously, there is some offset between those facilities and Boston but it is unclear exactly what the net effect of those numbers will be on the savings estimates.

1
2 **IV. THE FY2010 LABOR COSTS ARE NOT THE CORRECT ONES FOR THE**
3 **BASELINE**
4

5 **A. Postal Support Employee's Impact Hourly Compensation Rates**
6

7 In Section II of his testimony, Dr. Bradley proposes to assess the labor cost
8 changes arising from a change in the service standards. His baseline is the labor costs
9 associated with the mail processing network as presented in ACR2010 (excluding the
10 NDCs and ISCs). That total is \$7.516 billion.¹³ However, there has been a drop in
11 volume since FY2010 that has resulted in the use of less labor in FY2011. The similar
12 mail processing labor cost number from ACR2011 is \$7.195 billion, 4.3 percent lower
13 than the FY2010 value. That FY2011 number also does not reflect the appropriate
14 starting point for estimating the savings of this initiative. First mail processing hours
15 have been reduced since FY2011 both because mail volume has declined further and
16 because the Postal Service has made some consolidations between 2010 and 2011.

17 Furthermore, the Postal Service only began ramping up full use of the flexibilities
18 provided from the negotiated settlement with the American Postal Workers Union in July
19 2011, three-quarters of the way through FY2011. Consequently, the baseline cost of
20 operating the network is being reduced, and will be reduced further if the Postal Service
21 takes full advantage of making 20-30 percent of the mail processing clerk complement
22 non-career employees. The cost savings that are achieved regardless of consolidations

¹³ Direct Testimony of USPS Witness Bradley, USPS-T10 at 5 (revised March 21, 2012).

1 should be incorporated in the baseline prior to the savings from the service standard
2 degradations being calculated.

3 The APWU 2010 National Agreement allows for the use of non-career Postal
4 Support Employees (PSEs) in mail processing up to 20 percent of the career clerks
5 assigned to mail processing (those assigned to Labor Distribution Codes [LDCs] that
6 begin with 1). To provide for additional flexibility, the Postal Service can assign
7 additional PSE clerks to mail processing if it has not reached its 20 percent cap for use
8 of PSEs in the customer services areas (those assigned to LDCs that begin with 4).

9 The APWU National Agreement was signed in May 2011 and the Postal Service began
10 to increase its use of PSEs in mail processing in the summer of 2011.¹⁴ By March
11 2012, that number had increased to 11 percent. The ramp up can be seen in Table 3.

12
13
14
15
16
17
18
19

¹⁴ Prior to the ratification of the contract, the Postal Service used non-career casual employees for some mail processing activities assigned to the clerk craft. At the end of FY2010, September 2010, approximately 5 percent of the workers assigned to LDCs 11-18 were non-career employees. By March 2011, approximately 6.4 percent of the workers assigned to clerk activities in LDCs 11-18 were non-career employees. See Table 3.

	Career Clerks in mail processing (LDCs 11-18)	Casual employees in mail processing (LDCs 11-18)	PSEs in mail processing (LDCs 11-18)	Percent of Non-career Employees used in Mail Processing
Sep-10	65,584	3,349		4.9%
Oct-10	65,238	3,288		4.8%
Nov-10	64,874	3,502		5.1%
Dec-10	64,549	5,397		7.7%
Mar-11	63,303	4,327		6.4%
Jul-11	62,057	4,115	41	6.3%
Aug-11	62,013	1,817	3,992	8.6%
Sep-11	61,743	46	5,064	7.6%
Oct-11	61,637	25	5,273	7.9%
Dec-11	60,357	10	7,689	11.3%
Mar-12	59,929	9	7,676	11.4%
% change Sept. '10 - March '12	-8.6%	129.5%		

Source: On-Rolls and Paid Employee Statistics (ORPES) for various pay periods, current employees on rolls for each period, totals for LDCs 11-18 from "Employee Group Sequence" tables.

1
2
3
4
5
6
7
8
9
10
11
12
13

Total employment for clerk activities in LDCs 11-18 fell by 2 percent between the end of FY 2010 (September 2010) and March 2012 (the latest available). However, the career workforce has fallen almost 9 percent while the non-career workforce has more than doubled.

This reallocation of work has an impact on the average productive hourly compensation being paid for mail processing activities assigned to clerks. Table 4 shows that impact by weighting together the average productive compensation per hour of Full-Time Clerks in A-J offices (the full-time career mail processing clerks are included in this subcategory of clerks) and PSEs performing clerk work. For comparison purposes, the average hourly productive compensation rate for FY2010 presented in Mr. Smith's Attachment 1 are also included at the top of the table.

Table 4: Impact on Average Productive Hourly Compensation of the Change in Mix of Employees in Mail Processing Activities					
Productive Hourly Rates for FY2010 for Clerks A-J from Smith Testimony= \$41.04					
	FT Clerks A-J Offices	PSEs-Clerk positions	Weighted Average	FT Clerk weight	PSE weight
March 2012	\$42.97	\$17.40	\$40.16	0.89	0.11
Using weights for Fn 4 caps	\$42.97	\$17.40	\$37.86	0.80	0.20
Using potential weights from additional Fn 1 flexibility	\$42.97	\$17.40	\$35.30	0.70	0.30
Source: Mark Smith Attachment 1 to USPS T-9, PP FY 06-2012, National Payroll Summary Hours, line 43 Cost of Salary and Benefits per Work Hour (including OT premium pay)					

1

2

3

4

5

6

7

8

9

10

11

12

13

14

15

While Mr. Smith’s calculation is done using a slightly different method, conceptually, these are approximating the same measure of compensation per hour worked. The March 2012 number is slightly below the FY2010 number. However, of more importance are the other rows on the chart, which capture the impact of changes in the mix of employees. Once the Postal Service makes full use of the PSE employees up to the function four caps, the average cost per hour of those mail processing activities will drop by almost 6 percent from current levels. If the Postal Service chooses to move unused PSEs allowed under the Function 4 cap to Function 1 activities in its mail processing operations, the hourly cost could fall 12 percent from its current levels. These are changes the Postal Service can make separate from its network consolidation activities, and therefore should not be counted as savings from network consolidation. Instead, these lower rates should be used to value any savings for the hours that will truly be saved due to the realignment of activities related to the service standard changes.

