

UNITED STATES OF AMERICA  
POSTAL REGULATORY COMMISSION

*Before*

Chairman Goldway,  
Vice Chairman Acton,  
Commissioners Blair, Hammond and Langley

Six-Day to Five-Day Street Delivery  
and Related Service Changes

Docket No. N2010-1

ADVISORY OPINION ON ELIMINATION OF  
SATURDAY DELIVERY



Washington, DC 20268-0001

March 24, 2011

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## EXECUTIVE SUMMARY

The Postal Service requests a Commission advisory opinion on a plan to end Saturday delivery, Saturday outgoing mail processing, and other related service changes. The Postal Service bases its proposal on its estimate of significant cost savings, reduced overall demand for postal services, and market research that projects relatively minor volume losses in reaction to these changes.

The Postal Service recognized that its plan involved unprecedented changes and developed a number of new analyses in an attempt to accurately project the full impact of its plan. The Commission has reviewed every aspect of the Postal Service's estimates. In several instances, the Postal Service's new methodologies represent improvements, and the Commission incorporates them in its findings. In others, the evidence indicates that Postal Service projections are overly optimistic.

This advisory opinion includes several key findings.

- **The Postal Service's annual net savings estimate of \$3.1 billion (\$3.3 billion gross savings less \$0.2 billion lost revenue) is overstated by \$1.4 billion.**
- **The Postal Service's annual gross cost savings estimate of \$3.3 billion is overstated by 1.0 billion. Additionally, full savings may not be achieved until year three after implementation.**
- **The Postal Service estimates that it might lose \$0.2 billion net revenue as a result of volume declines caused by these service cuts. Net revenue losses are more likely to approach \$0.6 billion.**
- **The planned changes would cause 25 percent of all First-Class and Priority mail to be delayed.**
- **The Postal Service did not evaluate the impact of the proposal on customers who reside or conduct business in rural, remote, or non-contiguous areas.**

**Cost savings estimates:** The Postal Service estimates gross cost savings of \$3.3 billion from the proposal. The Commission accepts many of the Postal Service's new methods to estimate cost savings, but does not accept changes that are not supported in the record. Differences between the Postal Service's projections and the Commission's findings are set out in the following table.

**Financial Impact of Postal Service Plan  
(millions)**

	<b>Postal Service Savings Estimate</b>	<b>Commission Finding</b>	<b>Difference</b>
City Carriers	\$2,263	\$1,503	\$760
Rural Carriers	\$484	\$484	\$0
Transportation	\$377	\$169	\$208
Mail Processing	\$123	\$67	\$56
Post Office Operations	\$53	\$53	\$0
<b>Total Savings</b>	<b>\$3,300</b>	<b>\$2,276</b>	<b>\$1,024</b>
Lost Revenue	(\$201)	(\$587)	\$386
<b>Net Savings</b>	<b>\$3,099</b>	<b>\$1,689</b>	<b>\$1,410</b>

Savings estimates for each category of costs are discussed separately. Delivery costs, including separate analyses for city carriers and rural carriers, are examined in chapter IV, mail processing and post office operations costs are reviewed in chapter V, and mail transportation is discussed in chapter VI.

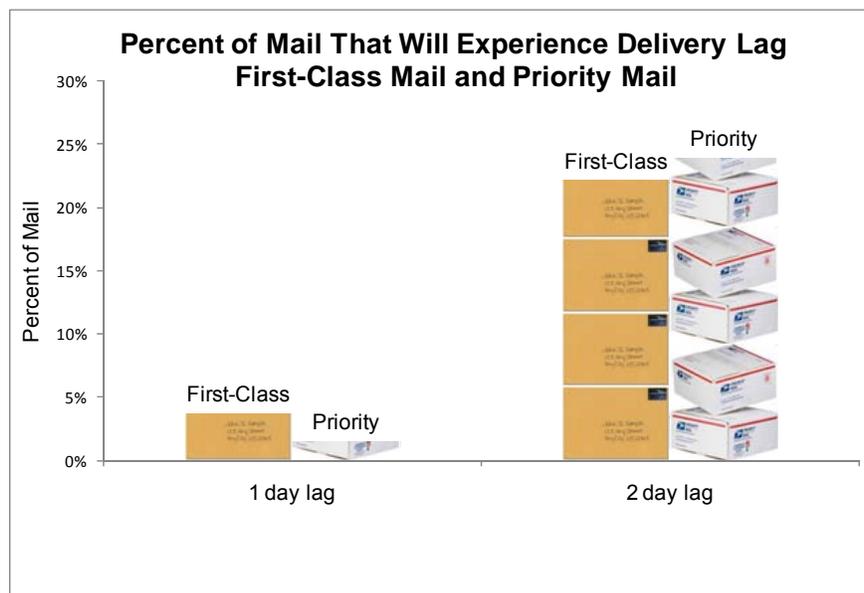
The Postal Service assumes that most mail currently processed, transported, and delivered on Saturday can be handled on Monday with only minimal additions to current Monday costs. Monday is already the heaviest delivered-volume day. The addition of Saturday volume could cause significant peak load effects impacting both costs and operations. The Commission does not alter its findings to reflect potential peak load problems, but presents a separate discussion of the potential impacts in

chapter VIII. The Commission urges the Postal Service to focus on avoiding these potential problems whether or not five-day delivery is implemented.

**Volume response:** The Postal Service used quantitative survey data to estimate mailers' likely volume response. The Postal Service improperly deflated mailers' reported volume decline projections. The Commission finds that the reported declines should not have been reduced, and determines, based on the Postal Service's survey data, that it is likely to lose almost \$600 million in net revenue due to mailer response to the proposal. Chapter VII reviews the projected revenue impact of volume losses due to the elimination of Saturday delivery.

**Impact on service:** The Postal Service characterizes the change in service as the elimination of a delivery day. The Postal Service notes currently Sunday is understood to be a non-delivery day. It contends customers will adapt to the change.

Senders and recipients of mail observe service performance in elapsed days-to-delivery. Under the Postal Service's proposal, over 25 percent of First-Class Mail and Priority Mail would be delayed, and almost all of that mail would be delayed for two days. Package services would experience similar or longer delays.



The Postal Service suggests that Express Mail and Post Office Box service might be used to continue to obtain receipt of important mail on Saturdays. These are not practical substitutes. Express Mail is more than 30 times the cost of a First-Class letter, while Post Office Box service is unavailable in some areas and imposes both a financial cost and an inconvenience on the consumer. The impact of the proposal on service is discussed in chapter IX.

The Commission also recognizes the possible impact of the Postal Service's proposal on the current service standards, which were developed by the Postal Service in consultation with the Commission. The service standards currently in place were conceived and implemented in a six-day delivery environment. Consideration is warranted as to whether these service standards should be re-evaluated in the event five-day delivery is implemented. If five-day delivery is implemented, the Commission shall carefully monitor the function of the current service standards as part of its Annual Compliance Determination, and determine if revisiting the issue is appropriate.

**Service in remote areas:** The Commission finds that the qualitative research the Postal Service used to gauge consumer reaction did not adequately consider rural and non-contiguous areas or garner feedback from any area more rural than suburban Atlanta, Georgia or Seattle, Washington.

The Postal Service's contention that broadband internet would fill in the gap in serving the population is unrealistic considering only 46 percent of rural residents, and only 35 percent of households with annual income of \$20,000 or less had broadband access in 2009.<sup>1</sup> Greater access to an adoption of new and emerging technologies should help address this gap overtime. Rural citizens who do not have access to post offices and rely on letter carriers for services available to urban citizens at post offices

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<sup>1</sup> See Federal Communications Reports (F.C.C. 10-129), released July 20, 2010, at 16-17, finding that unserved areas appear to be disproportionately lower income and rural. Percentages provided by: Horrigan, John. A. Home Broadband Adoption 2009. Pew Internet & American Life Project, June 17, 2009, <http://www.pewinternet.org/Reports/2009/10-Home-Broadband-Adoption-2009/1-Summary-of-findings.aspx>, accessed January 14, 2011.

would be disproportionately affected. The Postal Service's qualitative market research and the likely impact on specific groups also is discussed in chapter IX. The Commission identifies areas where steps should be taken to ameliorate the impact of any move to five-day delivery.

