

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

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2011

Docket No. N2012-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1 THROUGH 3
OF PRESIDING OFFICER'S INFORMATION REQUEST NO. 10**

The United States Postal Service hereby files institutional responses to the questions contained in Presiding Officer's Information Request No. 10, dated June 21, 2012. The questions are stated verbatim and followed by the responses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
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**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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1. Chairman Goldway asked witness Rosenberg how several adjustment factors were developed in Excel file 'SavingsEstimate_IntraSCF_', tab: 'Costing'. Tr. 9/2087-88. Please explain how the following adjustment factors were developed and provide the supporting workpapers:

- a. Productivity Gains, 35.0 percent;
- b. Air Transportation, 51.4 percent;
- c. Plant-to-Plant HCR Network Restructuring, 10.0 percent; and
- d. Maintenance Labor and Parts and Supplies, 75.2 percent.

RESPONSE:

It bears repeating that the Excel file in question reflects nothing more than an attempt to develop a ballpark estimate of the potential cost savings associated with a phased implementation of the service standard changes proposed on December 15, 2011. At the time that the interim savings estimate was developed in January 2012, the several hundred AMP consolidation proposals identified in USPS Library Reference N2012-1/6 were still under consideration. Accordingly, the January 2012 hypothetical "Phase I" network concept was constructed on the basis of educated assumptions at that time about facilities that might be deemed viable in a future network and that then could support the preservation of intra-SCF overnight First-Class Mail service.

It was not until the February 23 AMP decisions were announced that the Postal Service more systematically began to identify which remaining facilities might operate as part of a Phase I network (first described on May 17, 2012) to support the phased implementation of the service standard changes announced on May 25, 2012. One will observe that there is considerable variance between the pool of hypothetical January 2012 Phase I network facilities (identified in response to Commission Information Request No. 1) and the pool of Phase I network facilities identified on May 17, 2012.

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RESPONSE to QUESTION 1 (continued)

The Postal Service has not undertaken the task of attempting to estimate the interim cost savings that implementation of its May 2012 Phase I network may yield. Because of the variance between the January and May 2012 Phase I network concepts, the \$1.2 billion dollar cost savings estimate associated with the hypothetical January 2012 concept cannot fairly be said to reflect savings that are expected to be captured by implementation of the Phase I network concept that emerged on May 17, 2012.

Notwithstanding the substantial variance between the two Phase I network concepts, the Postal Service is using the January 2012 \$1.2 billion cost savings estimate as a target for managers responsible for implementing the May 2012 Phase I network to strive toward achieving. See Tr. Vol. 9 at 2716, 2756.

Given that the objective of the January 2012 costing exercise was merely to develop a rough interim cost savings estimate, it is to be expected that the exercise lacks the methodological rigor reflected in USPS-T-9 and USPS-T-10 (and USPS-ST-3 and USPS-ST-4). Accordingly, there are no workpapers reflecting development of the judgmentally-based adjustment factors identified in the question.

- (a) Some factors considered were: (1) the total percentage of additional nodes remaining open in comparison to the baseline network. As shown in the attachment to the response to CIR No. 1, the full-up network was estimated to have 229 mail processing nodes and the January 2012 intra-SCF network concept was estimated to have 308 mail processing nodes.

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RESPONSE to QUESTION 1 (continued)

Thus, the January 2012 intra-SCF network concept only captures about 75 percent of the mail processing closures. (2) Network-wide impact productivity gains due to no longer waiting for overnight trading partners. There was an understanding that productivity gains, as compared to the full-up network were more limited and could not be a straight capture rate due to the total additional facilities required in the network.

- (b) In January 2012, it was assumed that even under an intra-SCF overnight First-Class Mail network, the Critical Entry Time for First-Class Mail would be moved to 0800 and volume would need to be shifted from surface to air to meet the operating plan. As subsequent analysis was completed, it was determined that the CET could remain the similar to today without significant impact. See the response to part (c) below for additional details.
- (c) Subject matter expertise was used to judgmentally estimate the overall target for transportation cost changes. The sub-categories that were not adjusted based on the square footage were adjusted to calibrate the overall transportation cost change target.
- (d) A high-level estimate of the equipment requirement for an intra-SCF First-Class Mail overnight service standard was calculated and compared to the baseline equipment and the full-up equipment requirements. January 2012 Phase I maintenance labor, parts and supplies were estimated by taking into account the anticipated phasing out of certain

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types of equipment (NEC/Mark, UFSM 1000, CSBCS) irrespective of network rationalization, the expectation that network rationalization would not impact other types of equipment (FSS, APPS and APBS), and by tallying equipment sets that might be needed at facilities assumed to be part of the hypothetical January 2012 Phase I network. Those totals are reflected in the table below and provide the basis for the 75.2 percent Maintenance Labor and Parts and Supplies adjustment.