1 PSEs are also being used in some of the other categories where the costing
2 witnesses were making savings estimates. PSEs currently make up 5 percent of
3 building services employees and could go as high as 10 percent if the Postal Service
4 fully utilizes the flexibility that is provided under the contract terms. Motor vehicle drivers
5 are currently about 6 percent PSEs and could go as high as 10 percent.¹⁵

6 While the Postal Service has not provided an exact implementation date for the
7 consolidations approved in the February 23 list, those could begin as early as June 30,
8 2012. Some workers have been notified to anticipate changes as of that date. Mr. Neri
9 (USPS-T-4) indicated that he would expect these consolidations to be complete by mid-
10 calendar year 2013.¹⁶ This focuses the baseline on the mid-FY2012- to mid-2013
11 period. The first wage increase due under the APWU's 2010 contract is scheduled for
12 November 2012, and is 1 percent of basic wages for career employees and 2 percent
13 for PSEs. There will also be a COLA payment due to career employees in March 2013
14 that will be calculated from the January 2013 CPI-W.¹⁷ However, another part of the
15 National Agreement will tend to have an offsetting impact on Postal Service costs in
16 calendar year 2013. Career employees' share of health insurance premiums will rise by
17 2 percentage points, and the Postal Service's share will decline by 2 percentage

¹⁵ APWU National Agreement 2010-2015, Article 7.1.B.3. p. 20. In addition, an exception to the 10 percent limitation is made when Highway Contract Routes are brought back into the Postal Vehicle Service and the routes are assigned to postal employees. Article 7.1.B.6.c.

¹⁶ Tr. 5/2012.

¹⁷ See pp. 30-34 of the APWU National Contract 2010-2015. The amount of that COLA has not yet been determined. The March 2013 payment was also to include any COLA payments due from the COLA formula applied to the January 2012 index. The amount of the COLA from the January 2012 calculation is \$62 per career employee. PSEs are not paid COLA increases but get slightly larger general increases.

1 points.¹⁸ These changes in compensation costs will impact the average productive
2 wage somewhat during the latter half of this period, but will not overwhelm the
3 advantage the Postal Service will achieve by moving toward the full use of PSEs in the
4 mail processing network.

5

6 **B. Mr. Neri's Productivity Assumptions Do Not Take Account of Current**
7 **Flexibilities**

8

9 There are two other major cost issues where the flexibility offered by the APWU

10 National Agreement was not fully evaluated in determining the baseline cost numbers.

11 The first relates to Mr. Neri's productivity analysis. In his testimony, Mr. Neri states

12 Productivity opportunities are gained through balancing of the processing
13 profile. As shown in the following graph, [not reproduced here] our current
14 service standards require an operating plan that causes an unbalanced
15 processing profile, with consequent negative productivity impacts. Under
16 the current service standards, the percentage of letters available for
17 processing fluctuates greatly across different time periods each day. As
18 processing windows are expanded and the workload is balanced across
19 the mail processing day, the Postal Service would be able to manage
20 processing operations effectively, match workhours to workload, and plan
21 for peak load issues.¹⁹

22

23 Mr. Neri used his "operational experience" to estimate productivity factors that would
24 result from changes in the network due to the consolidations and the longer processing
25 windows (presented in Figure 12 of his testimony). Those productivity improvements
26 were then valued by Dr. Bradley in his testimony and account for 37 percent of Dr.

¹⁸ APWU National Agreement 2010-2015, p. 125. For career employees that were hired after May 2011, the employer's share will be an additional 2 percentage points lower.

¹⁹ Direct Testimony of Frank Neri, USPS-T-4, p. 27 (revised March 22, 2012).

1 Bradley's total \$2.6 billion savings number.²⁰ However, in response to POIR 1 Question
2 7, Mr. Neri provided a more complete description of his underlying assumptions in
3 making his productivity estimates. He first describes calculating current processing
4 profiles from end of run data.

5 These data were aggregated across the country by hour and type of mail: letters,
6 flats and packages/parcels. They were used to calculate the needed
7 complement, by hour, for each shape. Because the Postal Service must staff for
8 an eight-hour tour, I found which hour of each tour required the most staffing and
9 then compared the values for the needed complement busiest hour with the
10 complement needed for the other hours of the tours. This showed substantial
11 excess staffing due to the need to staff the peak hour.²¹

12
13 Mr. Neri is correct that current postal volume profiles are lumpy by virtue of the fact that
14 the current service standards provide a limited window in which to get all the processing
15 completed, and the mail out the door in time to be delivered in a timely manner.

16 However, his other basic assumption is not correct. The Postal Service does not have
17 to staff for an eight-hour tour. This overstates the rigidities even under the old system,
18 but certainly it is not true under the 2010 APWU National Agreement. Currently, up to
19 20-30 percent of the mail processing employees performing clerk work (the PSEs) could
20 be on flexible time.²² For example, the PSEs do not have to be called in to work at all.
21 If PSEs are called in, it can be for as little as two hours. If, as the DPS activity winds
22 down on a tour, there is not enough work for all the workers, the PSEs can be sent

²⁰ Bradley Testimony Table 16, p. 41.

²¹ Tr. 5/1988.

²² Furthermore, the Postal Service managers can create non-traditional full-time schedules that craft employees may work. In March 2012, the ORPES report indicates over 3,000 career clerks were working those schedules. The vast majority were working 10 hour days for 4 days a week.

1 home early. Mr. Neri admits that he did not consider any of this in his productivity
2 analysis.²³ The Postal Service has quite a bit of flexibility in managing its staffing for
3 peak load periods. That flexibility should have been considered in estimating the
4 “before” baseline of Mr. Neri’s analysis and would likely have reduced his estimates of
5 “excess staffing due to the need to staff the peak load.” When asked about this, Mr.
6 Neri admitted that had there been fewer hours included in the staffing profile
7 representing the period “before the change,” his estimates of how much productivity
8 change could be achieved from the activities directly tied to the longer processing
9 windows would have been reduced.²⁴

10 An additional question arises about how much of Mr. Neri’s productivity
11 improvements have already been incorporated into the AMPs. During cross examination
12 about the AMP process, Mr. Neri was asked how the number of workers needed in the
13 gaining plant had been determined when the February 23 batch of AMPs were done.
14 Mr. Neri stated that “the proposed workhours is calculated based on the current
15 productivity at the gaining facility with an expected productivity improvement.”²⁵ He was
16 then asked if those expected productivity improvements were based on the productivity
17 improvements that he presented in his testimony. He responded “the best way I can
18 describe it is the 15 percent can be a starting point, some locations based on local
19 knowledge. It could be higher than that or it could be lower than that based on that local

²³ Tr. 5/2010.

²⁴ Tr. 5/2011-12.

²⁵ Tr. 5/2052.