## I. INTRODUCTION

This advisory opinion examines the Postal Service's cost saving proposal to end Saturday delivery and other ancillary services. The Postal Service must comply with an inflation-based rate cap, which requires efficiency gains through cost reduction. Simultaneously, the Postal Service is to maintain universal service and service standards under the law. In this context, this advisory opinion considers the significant cost savings which result from the Postal Service's proposal to end Saturday delivery, and the requirement for universal postal services.

The Postal Service developed a 10-year plan in recognition of its need to maintain rates under the price cap regime, but also to maintain its viability in the future.<sup>2</sup> Principal among that report's findings is a determination to reduce the Postal Service's delivery frequency to five-days per week to better reflect mail volumes, usage, and realize cost savings. *Id.* at 1, 12. The Postal Service's current proposal is consistent with that plan.

This opinion examines the financial aspects of the current proposal in chapters III through VIII, and the service impact in chapter IX. Chapters I and II set forth the relevant law, context, and procedural aspects for the advisory opinion.

The Commission's advisory opinion process is a safeguard put in place by Congress to ensure that interested persons have the opportunity to have their views considered on whether nationwide changes contemplated by the Postal Service comply with the policies established by Congress in title 39. The advisory opinion, based on evidence developed during hearings in accordance with 5 U.S.C. 556 and 557, considers whether the Postal Service's planned changes conform, in terms of its objectives and effects, to the policies of section 3661 and the remainder of title 39.

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<sup>2</sup> See *Ensuring a Viable Postal Service for America, An Action Plan for the Future*, March 2010, available at [http://www.usps.com/strategicplanning/\\_pdf/ActionPlanfortheFuture\\_March2010.pdf](http://www.usps.com/strategicplanning/_pdf/ActionPlanfortheFuture_March2010.pdf).

#### A. Financial Requirements and the Rate Cap

The Postal Accountability and Enhancement Act of 2006 (PAEA) Pub L. 109-435, 120 Stat. 3198, requires the Postal Service to maintain market dominant rates under a rate cap system. 39 U.S.C. 3622(d). The rate cap necessitates that the Postal Service keep its costs in line with the level of inflation. The Commission, in a number of docketed proceedings, has made determinations on rate adjustments within the price cap regime,<sup>3</sup> and in one case denied an exigent rate adjustment request that would have relieved the Postal Service of the obligation to keep rate increases at or below the level of inflation.<sup>4</sup>

The Postal Service is under pressure to cut costs and become more efficient. According to the Postal Service, it was able to reduce its costs by \$1 billion per year from FY 2003 to FY 2006. It has continued to reduce costs to match volume declines in the last four years.<sup>5</sup> The Postal Service has gained efficiency through attrition, route restructuring, early retirement, labor negotiation, and operating flexibility.

The Commission, members of the mailing community, and the Postal Service have expended a great deal of time and resources exploring the contours of the Postal Service's authority and obligations under the rate cap regime. PAEA requirements, and in particular the rate cap, incentivize the Postal Service to make operations efficient and economical.

#### B. Requirements Regarding Service and Service Standards

Service standards are also a prominent feature of the PAEA. The PAEA carries forward a requirement from the Postal Reorganization Act that the Postal Service "develop and promote adequate and efficient postal services." 39 U.S.C. 3661(a).

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<sup>3</sup> See, e.g., Docket Nos. R2008-1, R2009-2.

<sup>4</sup> See Docket No. R2010-4.

<sup>5</sup> See Docket No. R2010-4, Order Denying Request for Exigent Rate Adjustments, September 30, 2010, at 35 (Order No. 547).

Further, when the Postal Service determines that it wants to make a substantial change in the nature of postal services, it must seek an advisory opinion from the Commission. Users of the mail are afforded a hearing on the record before the Commission's review is complete. 39 U.S.C. 3661.

The PAEA directs the Commission, at the same time it is ensuring compliance with a price cap to consult with the Postal Service to establish service standards that "preserve regular and effective access to postal services...." 39 U.S.C. 3691(b). It requires the Postal Service to maintain adequate and efficient postal services in line with the newly created service standards.

The PAEA establishes a balance between rates and service by identifying maintenance of "high quality service standards" established under section 3692 as one of the objectives of the new system for regulating rates of market dominant products. 39 U.S.C. 3622(b)(3). The PAEA also gives new authority to the Commission to determine, during its annual compliance review, if any of the service standards in effect were not met. 39 U.S.C. 3653(b)(2).

The Postal Service may not, barring exigent circumstances, raise rates above inflation. Likewise, the Postal Service may not allow service to degrade in order to comply with the rate cap. The rate cap and service requirements must operate together to ensure an efficient and affordable Postal Service.

### C. Balance Between Service and Rate Requirements

The PAEA recognizes that in order to foster efficiency gains and cost effective service, the financial constraints (rate cap, borrowing limits) complement the service requirements (service standards, a public proceeding before major changes in service, the Universal Service Obligation (USO)).<sup>6</sup> These requirements operate together to

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<sup>6</sup> Report on Universal Postal Service and the Postal Monopoly, December 19, 2008 (USO Report).

reflect national policy that Postal Service rates not exceed the rate of inflation, and that levels of service meet the Nation's needs.

The Postal Service accurately describes its present financial condition in its proposal.<sup>7</sup> The Postal Service contends that absent drastic change, its financial condition will not improve. The Postal Service identifies significant potential cost savings in its Request. It analyzes those changes in the proposal put forward to the Commission for consideration. The proposal involves eliminating Saturday delivery and initial mail processing, and other related activities.

The Postal Service examined its operations and found that a significant amount of resources are devoted to Saturday delivery. The Postal Service makes a case that there is no longer sufficient demand to justify the costs of Saturday delivery.

The Postal Service recognizes that its proposal potentially affects every sender and recipient of mail in the United States. *Id.* at 10. The Postal Service believes, however, that the impact on its customers is not substantial. Rather than focus on delayed delivery, the Postal Service states that customers would view Saturday as they currently view Sunday, and not consider the impact on service standards as a reduction in service. The Postal Service contends that its customers would prefer to absorb the reduction of service outlined in its proposal rather than rate increases.

Participants in the Commission's seven field hearings addressed the relationship between service and rate requirements.<sup>8</sup> Some state that a reduction of the type the Postal Service proposes should obviate the need for frequent or above-inflation rate increases. Several who testified commented that a reduction in service is equivalent to a de facto increase in rates. Another issue raised was the Postal Service's ability to absorb the Saturday delivery volume on Monday, its highest volume day of the week.

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<sup>7</sup> Request of the United States Postal Service for an Advisory Opinion on Changes in the Nature of Postal Services, March 30, 2010 (Request).

<sup>8</sup> The field hearings are summarized, in chronological order, in Appendix D.

The concern is with service becoming inconsistent, and not as useful to postal customers.

The Commission's analysis and stakeholder testimony demonstrate the balance between rates and service that exists under the PAEA. Under a rate cap regime, the rate cap only has meaning to the extent that reliable, efficient, and economical service is maintained. A reduction in service must be warranted by declining demand for the service, rather than to ease the obligation of adhering to the price cap.

The financial analysis presented in chapters III through VIII demonstrates that the Postal Service would likely realize two-thirds of its projected cost savings. Chapter IX of the advisory opinion shows that a quarter of First-Class Mail and Priority Mail would be delayed. Nearly all of that mail would be delayed by two calendar days or more. This refined data may assist Congress in evaluating and the Postal Service in re-evaluating the change in the balance between the PAEA rate and service requirements resulting from the Postal Service's proposal.

The Commission undertakes to quantify, as accurately as possible, the direct cost savings resulting from implementation of the Postal Service's proposal. However, the indirect ramifications of this proposed reduction cannot be fully quantified.

## II. PROCEDURAL HISTORY

### A. Legal Authority and Universal Service

Section 3661(b) of title 39 reads:

When the Postal Service determines that there should be a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis, it shall submit a proposal, within a reasonable time prior to the effective date of such proposal, to the Postal Regulatory Commission requesting an advisory opinion on the change.