Equipment	Current	Full Up Network Rationalization Estimates as of January 2012	Phase 1 estimates as of January 2012
AFCS	1,025	679	718
NEC/Mark	363	0	0
DACS	5,924	3,590	4,404
AFSM100	527	474	527
UFSM1000	242	0	24
FSS	100	100	100
CSBCS	419	0	0
APPS	74	74	74
APBS	206	206	206
Subtotal:	8,880	5,123	6,053

=8880-5123
3,757

=8880-6053
2,827

=3757-2827
75.25%

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2. Commissioner Taub asked witness Rosenberg about a footnote on page 31192 of the *Federal Register* notice contained in Library Reference USPS-LR-N2012-1/99. Tr. 9/2766-67. That footnote (footnote four) states, "One reason for the estimate's conservatism is that the underlying calculations hew to PRC methodologies, some of which incorporate assumptions that are in the Postal Service's view unrealistic." Please identify and describe the assumptions that this footnote refers to and explain why the Postal Service views them as unrealistic.

RESPONSE:

In the cited footnote, the Postal Service is referring to the set of assumptions underlying the Commission's methodologies for assessing the response in total cost to a concentration of volume. These assumptions were applied and explained in the Commission's opinion in Docket No. N2010-1.¹ In that opinion, the Commission applied them to carrier street delivery, mail processing and transportation. In the present docket, the Postal Service has employed these assumptions in the areas of mail processing and highway transportation. Essentially, the Commission's methodologies assume that, for volume variable costs, there are no productivity gains created from the consolidation of volume, whether it be in mail processing, carrier delivery, or transportation.

For example, in Docket No. N2010-1, the Commission rejected the Postal Service's approach to calculating city carrier street time savings and instead assumed that there would be no productivity gains associated with the consolidation of volume on weekdays when Saturday volume was transferred to those days. Without productivity gains, the Postal Service cannot "absorb" any additional volume without incurring additional volume variable cost. The Commission's assumption thus implies a linear

¹ PRC Docket No. N2010-1, Advisory Opinion on Elimination of Saturday Delivery (Mar. 24, 2011) (hereinafter "Five-Day Opinion").

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RESPONSE to QUESTION 2 (continued)

relationship between consolidated volume and additional cost. In other words, after the transfer of volume from Saturday to weekdays, the full amount of variable cost that was incurred on Saturday will be incurred on weekdays. In explaining this assumption, the Commission noted its use in its previous USO analysis:

In its USO Report, the Commission stated that because an empirical model for determining how volume variable costs behave over large volume changes has not been developed, it remained essentially “agnostic” regarding the density effect assumption used by the Postal Service to explain its positive absorption rate. USO Report at 127. The Commission therefore assumed that variable street delivery costs would respond in a linear fashion to large changes in volume, and Saturday variable costs are fully transferred to weekdays.²

In preparing its case in the present docket, the Postal Service was mindful of the Commission's views from Docket No. N2010-1 and tended to give less consideration to productivity gains from the consolidation of volume in determining savings. When volume was transferred from inactive facilities to active facilities, all of the volume variable cost that had been at inactive facilities was transferred to active facilities. This means that all productivity gains anticipated by the Postal Service are mainly associated with changes in mail processing windows and operating procedures, and less consideration was given to productivity gains associated with volume consolidation, particularly for allied operations. This is consistent with the assumptions underlying the Commission's methodology in Docket No. N2010-1:

However, for clerk and mailhandler workhours related to allied operations, the Commission calculates savings using the established analytical method for estimating volume variability. This methodology is not directly analogous to witness Neri's estimate. The Commission focuses on how

² Five-Day Opinion, at 55.

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workhours are likely to respond to increases or decreases in total system volume that occur over time. The Postal Service focuses on workhours in relation to one-time shifts of volume to other days of the week. Considering the range of these two estimates and the inability to corroborate the Postal Service's analysis, the Commission's relies on a conservative yet reasonable one.³

This approach leads to smaller ("conservative") cost savings than the Postal Service would otherwise have calculated.

In its Docket No. N2010-1 case, the Postal Service assumed that it would be able to make use of the empty space on purchased highway transportation that occurs on weekdays when transferring volume from Saturdays to those weekdays. In its Docket No. N2010-1 opinion, the Commission explained that, despite the fact that much of purchased highway transportation has utilization rates below 50 percent on weekdays, its methodology assumed that the Postal Service would not be able to use any of that empty truck space when transferring volume from Saturday to other days of the week. This assumption implies that, like in the area of city carrier delivery, the Postal Service would have to incur as much additional volume variable highway transportation cost on the weekdays as it saved on the weekends:

Accordingly, the Commission accepts the Postal Service's weekend savings analysis when transported mail volume is reduced. However, the Commission extends the Postal Service's method to calculate the added costs during the week caused by a shift of CFM from weekend to weekday.⁴

Such an assumption removes one possibly important mechanism for measuring the cost savings arising from network rationalization and consolidation. In the present

³ Five-Day Opinion, at 74.