1 input.”²⁶ Thus, the AMP cost savings numbers already incorporate much of the
2 productivity savings in Mr. Neri’s testimony.

3 Mr. Williams agrees that some of Mr. Neri’s productivity savings have been
4 captured in the AMPs. He provided a much more detailed description of the process of
5 assigning productivity improvements to the main mail processing LDCs 11-18, and the
6 complications of doing it.²⁷ In summary, Mr. Williams stated that the “starting algorithm
7 was to apply an 8 point BPI increase above the gaining site’s BPI performance for
8 operations moving from the losing site to the gaining site for operations in Labor
9 Distribution Codes (LDC) 11, 12, and 13” with the caveat that they were not forced
10 below current workhour usage in the gaining plant for those operations. Mr. Williams
11 stated that “Automated Facer Cancellor System operations were calculated using the
12 same methodology as LDCs 11, 12, and 13.” For LDC 14, “initial attempts at applying a
13 consistent productivity improvement to manual piece counts yielded results that were
14 not reasonable according to operation expertise of the local, Area and Headquarters
15 officials. During these conversations, it was determined that a flat 3 percent reduction in
16 workhours for all transferred pieces would be a reasonable expectation of productivity
17 improvement associated with these operations.” The LDC 17 improvement estimate
18 was based on “operational expertise and some previous consolidation activity.” “A flat
19 50 percent absorption factor was the starting point for those operations that would be
20 expected to move from losing operation to the gaining operation.” “The 50 percent

²⁶ Tr. 5/2053.

²⁷ Response of United States Postal Service Witness Williams to Question from Commission Taub During March 20, 2012 Oral Cross-Examination, March 30, 2012, p 7-8.

1 absorption factor was modified on a site-by-site basis depending on mail handler BPI
2 productivity, current overtime rates, and total Function 1 productivity.” “The estimates
3 of LDC 18 workhours were based on a 5 percent productivity increase above the
4 gaining site’s BPI calculations but were capped to not exceed current workhour
5 expenditures.” The recently completed AMPs have incorporated the productivity
6 increases anticipated as a result of the new processing windows and proposed
7 operating plans for the rationalized network. As the AMPs have been explained to
8 employees in the field, postal management has discussed the need for the re-
9 establishment of Tour 2 and other changes that will be necessary for the longer
10 processing windows.²⁸

11 Mr. Williams is still expecting productivity improvements from 1) workhours
12 staying in the losing facility, 2) mail processing operations currently in the gaining site
13 that were not impacted by workload transfers, and 3) sites that are not impacted by the
14 February 23rd round of AMPs.²⁹ However, Mr. Williams provides no details to aid in
15 quantifying any expected savings.

16 In considering the likelihood of savings from these sources, it is helpful to look at
17 the range of facilities impacted by the February 23rd AMPs. Appendix Table A shows
18 the 105 facilities that are gaining sites in those AMPs and the 203 losing facilities that

²⁸ Conversation with Mr. Robert Bloomer, APWU National Business Agent.

²⁹ Response of United States Postal Service Witness Williams to Question from Commission Taub During March 20, 2012 Oral Cross-Examination, March 30, 2012.

1 were being consolidated into them.³⁰ For the operations examined in the AMP, the
2 productivity analysis has already been completed for these facilities. However, these
3 would be the sites that could generate additional productivity gains under Mr. Williams'
4 types 1 and 2 above. With respect to the first type of potential productivity gains,
5 workhours staying in the losing facilities, one notes from Appendix A, middle column,
6 that very few losing facilities will maintain any mail processing workhours after
7 consolidation. Almost all of the facilities show that both originating and destinating
8 operations will be consolidated. For the ones that show only one operation, it is the
9 destinating mail being consolidated and those are mostly for facilities whose originating
10 mail was consolidated at an earlier date.³¹ There are only a handful of facilities that
11 show only their originating mail being consolidated. These appear to be the only ones
12 with mail processing workhours remaining in the losing facility. It would seem much
13 more straightforward for Mr. Williams' staff to make the same type of productivity
14 analysis done for the AMPs for these few remaining workhours than to depend on Dr.
15 Bradley's model for this estimate. Type 2 adjustments are the workhours in the gaining
16 facilities that were not examined during the AMP process. However, looking again at
17 the middle column of Table A, one sees that in almost all cases, the gaining facility was
18 consolidating both originating and destinating workhours from the losing facility or
19 facilities. Consequently, it would seem that there would not be a great many situations

³⁰ There are a few facilities on both lists, such as Middlesex-Essex, MA which is a gaining site and a losing site.

³¹ Appendix C of USPSOIG Report CI-Ar-12-003, *U.S. Postal Service Past Network Optimization Initiatives*, January 9, 2012.

1 where one could not make productivity estimates by directly analyzing the hours
2 associated with those activities.

3 The type 3 productivity adjustments that are discussed by Mr. Williams are ones
4 that could take place in facilities that were not touched by the AMP process. Appendix
5 Table B lists the additional 23 P&DCs from the Postal Service's USPS-LR-N2012-1/ 57
6 that do not seem to have been impacted by the AMP analysis at all. This would seem
7 like a relatively small group that could be analyzed more directly and with greater
8 transparency by using some of the same assumptions described by Mr. Williams in the
9 AMP analysis.

10

11 **C. Employment of Postal Support Employees Will Change Service-Wide**
12 **Costs**

13

14 In determining labor rates, Mr. Smith calculates a factor for additional service-
15 wide costs that are not already included in benefits costs. However, the calculation,
16 which is based on FY2010 costs, does not consider the change in the trajectory of the
17 retirement-related costs that will happen with the employment of the PSEs.

18 To calculate his FY2010 number he used the ACR calculations for that year, as
19 shown on Mr. Smith's Table 1. Similar calculations using the ACR 2011 shows an
20 overall decline in the service-wide costs as five of the components in the calculation

1 declined.³² The two components with the largest declines (totaling \$290 million) were
2 the retiree health benefits costs and the CSRS “earned” costs. There was over \$925
3 million of CSRS “assessed earnings” allocated to service wide costs during FY2011,
4 down 11 percent from FY2010.³³ That sharp decline results from the decline in the
5 number of active CSRS employees on the rolls of the Postal Service. The Postal
6 Service’s 10-K shows that total declined 12.6 percent between 2010 and 2011 and with
7 the large number of people eligible for retirement, it will continue to decline sharply in
8 the future.