In this docket, the Postal Service requests, in accordance with 39 U.S.C. 3661, an advisory opinion from the Commission. See Request at 1. The Postal Service acknowledges that there is “no doubt” that the changes espoused in its Request constitute a nationwide change in service as section 3661(b) provides. *Id.* at 10.

The Commission agrees with the Postal Service that this request for an advisory opinion on proposed service change meets the criteria of section 3661.

Section 3661(c) of title 39 establishes that the Commission must not issue its advisory opinion until it has afforded the Postal Service, users of the mail, and an officer of the Commission representing the interests of the general public with an opportunity for a hearing on the record under 5 U.S.C. 556 and 557. That section also requires that the advisory opinion be in writing and include a certification from each Commissioner agreeing that the opinion conforms with the policies established by title 39.

The Postal Service operates “as a basic and fundamental service” provided to the people by the Government of the United States. 39 U.S.C. 101. The Postal Service fulfills what is generally known as the USO. The Commission recently determined that the USO consists of seven principal attributes: geographic scope; product range; access; delivery; pricing/affordability; service quality; and an enforcement mechanism. USO Report at 18.

The Postal Service is afforded a significant amount of flexibility in determining how to meet the USO. For example, the Postal Service is able to arrange access to its physical facilities and products in such a way that it provides “ready access to essential postal services” that is “consistent with reasonable economies.” 39 U.S.C. 403(b)(3). Similarly, the Postal Service can tailor its product offerings provided that it offers certain basic types of products. The Postal Service exercises considerable flexibility in the method of delivery—*i.e.*, to the curb, cluster box, door, roadside mailbox, post office box, or general delivery. However, currently the Postal Service is constrained as to the frequency of delivery by statutory language included in annual postal appropriations that requires “six day delivery and rural delivery of mail...at the 1983 level.”

Each of the seven aspects of the USO operates in balance with the other aspects. Each element of the obligation should be carefully considered and in balance relative to the other elements. USO Report at 181, 196. In the USO Report the Commission, for the purposes of estimating the cost of the USO, found that a minimum frequency of delivery for a postal operator obligated to provide universal coverage, absent a delivery frequency mandate, would be five days per week. *Id.* at 123.

Title 39 of the United States Code sets out general postal policies as well as several specific requirements for the Postal Service. 39 U.S.C. 101(a) requires the Postal Service to provide prompt, reliable, and efficient services in all areas and communities. The Postal Service’s duties include the planning, development, promotion, and provision of adequate and efficient postal services at fair and reasonable rates throughout the United States. 39 U.S.C. 403(a). Further, the Postal Service has the responsibility to provide and maintain an efficient system of “collection, sorting, and delivery of the mail nationwide....” 39 U.S.C. 403(b)(1).

The Postal Service is specifically tasked with providing a “maximum degree of effective and regular postal services to rural areas, communities, and small towns....” 39 U.S.C. 101(b). The Postal Service must, in creating policies for the provision of its

services, “give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” 39 U.S.C. 101(e).

The Postal Service is also responsible to “provide types of mail service to meet the needs of different categories of mail and mail users; and to establish and maintain postal facilities...consistent with reasonable economies of postal operations...[for users to] have ready access to essential postal services.” 39 U.S.C. 403(b)(2)-(3). In executing its duties under title 39, the Postal Service may not, except where authorized, “make any undue or unreasonable discrimination among users of the mailers, nor shall it grant any undue or unreasonable preferences to any such user.” 39 U.S.C. 403(c).

Only two policy provisions of title 39 specifically mention delivery of mail. 39 U.S.C. 404(a)(1) requires the Postal Service “to provide for the collection, handling, transportation, delivery, forwarding, returning, and holding of mail, and for the disposition of undeliverable mail.” 39 U.S.C. 403(b)(1) gives the Postal Service responsibility “to maintain an efficient system of collection, sorting, and delivery of the mail nationwide.”

#### B. Postal Service Request

On March 30, 2010, the Postal Service filed a Request with the Postal Regulatory Commission for an advisory opinion pursuant to 39 U.S.C. 3661 regarding whether certain changes in the nature of postal services would conform to the applicable policies of title 39, United States Code. The Postal Service describes its plan as “Six-day to Five-day Street Delivery and Related Service Changes” (“Postal Service plan” or “Five-day Delivery”). Request at 1. The Postal Service estimates that its proposal will result in a net savings of \$3.1 billion annually, expressed in 2009 dollars. USPS-T-7, Attachment 3 at 2.

The Postal Service contends that its plan for elimination of Saturday street delivery, and accompanying service changes, conforms with the policies of title 39,

United States Code. Request at 11. In the face of electronic diversion and permanent changes in mailer behavior, the Postal Service states that it must implement permanent changes in the nature of postal services. USPS-T-1 at 2. The Postal Service maintains that the statutory framework of title 39 permits it to make changes such as those proposed in this docket, while still fulfilling its public service obligations. Request at 10. The Postal Service states that its plan allows it to “continue to bind the nation together...but in a more efficient and economical manner.” Postal Service Brief at 65.

Specifically, the Postal Service states that the continuation of Saturday retail operations and bulk mail entry operations operate to ensure customers have ready access to essential postal services, fulfilling the mandate of 39 U.S.C. 403(b)(3). *Id.* Likewise, the Postal Service contends continuation, on Saturday, of all Express Mail services and the continued delivery, to post offices that remain open, of post office box mail, fulfills the Postal Service’s obligation to provide expeditious collection, transportation, and delivery of important letter mail per 39 U.S.C. 101(e). *Id.* The Postal Service concludes that its proposed changes may not impact all customers equally, but do not unduly discriminate or grant undue preference in violation of 39 U.S.C. 403(c). *Id.* at 66.

The Postal Service acknowledges that many regard six-day delivery as an iconic feature of the postal system, and it could be viewed as a competitive advantage. USPS-T-1 at 3. However, the Postal Service contends that to effect meaningful change in its financial position, it must make decisions that will result in controversial service reductions. *Id.* Other non-controversial changes are not likely to offer significant savings according to the Postal Service. *Id.*

The Postal Service maintains that delivery frequency may be reduced, but access is still available through the Postal Service’s retail locations. *Id.* at 4. To ensure that it provides options to customers, it states that Saturday post office box delivery will continue, and Express Mail will continue to be collected, processed, and delivered on Saturdays. *Id.*

The Postal Service, in developing its plan, consulted with its Mailers Technical Advisory Committee (MTAC)<sup>9</sup> to brief the industry as plans were being developed. *Id.* at 7. As a result of the understanding developed from consultation with stakeholders, the Postal Service adjusted its plan. *Id.* The Postal Service removed both Express Mail collection and remittance mail acceptance and processing from its proposed service reductions.

Commission rules require that a request for an advisory opinion be filed not less than 90 days in advance of the date on which the Postal Service proposes to make effective the change in the nature of postal services involved. The Request indicates that the Postal Service intends to implement the service changes during FY 2011, which began on October 1, 2010. *Id.* at 10.

The Postal Service recognizes the need to provide adequate notice to the public before a change of this magnitude occurs and states that, assuming this advisory opinion is issued, if the Postal Service announces implementation of five-day delivery at the end of the year, the earliest implementation could occur would be six months later. Postal Service Brief at 44.

The Postal Service acknowledges that current appropriations requirements to maintain six-day delivery would need to be altered for it to proceed with its five-day delivery plan. Request at 8. The Postal Service also intends to “strive to inform the Congress why the enactment of any barrier to the general implementation of regular five-day mail delivery in fiscal year 2011 would not be in the public interest.” *Id.*

In support of its Request, the Postal Service initially filed 11 pieces of direct testimony, 10 library references, and two nonpublic library references.

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<sup>9</sup> MTAC is a group composed of the major mailing associations and organizations working with the Postal Service to enhance the value of mail. It includes multiple groups that examine specific issues before the Postal Service, and is a forum for industry to provide input on important Postal Service plans and actions.

The Postal Service acknowledges that the service changes it describes in this docket are not solutions for all of its long-term financial ills, but it claims that the changes represent an opportunity for substantial improvement. Request at 4.