⁴ Five-Day Opinion, at 99.

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docket, the Postal Service followed a conservative approach consistent with the Commission assumption of no productivity gains from the consolidation of purchased highway transportation volumes. The Postal Service focused on productivity gains associated with a change in mail processing windows and operating procedures.⁵

The Postal Service believes that this set of assumptions is unrealistic because it does not comport with the Postal Service's operational experience. The Postal Service has observed instances in transportation, carrier delivery, and mail processing in which the consolidation of volume has increased productivity and allowed it to absorb additional volume without incurring a corresponding increase in volume variable cost. Notably, the Commission's own expert witnesses in this docket indicate that consolidation will lead to significant absorption of volume for certain types of operations, like the platform, and that volume decline will make processing more costly.⁶

⁵ See PRC Docket No. N2012-1, Direct Testimony of Cheryl D. Martin On Behalf Of The United States Postal Service (USPS-T- 6) (Dec. 5, 2011), at 8 ("Additionally, the proposed service standards and the corresponding expansion of the current mail processing window will provide the Postal Service with more time to accumulate mail at an origin processing plant for eventual transport to a destination processing plant. As a result, the Postal Service will be able to increase the volumes of mail that are traveling on trucks that operate between these plants").

⁶ See PRC Docket No. N2012-1, Testimony of Harold J. Matz on Behalf of the Postal Regulatory Commission (PRCWIT-T-2) (Apr. 23, 2012), at pages 13-14 (Tr. 11/4081-82); PRC Docket No. N2012-1, Testimony of William Weed on Behalf of the Postal Regulatory Commission (PRCWIT-T-1) (as corrected on June 11, 2012), at 10-11 (Tr. 11/4180-81). In addition, during cross-examination, witness Weed discussed pages 10-11 of his testimony in response to a question from Commissioner Acton, at Tr. 11/4303-4305.

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3. Commissioner Taub asked witness Rosenberg about when the post implementation reviews (PIRs) will be performed for the two phases of consolidations. Tr. 9/2768-69. Please provide the expected timelines for the PIR process for each phase of consolidations occurring within the indicated timeframes.

- a. Phase One consolidations of approximately 48 facilities beginning on July 1, 2012 and scheduled for completion by August 31, 2012;
- b. Phase One consolidations of approximately 92 facilities beginning on January 1, 2013 and scheduled for completion by January 31, 2014; and
- c. Phase Two consolidations of approximately 89 facilities beginning on February 1, 2014 and scheduled for completion sometime in 2014.

RESPONSE

USPS Handbook PO-408 section 7.2 currently provides that the initial PIR is scheduled for completion within 30 days after the second full quarter following implementation, and that the final PIR is scheduled for completion within 30 days after the first full year of implementation. See USPS Library Reference N2012-1/3 at page 25. The Postal Service plans to amend this section to change the 30-day deadlines to two-month deadlines. It is worth noting that even though consolidations will begin this summer, not all will be complete this calendar year. For example, Mansfield OH into Cleveland is a full originating and destinating AMP. Only the originating operations are moving this summer, with the destinating operations to be consolidated in either 2013 or 2014. The PIR will be completed 60 days after the second full quarter following the *complete* implementation.

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RESPONSE to QUESTION 3 (continued)

Assuming the aforementioned change to 60 days the following hypothetical examples illustrate the expected timelines:

- a. Assume complete implementation of a particular Summer 2012 Phase 1 AMP by August 31, 2012. That date falls within FY 2012, Quarter 4. The initial PIR would contain data through FY 2013 Quarter 2, which ends March 31, 2013. The first PIR would therefore be due two months after completion, which is May 31, 2013. The final PIR would contain data through FY 2013 Quarter 4 in 2013 which ends September 30, 2013. The final PIR would therefore be due two months after completion, which is November 30, 2013.

- b. Assume implementation of a particular Phase I AMP is completed on January 31, 2014. That date falls within FY 2014, Quarter 2. The initial PIR would contain data through FY 2013 Quarter 4 which ends September 30, 2014. The first PIR would therefore be due two months after completion, which is November 30, 2013. The final PIR would contain data through FY 2014 Quarter 2, which ends on March 31, 2014. The final PIR would therefore be due two months after completion, which is May 31, 2014.

- c. Assume implementation of a particular Phase II AMP is completed on June 7, 2014. That date falls within FY 2014, Quarter 3. The initial PIR would contain data through Quarter 1 FY 2015 which ends December 31, 2014. The first PIR would therefore be due two months after completion, which is February 28,

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2015. The final PIR would contain data through FY 2015 Quarter 3 which ends June 30, 2015. The final PIR would therefore be due two months after completion, which is August 31, 2015.

Although implementation of numerous AMP consolidations may commence on a common date, completion of implementation will vary from site to site, resulting in different PIR deadlines for each AMP.