9 The PSRHBF service-wide costs are calculated from the actuarial “normal” costs
10 of this program. The PSRHBF costs also fell by 5.8 percent between FY2010 and
11 FY2011 as the active employee complement of the Postal Service declined. However,
12 that program has yet to take into account the new PSE employees that will have no
13 retiree benefit costs associated with their employment. While OPM’s actuarial
14 calculations have never been fully explained, a reduction in force generally will reduce

³² The two components that did not decline were re-priced annual leave and worker’s compensation costs. The former showed a small 0.5 percent increase, but worker’s compensation costs rose 34 percent. That large an increase in the worker’s compensation number is somewhat at odds with the information in the USPS 10-K which reports that the present value of the liability rose 20 percent between FY 2010 and 2011 and the current portion of such costs, which are shown in the balance sheet rose 12.6 percent. USPS 10-K, p.82. However, one assumes this number reflects the methodology used for the ACR.

³³ Based on FY2011 information, the Postal Service has overfunded the CSRS accounts by \$1 billion, and the only contributions that are being made to the CSRS accounts at the current time are those of the employees. Mr. Smith indicates that he used the accepted ACR methodology to assess the amount of employee benefits theoretically earned during this time period. It is not clear if an adjustment has been made for the overpayment into the fund, since employees will not “earn” anything more than the pension system allows, any overpayment into the fund should not be assessed as a benefit that employees will have a claim to.

1 the normal cost, and an increased use of employees who have no post-retirement
2 benefit liabilities will reduce this number.³⁴

3 Thus, while it is not possible to predict accurately what will happen to overall
4 service-wide costs, the FY2010 calculation used by the Postal Service does not provide
5 an accurate assessment of the costs for the FY2012 and FY2013 period.

6 **V. THE REDUCTION IN MAIL VOLUME SINCE FY2010 SHOULD REDUCE THE**
7 **BASELINE TRANSPORTATION COSTS**
8

9 The FY2010 transportation costs are not the correct starting point for determining
10 the baseline for this analysis. Transportation between the delivery units and the plants
11 are supposed to be evaluated on an annual basis and adjusted, where necessary, to
12 make full use of the capacity available that will meet the critical entry times and the
13 required dispatch times.³⁵ When the AMPs are done, the transportation analysis
14 includes both the changes that are required to meet the new service standards and an
15 evaluation of how the current mail volume fits into the current transportation.
16 Consequently, the new transportation that is proposed is a combination of both kinds of
17 changes, not just those that will adjust the system to the new service standards.

³⁴ Whether it will reduce the costs by more than the underlying medical trend used in the calculations cannot be known without further information on OPM's calculations. However, the normal costs declined by 5.8% between 2010 and 2011 despite the 5.5% medical cost inflation rate used by OPM in its analysis. The OPM medical cost inflation rate is trending downward and will be lower in the future. USPS 10-K, p. 29.

³⁵ Handbook PO-701 requires annual audits of PVS routes to evaluate utilization, although the USPS OIG's office has found those evaluations are not always done. See page 2 of USPS OIG report NL-AR-12-001.

1 This is clear in the analysis of the Post Implementation Reviews (PIR) for past
2 AMPs. The PIR for the Manasota FL to Tampa AMP states that the PVS savings are
3 “irrelevant to the AMP implementation” and that “[e]ach of the PVS changes and the
4 savings are attributable to streamlining operations and not a part of the AMP savings.”
5 Ms. Martin’s response when asked about this was that “in my view, the AMP
6 consolidation enabled the elimination of routes, thereby resulting in a reduction in
7 savings.”³⁶ The first PIR for Flint to Metroplex originating mail indicates that the “vast
8 majority of the [transportation] savings was due to the unprecedented reduction in mail
9 volume over the last two years.” When asked if these were savings from the
10 consolidation or a normal configuration of the transportation routes, Ms. Martin
11 responded that “transportation savings identified in the first PIR appear to have been
12 achieved through a combination of local and nationwide initiatives to reduce
13 transportation cost as well as AMP consolidation, which resulted in the realignment of
14 transportation to shift originating mail operations.”³⁷

15 One of Mr. Williams’ arguments in favor of a savings number that is larger than
16 that generated by summing the savings of the AMPs is that the PIRs tend to show more
17 savings than the original AMPs estimated. However, these quotes from the PIRs
18 indicate the difference between the AMP and the PIR is at least partly because other
19 initiatives and falling mail volumes have helped the savings along, not just the
20 consolidation itself. In a January 9, 2012, Audit Report, the OIG found:

³⁶ Response of USPS Witness Martin to APWU/USPS-T6-12, filed March 21, 2012.

³⁷ Response of USPS Witness Martin to APWU/USPS-T6-18, filed March 21, 2012.

1 The total projected AMP annual savings for the 33 PIRs completed was
2 approximately \$94 million. The PIRs Indicate the Postal Service realized annual
3 savings of approximately \$323 million, resulting in a variance of over \$229
4 million. This variance occurred because concurrent initiatives' savings were
5 included with AMP consolidation savings.³⁸
6

7 There are additional reasons to be wary of depending too heavily on this
8 explanation. The first is that several errors were found in some of the PIR calculations
9 that overstated the savings in the transportation costs.³⁹ Secondly, it is not clear the
10 PIRs always capture all the costs that are associated with an AMP change. When
11 asked about a specific set of transportation changes (added HCR routes) in the Hickory
12 to Greensboro PIR, Ms. Martin explained “[b]oth routes were added in the first PIR due
13 to the AMP consolidation. The first PIR identified an increase in annual mileage and
14 cost at that time. I assume the reason these routes were not included in the final PIR is
15 because there was no impact to mileage or cost between the first PIR and the final
16 PIR.”⁴⁰

17 It is quite rational for the Postal Service to look at all its transportation needs
18 when it is doing an AMP, and make any cost-saving adjustments that it can find.
19 However, in a case like this one where there is a nationwide change in service being
20 contemplated that cannot be undone, the changes in transportation should be clearly
21 separated between those changes that could be made without a degradation in service

³⁸ OIG Report No. CI-AR-12-003 “U.S. Postal Service Past Network Optimization Initiatives,”
January 12, 2012, p. 2.

³⁹ Response of USPS Witness Martin to APWU/USPS-T6-12,13,17, filed March 21, 2012

⁴⁰ Response of USPS Witness Martin to APWU/USPS-T6-18, filed March 21, 2012

1 standards and those that are necessary only because of a degradation of service
2 standards. There is no indication that has been done in this case.