The Postal Service notes that despite the long tradition of six-day delivery, it is not mandated in title 39, or in either the Postal Reform Act of 1970 or the PAEA. *Id.* at 5-6. The Postal Service also points to conditional support for the proposition of five-day delivery from the President's Commission on the United States Postal Service which hypothesized that a reduction in demand may allow for the relaxation of the six-day delivery requirement.<sup>10</sup>

The Postal Service offers an overview of the plan and the outline for testimony of the supporting witnesses. The Postal Service indicates that Samuel Pulcrano (USPS-T-1) generally describes the changes it proposes. The financial background giving rise to the plan is set forth in the direct testimony of Joseph Corbett (USPS-T-2). Postal Service witnesses Dean Granholm (USPS-T-3), Frank Neri (USPS-T-4) and Luke Grossmann (USPS-T-5) explain the proposed changes to delivery, mail processing, and transportation, respectively.

Postal Service witnesses Michael Bradley (USPS-T-6) and Jeffrey Colvin (USPS-T-7) estimate the cost savings that could be achieved if those changes are implemented, totaling \$3,300 million. Witness Rebecca Elmore-Yalch (USPS-T-8) provides quantitative market research to gauge customer volume response to planned changes. Witness Gregory Whiteman (USPS-T-9) utilizes the quantitative market research to estimate the potential revenue loss the Postal Service may experience as a result of implementing its proposed changes. The Postal Service estimates approximately \$200 million in revenue loss resulting from implementation of five-day delivery.

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<sup>10</sup> President's Commission on the United States Postal Service: *Embracing the Future: Making the Tough Choices to Preserve Universal Mail Service*, July 31, 2003, at 29.

Witness Thomas Day (USPS-T-10) clarifies the effects of the changes in service performance measurement that would be implemented in correlation with the planned operational changes. Finally, witness Stephen Kearney (USPS-T-11) describes the tools and techniques the Postal Service would use to effectively communicate with stakeholders, acknowledging that the proposed service changes are likely to affect most senders and recipients of mail served by the Postal Service.

The Commission issued Order No. 436 to establish this docket, announce the filing of the Request, notice the proceeding in the *Federal Register*, and declare the Commission's intent to provide an opportunity for a formal, on the record hearing of the Request under the terms specified in sections 556 and 557 of title 5 of the United States Code.<sup>11</sup> Order No. 436 also established a deadline for intervention, set a date for a prehearing conference, and pursuant to 39 U.S.C. 3661(c), designated an officer of the Commission to represent the interests of the general public.

Twenty-nine users of the mail (as referenced in 39 U.S.C. 3661(c)), not including the Postal Service or the Public Representative, intervened in this docket. A list of all parties and associated counsel or representative, including party name abbreviations used throughout this document, appears in Appendix A.

The prehearing conference was held on April 27, 2010 to elicit views regarding establishment of a procedural schedule, including the length of the discovery period, the need for a hearing, and the possibility of participants filing rebuttal testimony. Based in part upon this input, the Presiding Officer issued a scheduling ruling to provide direction to the proceeding.<sup>12</sup>

During the prehearing conference, the Commission indicated its plan to hold public field hearings outside of the Washington, D.C. area "for the purpose of

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<sup>11</sup> Notice and Order Concerning a Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, April 1, 2010 (Order No. 436); *see also* 75 FR 17789 (April 7, 2010).

<sup>12</sup> Presiding Officer's Ruling Establishing Procedural Schedule, April 28, 2010.

developing the record on the attitudes and needs of the postal stakeholders throughout the nation that might be impacted by” the Postal Service’s proposal. Tr. 1/38. Field hearings took place in Las Vegas, Nevada, on May 10; Sacramento, California, on May 12; Dallas, Texas, on May 17; Memphis, Tennessee, on May 19; Chicago, Illinois, on June 21; Rapid City, South Dakota, on June 23; and Buffalo, New York, on June 28. A list of panelists and public speakers referenced in the transcripts for each field hearing appears in Appendix B.

Hearings to enter the Postal Service’s direct case and provide an opportunity for participants to orally cross-examine Postal Service witnesses were held July 14, 16, and 20-22, 2010.

#### C. Field Hearings and Congressional Testimony

The Commission held field hearings at seven geographically diverse locations to garner feedback from the mailing community outside the Washington, D.C. area and to include those stakeholders that may not be able to participate in the docket in Washington. U.S. Senators Daniel K. Inouye (HI), Daniel K. Akaka (HI), Lisa Murkowski (AK), and Mark Begich (AK) requested that the Commission hold field hearings in Hawaii and Alaska to better understand the unique role postal services play in those states.<sup>13</sup> The Commission was unable to travel to those states to hold field hearings. Senators Akaka and Murkowski were able to submit testimony to the Commission highlighting the special challenges residents of non-contiguous states face in relation to the mail. Congressman Danny K. Davis (IL) attended the Chicago field hearing. The Commission appreciates the participation in its field hearings and the Congressional testimony.

The Commission utilized the field hearings and testimony of United States Senators as background information to assist in the development of the record through

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<sup>13</sup> Testimony by Senators Akaka and Murkowski is summarized in Appendix E.

Chairman's Information Requests (CHIRs), and to gain better understanding of subjective views of individual mailers. Intervenors also propounded discovery based on issues developed in the field hearings. Although the Commission did not rely upon the field hearing transcripts as record evidence in this case, as is required by sections 556 and 557 of title 5, the testimony was useful.

The field hearings enhanced the Commission's understanding of the views of Postal Service customers, including individuals, small businesses, and large corporations, as well as Postal Service employees. The Commission heard from dozens of stakeholders from various parts of the country, all with diverse interests. Due to the field hearings, the Commission heard from communities and customers that may be particularly impacted by the Postal Service's proposal.

Many of the mailers participating in the Commission's field hearings testify that they would prefer a service reduction that leads to predictable and stable prices, rather than the possibility of a rate increase. See Dallas Field Hearing at 76, 79, 82; Chicago Field Hearing at 29, 99; Sacramento Field Hearing at 16, 33; Buffalo Field Hearing at 21, 24, 91; Rapid City Field Hearing at 15. Several witnesses urge the Commission to consider the Postal Service's plan, not as a standalone decision to move to five-day delivery, but as part of a comprehensive plan to ensure a viable Postal Service. See Buffalo Field Hearing at 24, 40, 98, 126, 133; Chicago Field Hearing at 32, 43. Many of the mailers support five-day delivery as an acceptable alternative to higher rates and a rational response to the Postal Service's financial condition. Dallas Field Hearing at 8-9, 72, 76; Memphis Field Hearing at 103, 108, 115; Chicago Field Hearing at 99; Sacramento Field Hearing at 16, 33; Las Vegas Field Hearing at 50; Buffalo Field Hearing at 20, 28, 30, 40, 80; Rapid City Field Hearing at 10, 15.

On the other hand, the Commission heard that the Postal Service's plan may have a negative impact on some mail order pharmaceutical businesses and customers. See Las Vegas Field Hearing at 32; Chicago Field Hearing at 38. One mail order pharmacy called six-day delivery "critical" for patients' health. Chicago Field Hearing

at 25. A large mail order prescription drug fulfillment company contends that five-day delivery would disproportionately impact the elderly and less mobile, in addition to rural residents. Las Vegas Field Hearing at 15.

Several newspapers, especially smaller rural publications, contend that the Postal Service's proposal will disproportionately affect newspapers. Dallas Field Hearing at 14-15, 43; Memphis Field Hearing at 38; Chicago Field Hearing at 143. Some newspapers state that they would probably establish private delivery to replace the loss of Saturday delivery, and may abandon the mail altogether for a newly established private delivery service. Dallas Field Hearing at 20, 36; Memphis Field Hearing at 38; Chicago Field Hearing at 144, 156. Some newspapers request that the Postal Service widen the exception to the mailbox monopoly that in limited circumstance allows newspapers to deliver to the mailbox on Sundays. See, e.g., Chicago Field Hearing at 144.

Several election officials raise concerns about the impact of the Postal Service's proposal on voter registration and voting by mail, and call for significant voter education or support from the Postal Service. Other election officials support the Postal Service's proposal, as long as they are given adequate notice to change their procedures. Dallas Field Hearing at 23, 29; Sacramento Field Hearing at 53-54.