3 **VII. TRANSITION COSTS SHOULD NOT BE IGNORED**

4
5 The transition costs of getting from the current network to the redesigned network
6 should not be ignored. While Dr. Bradley admits that they are ignored in his testimony,
7 the AMP analysis properly includes some estimates of moving equipment from a losing
8 facility to a gaining facility although other transitional costs are not included in the
9 analysis. Some additional transition costs are incorporated in the PIRs but the PIRs for
10 the proposed set of consolidations will not be completed for some time.⁴¹ This is not a
11 criticism of Dr. Bradley's and Mr. Smith's models, which were described as "full-up"
12 models that did not incorporate the transition costs. It simply points out that the
13 Commission should consider the transition costs as part of the costs of achieving the
14 service standard degradations. It is not clear how long some of these transition costs
15 may last. As one small example, to achieve Mr. Smith's facility lease and sale cost
16 savings, the buildings have to be vacated and either sold or the leases terminated. For
17 example, a recent response by the Postal Service about the status of buildings from
18 earlier consolidations provides the information that out of 17 locations, only one has
19 been sold. Of the remaining facilities, 11 are currently housing various Postal Service

⁴¹ I am advised that additional information on transition costs will be presented in a separate testimony.

1 operations, 3 are on the market, and 2 are being assessed to determine the appropriate
2 action.⁴²

3

4 **VIII. THERE ARE MORE THAN JUST TRANSITION COSTS BEING IGNORED**

5

6 In this case, there are much more than just the transition costs that are being
7 ignored when calculating the savings. Nowhere does either Dr. Bradley or Mr. Smith
8 provide an estimate of the cost of the transportation hub network that will be required for
9 this reduced network of processing plants to provide even the service proposed in this
10 docket. Since Ms. Martin did not include even the concept of hubs in her testimony,⁴³ it
11 would be difficult for those to be valued by the costing witnesses.

12 In a network where fewer processing plants are each serving many more delivery
13 units, it is highly doubtful that there will be transportation running from the plant to each
14 and every delivery unit. Though Ms. Martin's original testimony included a big circle
15 concept to serve the delivery units (see Figure 4 of USPS T-6), the Postal Service
16 seems to have come around to a hub concept for the rationalized network. However,
17 that hub concept is not well defined. Other than the fact that by mid-March the topic
18 had not been analyzed for a network change that was to start taking place as early as
19 mid-May, cross-examination of Ms. Martin elicited more confusion than clarity on this
20 topic.

⁴² Second Supplemental Response of United States Postal Service Witness Bratta to American Postal Workers Union, AFL-CIO Interrogatory USPS-T5-6(b), filed April 18, 2012.

⁴³ Tr. 4/1151

1 Q. It's my understand [ing] that hubs exist in the transportation system
2 today, isn't that right?

3 A. That is correct.

4 Q. And is it also correct that if the number of processing plants were to be
5 reduced, then the necessity for hubs would be increased, isn't that
6 correct?

7 A. Well, without doing the analysis, I'm not sure whether or not we will
8 increase all the hubs. We haven't made a decision about hubs yet, so
9 I'm not really familiar on how many or locations or if they are even
10 necessary based on the redesign of the transportation network.

11 Q. So, my question was meant to be a conceptual one that inferred from
12 the information on this page as well as from practical realities that the
13 elimination of processing plants will require this type of transportation
14 hub-and-spoke arrangement more than is provided in today's network.

15 A. Conceptually, yes. I would agree conceptually.

16 Q. Not it could, it will?

17 A. I have not finished or finalized the analysis yet to determine whether or
18 not we were going to have hubs, so conceptually I would agree that
19 this concept is something that would be feasible for the Postal Service
20 to do if it's going to relate in increasing the efficiency of the
21 transportation network.⁴⁴

22

23 During further questioning by the Public Representative, Ms. Martin

24 acknowledged that there were other costs that likely have been left out of the theoretical
25 modeling efforts although they might be included in the AMP analysis.

26 Q. Thank you for being here with us today. I have a few questions for you.
27 And first, I'm not going to refer you to a specific part of your testimony,
28 but overall, do you think it is fair to say that you analyzed two aspects
29 of the transportation network? And by aspects, I mean types of trips.
30 So you looked at plant-to-plant trips and then you looked at plant-to-
31 post-office trips?

32 A. That's correct.

33 Q. Okay. Now, in the current processing environment, are there trips for
34 originating mail that go from the post office to the plant?

⁴⁴ Tr. 4/1151-1152

1 A. Yes.

2 Q. Are those part of your administrative responsibility?

3 A. From the post office to the plant, no.

4 Q. Okay. Would you agree that they could be impacted, those sort of trips
5 could be impacted by the present proposed changes?

6 A. Sure they are.

7 Q. Are you aware of any witness or any testimony that describes what
8 those potential changes and what the cost effect of those changes
9 could be?

10 A. No.⁴⁵

11

12 Further questioning by Ms. Rush, on behalf of the National Newspaper

13 Association, elicited the testimony that decisions about hubs, and the costs associated
14 with them, crossed national/local boundaries. However, this provided little real
15 understanding of the likely costs associated with the running of the hubs in the revised
16 network.

17 Q. I'm focusing mostly on the hub design and implementation and how it
18 may look in the optimized network. Would it be fair to say that a hub as
19 it operates today has two functions? One is to take mail that comes
20 from a long-haul truck, break it down into some short-haul trips so
21 smaller trucks can go let's say from a hub to DDU entry points or
22 destinations? Are they used that way?

23 A. Yes, that's exactly how a hub would work.

24 Q. So you take a big truck and break down into the deliveries for the
25 destination post office and then that would be part of your short-haul
26 network.

27 A. Under the proposed scenario, yes. In our national network we break
28 down a truck and it still goes greater distances than just the local post
29 office. We go to the final destination, which is a plant.

30 Q. Sure. But there may be short-haul destinations that that truck carries to
31 the hub, and then some of that mail would be taken off the long-haul

⁴⁵ Tr. 4/1207-1208

1 truck as the long-haul truck goes ahead. And then some of the mail
2 that's taken off goes in short-haul trucks let's say to a post office. Is
3 that today how it works?

4 A. I'm not real familiar of all the hubs that might be, the more regional,
5 local hubs in terms of their operating. But conceptually, that's how the
6 hub concept works, yes, ma'am.

7 Q. And then also the hub would be available to take some mail that's short
8 haul to short haul. It comes from a destination delivery, a destination
9 entry point, doesn't need to go in the long haul to the plant but can go
10 within let's say an SCF zone on a short-haul network.

11 A. If there's time to do so, absolutely.

12 Q. And all of that's operated under the supervision of your office, is that
13 correct?

14 A. No, it's not correct.

15 Q. What office at the Postal Service would oversee those, both the design
16 and the implementation of the short-haul networks?

17 A. It would be more the local office. It might be area. It might be the local
18 post office that the hub would be a satellite facility of. I have no idea
19 how they would construct the organizational responsibility.

20 Q. Would those costs appear on your budget then?

21 A. No, they would not.

22 Q. Or would they be at the area budget?

23 A. That would be at the local site.⁴⁶

24

25 Mr. Williams hints that the entire hub system might have been considered a
26 transition cost, at least at the beginning of this process. He states "the Postal Service's
27 case envisioned an environment in which facilities that were consolidated would be
28 removed from the Postal Service network in the full-up network environment. However,
29 in the short-term, the AMPs may reflect maintaining that facility for local transportation
30 purposes. In the long-run, full-up network, the Postal Service would not be maintaining

⁴⁶ Tr. 4/1224-1226

1 significant square footage for a small cross-dock operation.”⁴⁷ However, most of the
2 Postal witnesses during the hearings agreed that there will be some type of hub
3 transportation. Therefore, it should have a cost associated with it.

4 Dr. Bradley estimates \$271 million of transportation savings from the new
5 initiative (USPS-T-10 at 41, Table 16) based on Ms. Martin’s initial testimony, which did
6 not consider hubs or the transportation from the station to the plant. That number will
7 undoubtedly be reduced once Dr. Bradley incorporates Ms. Martin’s recent recalculation
8 of capacity reductions.⁴⁸ But there is no indication in Ms. Martin’s updated worksheets
9 that there is additional information on the hub costs. There also does not seem to be
10 additional information about transportation from the delivery units to the plant included
11 in these worksheets to allow Dr. Bradley to incorporate that into his costs.

12 Mr. Williams, in his summary of the February 23rd AMPs, indicated that the
13 savings from transportation would be \$55 million. That does not seem to include the
14 complete hub system either, although some AMP locations may have maintained some
15 employment for that purpose. Neither Mr. Williams’ calculations nor Dr. Bradley’s is an
16 accurate representation of the true costs of the transportation network needed for this

⁴⁷ *Response of United States Postal Service Witness Williams to Question from Commission
Taub During March 20, 2012 Oral Cross-Examination, March 30, 2012*

⁴⁸ On April 16, 2012, Ms. Martin submitted revisions to her plant-to-plant and plant-to-post office percent reduction in transportation capacity that Dr. Bradley had depended on to make his calculations. (See the revisions in USPS-LR-N2012-1/77.) The plant-to-plant capacity reduction of 24.7% used in Dr. Bradley’s original calculations (Table 12) have now been reduced to 8.4%. Although an explanation as to why Ms. Martin’s percent reduction in number of trips can be directly translated to the same reduction in a cost based on cubic foot miles has not been fully explained. The plant-to-post office capacity reduction of 13.7% used by Dr. Bradley in his original calculations (Table 15) has now been reduced to either 7.7%, if one uses Ms. Martin’s average of the percent reductions methodology, or 3.2% if one uses a somewhat more straightforward reduction in miles.

1 initiative. Furthermore, since the decisions about the hubs do not seem to have been
2 made, it is difficult to understand how mailers could have a clear idea of how much
3 actual impact on their service there will be from the proposed changes to the network.
4 This lack of information makes it impossible to evaluate the true transportation cost
5 changes in the network in either monetary terms or service terms.

6

7 **IX. CONCLUSIONS**

8

9 USPS witnesses Smith and Bradley have used high-level theoretical models to
10 estimate some cost savings from a potential change in the network between FY2010
11 and FY2012-2013, using several hypothetical assumptions provided by other Postal
12 Service witnesses. However, they have not provided an accurate estimate of the
13 savings that can be achieved by implementing the activities in this plan that are required
14 because of the degradation in service standards. Consequently, the savings they have
15 generated do not provide the Commission with the information it would need to provide
16 a positive recommendation on the network rationalization proposal.

17 Calculating the appropriate starting baseline that reflects the costs of the current
18 system once it has fully incorporated the APWU National Agreement, the transportation
19 network changes that would fully utilize capacity given current mail volumes, and the
20 correct facilities is not easily done given the information provided in this docket. Only
21 when that baseline calculation is done could it then be modified to test the savings of
22 shutting down the facilities that the Postal Service proposed to shut down in its February
23 23rd listing. In addition, one would still need to know all the parts of the Postal Service

1 plan, including all the hub locations for the transportation network. Any major costs of
2 the transition should also be weighed in the analysis.

3 The AMPs, while not perfect, provide a real world look at the cost elements
4 involved in these transfers. However, the AMP cost savings calculated for the February
5 23rd set of AMPs and presented in Mr. Williams' summary do not reflect the flexibilities
6 of the APWU National Agreement, nor do they fully reflect current mail volumes. The
7 AMPs value the hours using hourly rates calculated for each LDC. According to the
8 instructions in Handbook 408, "the current workhour rate by LDC for both the losing and
9 gaining facilities is populated by data from the Enterprise Data Warehouse (EDW) Labor
10 Utilization Reporting System (LURS)." The data correspond to the average of the data
11 period shown in the header of the worksheets".⁴⁹ Many, though not all, of the AMPs in
12 the February 23rd set have a review period that runs from 7/1/2010 through 6/30/2011.
13 The average workhour rates by LDC would not yet reflect any of the hiring of PSE
14 employees since that did not start until after the APWU National Agreement was signed
15 in May 2011. The use of PSEs would vary from facility to facility although they are
16 being used in all regions but the AMP numbers could be recalculated with rates that
17 included the impact of the PSEs.

18 If Mr. Williams anticipates further productivity gains from the workhours in
19 activities that were not evaluated during the AMPs, it seems like analysis of the hours in
20 the AMPs that were not evaluated for productivity gains the first time could be evaluated
21 separately.

⁴⁹ PO Handbook 408, Section A-7.2, page 45.

1 The Postal Service’s cost savings estimates used to support the proposed
2 degradation in service standards are not reliable. The savings estimates:

3

4

- Are based on an incorrect baseline of FY2010

5

- Include savings that can be achieved without a reduction in service standards

6

7

- Do not incorporate the flexibilities of the APWU 2010 National Agreement

8

- Do not include a calculation of transition costs; and

9

- Do not include the full transportation costs that will be incurred by a rationalized mail processing network.