Other witnesses representing associations of large mailers, printers and preparers of mail, and small business testified that the elimination of Saturday delivery would diminish the value of the mail and make it more difficult for mailers to use the mail in their businesses. Dallas Field Hearing at 62, 92, 128; Chicago Field Hearing at 28, 93, 99-100, 123; Las Vegas Field Hearing at 66; Buffalo Field Hearing at 138; Rapid City Field Hearing at 12, 24, 27, 50, 56.

One field hearing participant who runs a business specializing in measuring service performance with the Postal Service questions the Postal Service's ability to process and deliver Saturday volume without degrading service on other days. Chicago

Field Hearing at 167-68. Private post office box operators (CMRAs) also said that the Postal Service is diminishing the value of the services that they offer, while at the same time competing unfairly by retaining post office box delivery on Saturday. Las Vegas Field Hearing at 21; Chicago Field Hearing at 150-51.

A number of those appearing at the field hearings suggest that the Postal Service must re-evaluate its service standards in light of its proposed elimination of Saturday delivery. Specifically, the Postal Service should measure its service standard in elapsed days rather than “postal days.” Dallas Field Hearing at 100-01; Memphis Field Hearing at 86; Chicago Field Hearing at 87, 140; Buffalo Field Hearing at 107; Rapid City Field Hearing at 29, 31.

A rural carrier who serves Mennonite communities contends that those communities rely completely on the Postal Service for their communication needs. Buffalo Field Hearing at 150. Similarly, a rural carrier in South Dakota notes that some of his customers would have to drive 30 to 50 miles to a post office to conduct business on a Saturday. Rapid City Field Hearing at 50. Senator Murkowski provides insight into some unique challenges Alaskans face and the role the Postal Service fulfills in easing those challenges. Senator Murkowski notes the extreme isolation of rural communities in Alaska in comparison to rural and urban communities in the contiguous states, Tr. 10/2817, and contends that the Postal Service’s plan to reduce Saturday delivery would not just be an inconvenience for Alaskans, but a loss of a vital service that provides necessities for life. *Id.* at 2818.

Senator Akaka states, that due to a combination of “logistical, physical, and financial barriers,” including the need to distribute mail to six islands, mail service in the state moves more slowly.<sup>14</sup> Senator Akaka also raises the point that non-First-Class Mail is moved over water on cargo vessels. *Id.* at 1. Despite these challenges, Senator

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<sup>14</sup> Senator Daniel K. Akaka, Prepared Remarks: The Impact of Eliminating Saturday Delivery Service on the People of Hawai‘i, October 4, 2010.

Akaka states that residents of Hawaii are dependent on the Postal Service to deliver important mail items. *Id.* Senator Akaka notes that small businesses, including community newspapers in Hawaii, would be impacted under the Postal Service's plan. *Id.* at 2. Senator Akaka notes that the Postal Service provides a predictable and affordably priced service compared to any of its competitors. *Id.*

Senator Akaka contends that the Postal Service's alternatives to Saturday delivery, namely post office box rental or express mail, are infeasible as a substitute for most of the residents of Hawaii to receive essential postal services such as prescription drug delivery or vote by mail mailpieces. *Id.* Senator Akaka encourages the Commission to gather more information and create sound, independent analysis balancing the savings the Postal Service would achieve, and the impact that the proposed service reductions may have on the USO. *Id.*

During her testimony before the Commission, Senator Murkowski pointed out that the impact of the Postal Service's proposal on Alaska exemplifies some of the concerns present in rural America. Tr. 10/2814. The Senator contends that reliance on mail delivery, in both Alaska and Hawaii, is for basic and necessary items and may not resemble the usage by people in other states. *Id.* Senator Murkowski notes that remote areas of Alaska face unique transportation, terrain, and weather challenges that combine to increase the amount of time needed for mail delivery. *Id.* at 2815. Specifically, Senator Murkowski notes that 82 percent of the communities in Alaska are not connected by road. *Id.* at 2816.

Notwithstanding these impediments to delivery, and the vast distances between communities in Alaska, the Senator notes that the Postal Service is a lifeline for residents that may not have access to a pharmacy in their communities. *Id.* at 2818. Senator Murkowski notes that renting a post office box to ensure delivery of such medication is not an acceptable alternative to Saturday delivery due to the cost of renting a box and the number of boxes available. *Id.* at 2819-31. Overall, Senator Murkowski states that the Postal Service's proposal will lead to "further breakdown of an

already strained system in our small communities...” and “further disintegration of the Postal Service[’s] market share....” *Id.* at 2822-23.

In summary, while many mailers accept the Postal Service’s proposed changes as a way to create savings without raising rates, many other stakeholders express concern for the impact that each would feel directly. Congressman Danny Davis addressed the Commission at its Chicago field hearing and summarized those concerns: “The notion of five-day delivery [is] in the hearts and minds of many people...” and “people express concerns.” Chicago Field Hearing at 9. The Commission’s Office of Public Affairs and Government Relations received over 20,000 informal comments on this docket, the most in the 40-year history of the Commission. While a significant majority of these comments oppose the Postal Service’s proposal, most of these comments appear to have been offered by Postal Service employees.

#### D. Rebuttal, Surrebuttal and Briefs

Four parties filed rebuttal testimony. NNA sponsors testimony by Max Heath (NNA-T-1) and Al Cross (NNA-T-2). See Appendix C. Medco filed rebuttal testimony by Thomas Moriarty (Medco-T-1), but subsequently withdrew the testimony citing burdensome discovery requests from the Postal Service.<sup>15</sup> The Public Representative sponsors testimony by Oregon Secretary of State Kate Brown (PR-T-1) and Edward Luttrell (PR-T-2). See Appendix C. National Association of Letter Carriers sponsors testimony by Fredric V. Rolando (NALC-T-1), William H. Young (NALC-T-2), Stephen DeMatteo (NALC-T-3), Michael A. Crew (NALC-T-4), and Michael J. Riley (NALC-T-5). *Id.*

Hearings to enter the parties’ rebuttal cases and provide an opportunity for participants to orally cross-examine rebuttal witnesses were held September 13-14 and

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<sup>15</sup> Motion of Medco Health Solutions to Withdraw Testimony of Thomas Moriarty (T-1), August 13, 2010; see *also* Presiding Officer’s Ruling Granting Medco Motion to Withdraw Testimony of Thomas Moriarty, August 23, 2010.

16, 2010. The Postal Service indicated its intent to file surrebuttal testimony on September 10, 2010, and asked that the hearing date previously scheduled be moved to accommodate a Postal Service witness.<sup>16</sup> On September 13, 2010, the Presiding Officer granted the Postal Service's request and scheduled the remainder of the docket.<sup>17</sup>

The Postal Service sponsors surrebuttal testimony by Peter Boatwright (USPS-RT-1), Alan Moore (USPS-RT-2), Melissa Starr (USPS-RT-3), and Samuel Pulcrano (USPS-RT-4). See Appendix C. A hearing to enter the Postal Service's surrebuttal testimony and provide an opportunity for oral cross-examination of surrebuttal witnesses was held October 4, 2010.

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<sup>16</sup> Motion of the United States Postal Service to Reschedule Surrebuttal Testimony Hearing and Filing of Briefs, September 10, 2010.

<sup>17</sup> Presiding Officer's Ruling Adjusting the Procedural Schedule and Other Procedural Matters, September 13, 2010.

Briefs were filed by APWU, Carlson, GCA, NALC, NNA, NPMHU, Popkin, the Postal Service, the Public Representative, and Valpak.<sup>18</sup> Reply briefs were filed by APWU, NALC, the Postal Service, the Public Representative, and Valpak.<sup>19</sup>

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<sup>18</sup> Initial Comments of the American Postal Workers Union, AFL-CIO, October 18, 2010 (APWU Brief); Douglas F. Carlson Initial Brief, October 15, 2010 (Carlson Brief); Initial Brief of the Greeting Card Association, October 15, 2010, as amended by Errata, October 18, 2010 (GCA Brief); Brief of Intervenor National Association of Letter Carriers, AFL-CIO, October 15, 2010 (NALC Brief); Initial Brief of the National Newspaper Association, October 15, 2010 (NNA Brief); Statement of the National Postal Mail Handlers Union, October 15, 2010 (NPMHU Brief); Initial Brief of David B. Popkin, October 15, 2010 (Popkin Brief); Initial Brief of the United States Postal Service, October 15, 2010 (Postal Service Brief); Public Representatives' Brief, October 15, 2010 (PR Brief); and Initial Brief of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc., October 15, 2010 (Valpak Brief).