10

11

12

13

14

15

16 **Appendix**

Appendix Table A: List of Gaining Facilities from February 23rd AMP Listing		
Gaining Facility	Losing Facilities Being Consolidated into the Gaining Facility	Type of Gaining Facility
Albany NY	Mid-Hudson NY (O&D) and Plattsburg NY (O&D)	P&DC/P&DF
Albuquerque NM	Farmington, NM (O&D), Socorro, NM (O&D), Durango, CO (O&D), Tucumcari, NM (O&D), Truth or Consequences, NM (O&D)	P&DC/P&DF
Amarillo TX	Liberal, KS (O&D)	P&DC/P&DF
Anaheim CA	Industry, CA (Destinating)	P&DC/P&DF
Atlanta GA	Chattanooga, TN (O&D)	P&DC/P&DF
Austin TX	Abilene, TX (O&D), Bryan, TX (Destinating), East Texas (O&D), Waco (O&D)	P&DC/P&DF
Baton Rouge LA	Lafayette, LA (Originating), New Orleans, LA (O&D)	P&DC/P&DF
Beaumont TX	Lufkin, TX (Destinating)	P&DC/P&DF
Billings MT	Wolf Point, MT (O&D)	P&DC/P&DF
Birmingham, AL	Aniston, AL (O&D), Huntsville, AL (Destinating), Tuscaloosa, AL (O&D)	P&DC/P&DF
Bismarck ND	Minot, ND (O&D)	P&DC/P&DF
Boston MA	Central Mass, MA (O&D), Middlesex-Essex, MA (O&D), Northwest Boston, MA (O&D)	P&DC/P&DF
Brooklyn NY	Queens, NY (Destinating)	P&DC/P&DF
Burlington VT	White River Jct., VT (O&D)	P&DC/P&DF
Carol Stream, IL	Cardis Collins (Chicago), IL (Originating)	P&DC/P&DF
Champaign IL	Bloomington, IL (O&D), Effingham, IL (O&D)	P&DC/P&DF
Charleston SC	Savannah, GA (O&D)	P&DC/P&DF
Charleston, WV	Clarksburg, WV (Destinating), Parkersburg, WV (Destinating)	P&DC/P&DF
Charlotte NC	Fayetteville, NC (O&D)	P&DC/P&DF
Cheyenne WY	Rawlins, WY (O&D), Wheatland, WY(O&D)	P&DC/P&DF
Cleveland OH	Akron, OH (O&D), Canton, OH (Destinating), Youngstown, OH (O&D)	P&DC/P&DF
Columbia MO	Quincy, IL (O&D)	P&DC/P&DF
Columbia SC	Augusta, GA (O&D), Florence, SC (O&D)	P&DC/P&DF
Columbus OH	Athens, OH (Destinating), Chillicothe, OH (O&D), Dayton, OH (Destinating), Toledo, OH (O&D)	P&DC/P&DF
Denver CO	Alamosa, CO (O&D), Colorado Springs, CO (O&D), Salida, CO (O&D)	P&DC/P&DF
Des Moines IA	Carroll, IA (O&D), Creston, IA (O&D)	P&DC/P&DF
Detroit, MI	Jackson, MI (Destinating), Toledo, OH (Destinating)	P&DC/P&DF
Dominick V Daniels NJ	Kilmer, NJ (Destinating), Northern NJ Metro, NJ (O&D)	P&DC/P&DF
El Paso TX	Alamogordo, NM (O&D)	P&DC/P&DF
Evansville IN	Carbondale, IL (O&D), Centralia, IL (Destinating), Owensboro, KY (O&D), Paducah, KY (O&D), Terre Haute, IN (O&D)	P&DC/P&DF
Fayetteville AR	Harrison, AR (O&D)	P&DC/P&DF
Ft Wayne IN	South Bend, IN (O&D)	P&DC/P&DF
Ft Worth TX	Dallas, TX (Destinating)	P&DC/P&DF
Grand Forks ND	Devils Lake, ND (O&D)	CSF
Grand Junction CO	Provo, UT (O&D)	CSF
Grand Rapids MI	Kalamazoo, MI (Destinating), Lansing, MI (O&D)	P&DC/P&DF
Great Falls MT	Butte, MT (Destinating), Helena, MT (Destinating)	Annex
Green Bay, WI	Iron Mountain, MI (O&D), Wausau, WI (O&D)	P&DC/P&DF
Greensboro NC	Lynchburg, VA (O&D), Roanoke, VA (O&D)	P&DC/P&DF
Greenville, SC	Ashville, NC (O&D)	P&DC/P&DF

Appendix Table A: List of Gaining Facilities from February 23rd AMP Listing		
Gaining Facility	Losing Facilities Being Consolidated into the Gaining Facility	Type of Gaining Facility
Harrisburg PA	Lancaster, PA (Destinating), Reading, PA (Destinating), Williamsport, PA (O&D)	P&DC/P&DF
Harford CT	Southern Connecticut, CT (O&D)	P&DC/P&DF
Indianapolis IN	Bloomington, IN (Destinating), Kokomo, IN (O&D), Lafayette, IN (O&D), Muncie, IN (O&D), Terre Haute, IN (O&D)	P&DC/P&DF
Jackson MS	Grenada, MS (O&D)	P&DC/P&DF
Jacksonville FL	Gainesville, FL (Destinating), Savannah, GA (O&D), Valdosta, GA (O&D), Waycross, GA (Destinating)	P&DC/P&DF
Johnstown PA	Altoona, PA (Destinating), Cumberland, MD (O&D), Petersburg, WV (Destinating)	P&DC/P&DF
Kansas City, MO	Springfield, MO (O&D), Topeka, KS (O&D)	P&DC/P&DF
Knoxville TN	Hazard, KY (O&D), Johnson City, TN (Originating), Lexington, KY (O&D), London, KY (Destinating), Somerset, KY (Destinating)	P&DC/P&DF
Las Vegas NV	Provo, UT (O&D)	P&DC/P&DF
Lehigh Valley PA	Scranton, PA (O&D)	P&DC/P&DF
Little Rock AR	Hot Springs National Park, AR (Destinating)	P&DC/P&DF
Los Angeles CA	Long Beach, CA (O&D), Pasadena, CA (Destinating)	P&DC/P&DF
Louisville KY	Campton, KY (O&D), Elizabethtown, KY (Destinating), Lexington, KY (O&D)	P&DC/P&DF
Lubbock TX	Clovis, NM (O&D), Roswell, NM(O&D)	P&DC/P&DF
Macon GA	Augusta, GA (O&D), Swainsboro, GA (O&D)	P&DC/P&DF
Manchester, NH	White River Jct, VT (O&D)	P&DC/P&DF
Medford OR	Eureka, CA (O&D)	CSF
Memphis TN	Jackson, TN (Destinating), Jonesboro, AR (O&D), Tupelo, MS (O&D)	P&DC/P&DF
Miami FL	Fort Lauderdale, FL (O&D), South Florida, FL (Destinating)	P&DC/P&DF
Michigan Metroplex MI	Lansing, MI (O&D), Saginaw, MI (Destinating), Toledo, OH (Originating)	P&DC/P&DF
Middlesex Essex MA	Central Mass, MA (O&D), Northwest Boston (O&D)	P&DC/P&DF
Midland TX	Abilene, TX (O&D)	P&DC/P&DF
Minneapolis, MN	Bemidji, MN (Destinating), Mankato, MN (O&D), Saint Cloud, MN (O&D)	P&DC/P&DF
Mobile AL	Gulfport, MS (O&D), Hattiesburg, MS (O&D)	P&DC/P&DF
Montgomery AL	Columbus, GA (Destinating), Dothan, AL (Destinating)	P&DC/P&DF
Morgan Station NY	Brooklyn, NY (Originating)	P&DC/P&DF
Nashville Flats Annex TN	Bowling Green, KY (Destinating), Chattanooga, TN (O&D)	P&DC/P&DF
North Metro GA	Athens, GA (Destinating)	P&DC/P&DF
North Platte NE	Alliance, NE (O&D), Colby, KS (Destinating)	CSF
North Texas TX	East Texas, TX (O&D), Fort Worth, TX (Originating)	P&DC/P&DF
Oakland CA	North Bay, CA (O&D)	P&DC/P&DF
Oklahoma City OK	Tulsa, OK (O&D), McAlester, OK (O&D)	
Omaha NE	Grand Island, NE (O&D), Norfolk, NE (O&D)	P&DC/P&DF
Orlando, FL	Mid-Florida, FL (O&D)	P&DC/P&DF
Pensacola FL	Panama City, FL (Destinating)	P&DC/P&DF
Peoria IL	Bloomington, IL (O&D)	P&DC/P&DF
Philadelphia PA	Southeastern Penn., PA (O&D)	P&DC/P&DF
Phoenix AZ	Tucson, AZ (O&D)	P&DC/P&DF