<sup>19</sup> Reply Brief American Postal Workers Union, AF-CIO, October 25, 2010 (APWU Reply Brief); Reply Brief of Intervenor National Association of Letter Carriers, AFL-CIO, October 25, 2010 (NALC Reply Brief); Reply Brief of the United States Postal Service, October 25, 2010 (Postal Service Reply Brief); Public Representatives' Reply Brief, October 25, 2010 (PR Reply Brief); and Reply Brief of Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc., October 25, 2010 (Valpak Reply Brief).

### III. FINANCIAL CONDITION AND PROJECTED COST SAVINGS

#### A. Introduction and Summary

This section of the advisory opinion summarizes the Postal Service's financial circumstances that give rise to the proposal. It then examines the Postal Service's cost savings proposal to determine the effect on the Postal Service's financial condition.

#### B. Business Model and Financial Condition

The Postal Service contends that the model of using revenues from expanding volumes to cover rising costs is no longer viable. USPS-T-2 at 3. The Postal Service suggests that due to its financial condition and prospects, the move to five-day delivery is "inevitable." Tr. 2/254.

Due to a combination of declining mail volume and the mandates placed on the Postal Service by Congress, the Postal Service has reported a net loss in each of the last four fiscal years. USPS-T-2 at 3. In FY 2009, the Postal Service experienced a 26 billion piece drop in mail volume, the largest decline in its history. *Id.* The Postal Service states that it has a cumulative net loss of \$11.7 billion over the last three fiscal years. *Id.* The losses are in spite of aggressive cost cutting by the Postal Service, which has yielded an average annual savings of over \$1 billion since 2000. *Id.* at 4-5.

The Postal Service experienced negative cash flow in the last three fiscal years, and anticipates that its borrowing cap of \$15 billion may not be sufficient to see it through FY 2011. *Id.* at 6. In spite of a 2008 rate increase, the Postal Service experienced a revenue decrease in FY 2008, in part due to a precipitous decline in the use of First-Class Mail. *Id.* at 10.

The Postal Service contends that its "legislated postal business model" is dependent upon the assumption that citizens' use of mail will continue to grow each year. *Id.* at 7. The Postal Service claims that the price cap constraint, combined with

high standards of service performance and an expanding network of delivery points, makes it challenging to respond to declines in mail volume. *Id.* at 8. The Postal Service explains that costs rise with an expanding delivery network. Tr. 4/762-63. The Postal Service reports that it has experienced a decline in volume per delivery point (five pieces per point in 2000, to below four pieces in 2009) along with a corresponding decline in revenue around 25 percent. USPS-T-2 at 10-12.

The Postal Service concludes that its financial outlook for the next 10 years is dire. It expects that mail volumes and revenue will steadily decline and result in large cumulative losses. *Id.* at 13-14. The Postal Service contends that no single action or concession by stakeholders can solve its dilemma, and it must seek a multifaceted solution including the changes proposed in this docket. *Id.* at 14. The Postal Service claims that reduction of delivery days from six to five “is the only structural change...that can reasonably [and] promptly provide needed relief on a multi-year basis in amounts which begin to close the gap.” *Id.*

The Postal Service emphasizes the “steady and precipitous declines in mail volume” experienced over the past few years. Request at 3-4. It contends that the evolution of the industry has placed the Postal Service in an unsustainable position despite aggressive cost cutting. *Id.* at 4. That position is a direct catalyst for the service changes proposed in this docket. *Id.* The Postal Service states that there is no basis for expecting any reversal of the underlying non-cyclical industry trends. *Id.* at 8-10. It cites as an example, a customer that makes a transition to automatic payments is unlikely to revert. Tr. 3/566.

NALC states that although revenue per delivery point fell 23 percent from 2000 to 2009, cost per delivery point fell 19 percent. NALC Brief at 9. This complimentary decline, NALC states, is evidence that the Postal Service’s financial position is not as dire as it portrays. *Id.* NALC points out the uncertainty of volume estimates, and points to many previous inaccurate projections that mail volume would peak and decline at various times in the Postal Service’s history. Tr. 3/637-47. NALC contends that there is

no evidence to support the Postal Service's prediction of long-term volume declines. NALC Brief at 16; see *also* NALC Reply Brief at 5-6. NALC also urges caution because it views the Postal Service's transition to five-day delivery as irreversible. NALC Brief at 48.

The Postal Service responds that the decline of delivery costs per delivery point reflects improved automation productivities, but does not take into account systemwide costs that have grown, such as the requirement to prefund retiree health benefits. Postal Service Reply Brief at 23-24. The Postal Service also states that a better measure of its financial position is provided by a comparison of real total revenue and real delivery costs. That gap has grown significantly faster. *Id.* at 24. Further, the Postal Service answers NALC's criticism that sustained volume losses are speculative by pointing to the trend of electronic diversion. *Id.* at 27-28.

The Commission is aware that the Postal Service faces severe long-term financial challenges and discussed these issues at length recently in Order No. 547, evaluating the Postal Service request for an exigent rate increase. See Order No. 547 at 33-37, 49-53.

### C. Alternative Sources of Cost Savings

NALC contends that during its last contract negotiations, it proposed a package that it estimated would save hundreds of millions annually. The Postal Service did not accept those proposed savings. Tr. 8/2297-98. NALC also claims that the Postal Service should consider alternatives to the drastic decision of eliminating Saturday delivery. *Id.* at 2375. NALC suggests that the Postal Service consider targeted price increases, increasing rates for products that are below costs, and reassessing worksharing discounts. *Id.* at 2376.

The Postal Service responds that NALC's proposed savings included conditions that the Postal Service and NALC were unable to agree upon. Tr. 11/3091-92.

However, the Postal Service states that through the agreement made in 2006, value equal to or greater than NALC's proposal was attained through the ability to use Transitional Employees. *Id.* at 3092.

NALC also contends that the elimination of Saturday delivery is not necessary because the Postal Service's financial predicament is due to the PAEA's requirement to prefund health benefits and the recession. *Tr.* 8/2307. NALC characterizes the prefunding requirement as "unfair" and suggests that Congress change that requirement. *Id.* Similarly, NALC states that the Postal Service has been unfairly overcharged \$75 billion in retiree pension costs, and that a refund of that overpayment would be enough to prefund all of the Postal Service's retiree health obligations and pay off the Postal Service's outstanding debt. *Id.* NALC also calls for reasonable rate increases to improve the Postal Service's financial condition. *Id.* at 2308-09.

NALC notes that the Postal Service's financial instability would not be remedied by a shift to five-day delivery. NALC Reply Brief at 3-4. NALC notes that if Congress acts to lift the requirement to prefund retiree health benefits, a shift to five-day delivery would not be necessary. *Id.* at 4. Overall, NALC encourages the Postal Service to focus on meeting the needs of its customers to remedy its financial ills. *Id.* at 11-12. NALC sees expanded services and services targeted to customer needs as a viable alternative to cutting costs. *Id.* at 12.

The Postal Service responds that its financial instability is a long-term problem of accrued expenses exceeding accrued revenues, and a long-term solution is required. Postal Service Reply Brief at 20-21. The scope of the problem, the Postal Service contends, is far broader than just a short-term cash flow issue. *Id.* The Postal Service believes its proposal is necessary to have an operating structure that is sustainable and allows it to systematically pay down its accrued debt. *Id.* at 23.

The Postal Service states that if it had not been for the obligation to prefund its retiree health benefits, it would have broken even over the last three fiscal years

(2007-2009). Tr. 2/267. The Postal Service confirms that if it were credited with the \$75 billion estimated overpayment of retirement benefits that it made to the Civil Service Retirement System (CSRS), the impetus for a shift to five-day delivery would be unnecessary for the foreseeable future. Tr. 3/571. The Postal Service states that it is expending every effort to get that relief from Congress. *Id.* at 590. The Postal Service acknowledges that the most important mechanism to return to financial viability is to restructure its retiree health benefit prefunding. *Id.* at 682.

Valpak asserts that due to a September 24, 2010 development in which the Office of Personnel Management stated it did not have the authority to reallocate CSRS payments, relief from the Postal Service's overpayment to the CSRS will not be forthcoming unless explicitly authorized by Congress. Valpak Brief at 3. Similarly, Valpak asserts it appears unlikely the Postal Service will be afforded relief from its obligation to prefund its retiree health benefits because Congress did not provide any end-of-year relief at the close of FY 2010. *Id.* at 4.

Valpak encourages the Commission not to base its advisory opinion on speculation that Congress may act to lift the requirement that the Postal Service prefund its retiree health benefits. Valpak Reply Brief at 3-4. Valpak instead contends that the proposal must be examined based on the fact that it is an attempt to align its business model in light of volume changes. *Id.* at 4.

This advisory opinion examines the cost savings identified by the Postal Service in its proposal. Any action by Congress to address the Postal Service's prefunding retiree health benefits or CSRS overpayment is outside the scope of this docket.

#### D. Cost Savings Associated with Implementation of Five-Day Proposal

In this Request, the Postal Service calculates cost savings from eliminating Saturday delivery as the difference between actual FY 2009 costs and estimated costs under a five-day scenario. The Postal Service assumes that savings can be realized

within a year of implementation of the proposed changes. Its analysis assumes that FY 2009 market and operating conditions would be replicated year after year; therefore, the cost savings estimated would recur annually.

The Postal Service's methodology for calculating city delivery savings differs from the methodology it uses to calculate rural delivery savings. The Postal Service concludes that 90 percent of the total city carrier workhours currently used to deliver mail on Saturday would be saved upon elimination of Saturday delivery. For rural carriers, only the fixed workhours are assumed to be saved due to the structure of rural carrier compensation.

Because the Postal Service is proposing to eliminate outgoing mail processing on Saturday, it also calculates cost savings related to mail processing and transportation. For mail processing, the Postal Service uses expert opinion to determine the estimated savings. The Postal Service estimates transportation savings with the assumption that no extra trips would be needed on weekdays to transport volume currently moved on Saturday and Sunday. The Postal Service incorporates costs related to Saturday post office box delivery and the continuation of Express Mail delivery in its savings estimate.

Taken as a whole, the proposed method differs substantially from previous methods used by both the Commission and the Postal Service to estimate cost savings related to five-day delivery. In the USO Report, the Commission assumed that only non-volume variable costs related to delivery would be saved. Consequently, the savings were calculated as one-sixth of delivery-related institutional costs plus indirect costs calculated using a piggyback factor. No savings related to mail processing or transportation were estimated.

The Commission analyzes the Postal Service's cost savings estimate in the context of previous analysis done by both the Commission and the Postal Service in their respective USO reports. The Commission reviews each component of the Postal

Service's costing methodology, and determines whether each new proposed method represents an improvement over the previous methods used by the Commission and the Postal Service. In instances where the costing methodology, or a portion of that methodology represents an improvement, the Commission adopts and incorporates it into the cost savings calculations. In instances where there is not enough evidence in the record to show that the new methodology is an improvement, the Commission utilizes the previous methodology used by the Postal Service or the Commission.

The Commission estimates city delivery cost savings incorporating the Postal Service's improvements to the wage rate and the indirect costs (piggyback) effects but including only fixed cost savings. The Commission's estimate differs from the Postal Service's proposal in the areas of mail processing and transportation. For mail processing, the Commission does not find the Postal Service's estimates for allied operations persuasive and instead calculates the savings using the volume variability analysis presented in the 2009 Annual Compliance Report (ACR). For transportation, the Commission finds added weekday highway trips would be needed to transport added weekday volume. Detailed discussions of these differences follow in this section. The table below provides a summary comparison of the two savings estimates by cost segment.

**Comparison of Estimated Cost Savings**

<b>Activity</b>	<b>USPS</b>	<b>PRC</b>	<b>Difference</b>
City Carriers	\$2,263	\$1,503	\$760
Rural Carriers	484	484	0
Transportation	377	169	208
Mail Processing	123	67	56
Post Offices	53	53	0
Total Operations	\$3,300	\$2,276	\$1,024
Foregone Contribution	(\$201)	(\$587)	\$386
Total Operations	\$3,099	\$1,689	\$1,410

The following three chapters set forth the cost savings under the Postal Service's analysis and the Commission's analysis. Chapter IV outlines the delivery cost savings, which comprise the bulk of the savings under the Postal Service's proposal. Chapter V shows the savings from mail processing activities. Chapter VI derives the mail transportation savings. Chapter VII discusses the Postal Service's quantitative market research, and the projections of the volume and revenue impact of eliminating Saturday delivery derived from that research. Chapter VIII does not impact the cost savings estimate, but discusses the peak load issues that may have a significant impact on the Postal Service's operations if it moves to five-day delivery.

Each chapter sets out the Postal Service's savings estimates and methodologies for calculating the savings estimates. Following the Postal Service's methods and estimates, the Commission's analysis and alternative calculations are shown.

The Commission finds that the Postal Service undertook the task of estimating the cost savings from its five-day delivery in a comprehensive manner. The Postal Service made significant improvements to estimates of savings resulting from five-day delivery that were undertaken in the past. However, the Commission finds that the Postal Service's estimates of delivery savings and mail processing savings are overstated. The Commission incorporates the improvements offered by the Postal Service along with its own analysis, and determines that the likely gross annual cost savings from the five-day proposal, before any offset in revenue reduction is applied, is \$2,276 million. Further, the Commission's analysis shows that this annual savings figure will likely not be reached before FY 2014, even if the Postal Service implements five-day delivery in 2011.

E. Cost Savings Impact on Provision of Adequate and Efficient Services Aspect of the USO

As part of its USO, the Postal Service is required to provide adequate and efficient postal services. The concept of efficiency appears in several places in title 39 in relation to the provision of postal services.<sup>20</sup>

Other provisions require the Postal Service to provide types of service that meet the needs of different categories of mail and mail users. See 39 U.S.C. 403(b)(2). The requirements of efficiency and meeting customers' needs, coupled with the service requirements discussed in the previous subsections, provide that the Postal Service must efficiently offer necessary service to its customers at fair and reasonable rates.

Title 39 generally describes the requirements that the Postal Service provide adequate service,<sup>21</sup> avoid closing small post offices solely because they may operate at a deficit,<sup>22</sup> and a proceeding for users of the mail to raise concerns if the Postal Service elects to change its service.<sup>23</sup>

In its proposal, the Postal Service maintains that customer demand for and use of Saturday delivery do not justify its cost. It believes that in order to best balance the needs of all its customers, Saturday delivery should be eliminated. Otherwise, users of the postal system are paying for network capacity that the Postal Service contends is

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<sup>20</sup> 39 U.S.C. 101(a), setting forth the postal policy of the Nation, requires the Postal Service to "provide prompt, reliable, and efficient services to patrons...." Likewise, section 403(a) requires the Postal Service to provide "adequate and efficient postal services at fair and reasonable rates...." Similarly, section 3661(a) directs the Postal Service to "develop and promote adequate and efficient postal services." See USO Report at 31-32 n.12.

<sup>21</sup> Annual appropriations acts for 28 years require that "six day delivery and rural delivery of mail shall continue at the 1983 level."

<sup>22</sup> 39 U.S.C. 101(b), which requires that the Postal Service provide a maximum degree of effective and regular postal services to rural areas, and where post offices are not self-sustaining. Congress articulates its specific intent that "effective postal services be insured to residents of both urban and rural communities."

<sup>23</sup> 39 U.S.C. 3661(b), which requires an advisory opinion with formal hearing requirements, such as this opinion, when the Postal Service proposes to change service on a nationwide or substantially nationwide basis.

unnecessary. The Postal Service contends its proposal is a way to make its system more efficient, and to provide relief from the financial instability that accompanies the precipitous decline in volume it experienced over the last decade.