Appendix Table A: List of Gaining Facilities from February 23rd AMP Listing		
Gaining Facility	Losing Facilities Being Consolidated into the Gaining Facility	Type of Gaining Facility
Pittsburgh PA	Clarksburg, WV (O&D), Erie, PA (O&D), Greensburg, PA (Destinating), New Castle, PA (O&D), Steubenville, OH (O&D), Washington, PA (Destinating)	P&DC/P&DF
Portland OR Air Cargo Center	Bend, OR (O&D), Eugene, OR (O&D), Pendleton, OR (O&D), Salem, OR (O&D)	P&DC/P&DF
Providence, RI	Wareham, MA (O&D)	P&DC/P&DF
Raleigh NC	Kinston, NC (Destinating), Rocky Mount, NC (O&D)	P&DC/P&DF
Richmond VA	Norfolk, VA (O&D)	P&DC/P&DF
Rochester NY	Buffalo, NY (O&D), Erie, PA (O&D)	P&DC/P&DF
Saint Louis MO	Cape Girardeau, MO (O&D), Springfield IL (O&D)	P&DC/P&DF
St. Paul MN	Duluth, MN (O&D), Eau Claire WI (O&D), LaCrosse, WI (O&D), Rochester, MN (O&D)	P&DC/P&DF
Salt Lake City UT	Elko NV (O&D), Pocatello, ID (O&D), Provo, UT (O&D), Rocky Springs, WY (O&D)	P&DC/P&DF
San Antonio TX	Corpus Christi, TX (O&D)	P&DC/P&DF
Santa Ana CA	Industry, CA (Destinating)	P&DC/P&DF
Santa Clarita CA	Bakersfield, CA (O&D)	P&DC/P&DF
Southern Maine ME	Eastern Maine, ME (O&D)	P&DC/P&DF
Seattle WA	Everett, WA (O&D), Olympia (Destinating), Tacoma, WA (O&D)	P&DC/P&DF
Shreveport LA	East Texas, TX (O&D)	P&DC/P&DF
Sioux Falls SD	Dakota Central, SD (O&D)	P&DC/P&DF
South Suburban IL	Fox Valley, IL (Destinating), Gary, IN (O&D)	P&DC/P&DF
Spokane WA	Pasco, WA (O&D), Wentatchee, WA (O&D)	P&DC/P&DF
Springfield MA	Southern Conn, CT (O&D)	P&DC/P&DF
Syracuse, NY	Binghamton, NY (Destinating)	P&DC/P&DF
Tallahassee FL	Albany, GA (O&D)	P&DC/P&DF
Tampa FL	Lakeland, FL (Destinating), St. Petersburg, FL (Destinating)	P&DC/P&DF
Traverse City MI	Gaylord, MI (O&D)	P&DC/P&DF
Trenton, NJ	Monmouth, NJ (Destinating)	P&DC/P&DF
West Sacramento, CA	Redding, CA (O&D), Stockton, CA (Destinating)	P&DC/P&DF
Westchester NY	Stamford, CT (O&D)	P&DC/P&DF
Wichita KS	Dodge City, KS (O&D), Hays, KS (Destinating), Hutchinson, KS (Destinating), Salina, KS (O&D)	P&DC/P&DF
Source: Homework.Vol.2.p.422.Williams summary sheet.xls and USPS-LR-N2012-1/57		

Appendix Table B: P&DCs that Were Not Impacted by the AMPs

Facility Name	City	State
Anchorage AK	Anchorage	AK
Baltimore MD	Baltimore	MD
Boise ID	Boise	ID
Fargo ND	Fargo	ND
Fresno CA	Fresno	CA
Honolulu HI	Honolulu	HI
Linthicum MD	Linthicum Heights	MD
Madison WI	Madison	WI
Merrifield VA	Merrifield	VA
Mid-Island NY	Melville	NY
Milwaukee WI	Milwaukee	WI
ML Sellers CA	San Diego	CA
North Houston TX	North Houston	TX
Quad Cities IL	Milan	IL
Salinas CA	Salinas	CA
San Francisco CA	San Francisco	CA
San Jose CA	San Jose	CA
San Juan PR	San Juan	PR
Santa Barbara CA	Goleta	CA
Southern Maryland MD	Capitol Heights	MD
Suburban MD	Gaithersburg	MD
Washington, DC	Washington	DC
West Palm Beach FL	West Palm Beach	FL
Source: USPS-LR-N2012-1/57		