The Commission supports the Postal Service in its attempt to regain financial stability. In Docket No. R2010-4, the Commission discusses the cause of the liquidity problem—the aggressive prefunding of the Postal Service’s Retiree Health Benefit Fund (RHBF). Order No. 547 at 68-74. The Commission also endorses the restructuring of the Postal Service’s requirement to prefund the RHBF.<sup>24</sup>

The benefit conferred by the Postal Service’s plan is a significant reduction in operating costs. If the Postal Service is unable to secure a restructuring of the RHBF prefunding payments, the elimination of six-day delivery will contribute a portion of the savings required to keep the Postal Service solvent. The question, in terms of the USO, that Congress and the Postal Service will examine, is whether the long-term cost savings from eliminating Saturday delivery justify the service reductions resulting from this plan.

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<sup>24</sup> See Testimony of Chairman Ruth Y. Goldway, Postal Regulatory Commission Before the U.S. House of Representatives Committee on Oversight and Government Reform and the Subcommittee on Federal Workforce, Postal Service, and the District of Columbia, April 15, 2010.

#### IV. CALCULATION OF DELIVERY COST SAVINGS

##### A. Introduction and Summary

For delivery cost savings, the Postal Service separately estimates savings related to city carrier street time, city carrier in-office time, rural carriers, and indirect savings. The Postal Service uses methodologies that differ from previous attempts by both the Commission and the Postal Service to determine its likely savings from five-day delivery. In this chapter, the Commission presents each of these methodologies, analyzes them, and determines whether to incorporate the new methodology, part of the new methodology, or to use the method previously used by the Commission and the Postal Service.

The Commission finds the Postal Service is likely to have an annual delivery savings of \$1,987 million. This differs from the Postal Service estimate of \$2,747 million by \$760 million. The principal difference in the Commission and Postal Service cost savings estimates is the calculation of workhour savings related to city carriers. The Commission finds the Postal Service's estimates related to wage rates, rural carriers, and indirect costs to be improvements over previous methods.

The Postal Service estimates that 90 percent of the city carrier hours spent delivering mail do not change with volume for mail shifted from Saturday to Monday. Therefore, it reasons, concentrating volume into fewer delivery days is almost cost free. The Commission finds that operational and engineering factors are unlikely to explain such a high proportion of fixed carrier hours. The Commission analyzed the productivity data presented by the Postal Service in support of its estimate and reached a different conclusion than the Postal Service. It concludes that the Postal Service overstates potential savings by assuming that no additional carrier trips would be needed to deliver the expected increase in volume on Mondays, and not including offsetting cost effects over the balance of the week. Table IV-1 shows the delivery cost savings by the Commission and the Postal Service distributed by segment.

**Table IV-1**  
**Comparison of Postal Service and Commission Savings Estimates for Delivery Costs**  
**(Millions)**

	<b>Commission Estimate</b>	<b>Postal Service Estimate</b>	<b>Difference</b>
City Carriers Direct Street Time Cost Savi	\$1,162	\$1,690	(\$528)
City Carriers Direct In-Office Costs	\$102	\$261	(\$159)
Adjustment for Saturday Express Mail	(\$7)	(\$7)	\$0
<b>Subtotal City Carrier Direct Savings</b>	<b>\$1,257</b>	<b>\$1,944</b>	<b>(\$687)</b>
Rural Carrier Direct Costs	\$341	\$341	\$0
EMA Savings	\$85	\$85	\$0
Adjustment for Saturday Express Mail	(\$1)	(\$1)	\$0
<b>Subtotal Rural Carrier Direct Savings</b>	<b>\$425</b>	<b>\$425</b>	<b>\$0</b>
Indirect Carrier Costs	\$305	\$378	(\$73)
<b>Total Carrier Savings</b>	<b>\$1,987</b>	<b>\$2,747</b>	<b>(\$760)</b>

## B. City Delivery Street Savings

### 1. Postal Service Approach to Estimating City Street Delivery Savings

To estimate the city delivery carrier street time costs that it would save by eliminating Saturday street delivery, the Postal Service departs from the analytical approach taken by both the Postal Service-sponsored study and the Commission-sponsored study of the delivery frequency dimension of the USO. Where those studies relied on analyses that emphasized longer-run variation of costs with volume, modeled econometrically, the Postal Service focuses on how productivity varies with day-to-day fluctuations of volume, using raw productivity data which it interprets from the perspective of postal operations managers. This analytical approach produces cost savings estimates that are dramatically higher than those produced by the volume variability studies.

The basic mechanics of the Postal Service's calculation starts with Delivery Operations Statistical Information System (DOIS) data on city delivery carrier hours and delivered volume. The Postal Service apportions the FY 2009 daily hours and volume

totals to days of the week, breaking them out by in-office and street time.<sup>25</sup> This structuring of the data enables the cost effect of day-of-the-week fluctuations in workload to be analyzed.

Overall, the Postal Service estimates direct street cost savings from the elimination of Saturday delivery of \$1,690 million. This estimate includes savings for network travel, delivery activities, and delivery support. Network travel is the amount of time it takes the carrier to travel between delivery segments on the route. Delivery activities include the time it takes to leave the route and reach the receptacle, fingering the mail, and loading the mail into the receptacle. Delivery activities support is time needed for returning to vehicles and refilling satchels. Table IV-2 summarizes the Postal Service's estimate of city carrier delivery savings.

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<sup>25</sup> The Postal Service apportions the FY 2009 DOIS daily hours to Saturdays and other days separately for street and in-office portions of city carrier hours. Percentages of total carrier hours are then calculated for Saturday street time, other day street time, Saturday in-office time, and other day in-office time. These percentages are applied to total FY 2009 CRA hours to derive CRA hours according to the same four categories. The CRA hours, at this level of detail, are then further segmented into cost components. The cost savings analysis is performed at the component level.

**Table IV-2**  
**Postal Service Estimate of City Carrier Direct Street Cost Savings**  
**(000)**

	<b>Network Travel</b>	<b>Delivery Activities</b>	<b>Delivery Activities Support</b>	<b>Total</b>
<b>Six-Day Direct Delivery Costs</b>	\$1,383,270	\$8,592,860	\$1,276,502	<b>\$11,252,631</b>
<b>Five-Day Direct Delivery Costs</b>	(\$1,154,171)	(\$7,320,588)	(\$1,087,501)	<b>(\$9,562,260)</b>
Subtotal	\$229,099	\$1,272,272	\$189,001	<b>\$1,690,371</b>
<b>Saturday Express Mail Costs</b>		<b>(\$6,878)</b>		<b>(\$6,878)</b>
<b>Total Direct Savings</b>	\$229,099	\$1,265,393	\$189,001	<b>\$1,683,493</b>
Source: USPS-T-6.				

The Postal Service estimates the hours that would be saved in each component by eliminating Saturday delivery. It then multiplies hours saved by the FY 2009 average carrier wage rate and multiplies that by an adjustment factor. The adjustment factor is the ratio of the full-time regular carrier wage rate to the average wage rate for FY 2009. Table IV-3 shows that the Postal Service estimates that 100 percent of the costs of Saturday “network travel time” and approximately 90 percent of the costs of both Saturday “delivery activities” and “delivery activity support” time would be saved if Saturday volumes were delivered on Mondays.

**Table IV-3**  
**Postal Service Estimate of City Carrier Street Hours Saved**

	<b>Network Travel</b>	<b>Delivery Activities</b>	<b>Delivery Activity Support</b>	<b>Total</b>
M-F Hours Six-Day Delivery	29,812,090	185,192,442	27,511,037	242,515,568
Saturday Hours Six-Day Delivery	5,620,851	34,916,675	5,187,004	45,724,530
<b>Total Hours Six-Day Delivery</b>	<b>35,432,940</b>	<b>220,109,117</b>	<b>32,698,041</b>	<b>288,240,098</b>
<b>Calculation of Hours Saved</b>				
Saturday Hours in Six-Day Environment	5,620,851	34,916,675	5,187,004	45,724,530
Percent of Saturday Hours Needed in Five-Day Environment	-	10%	10%	
Delivery Hours Needed in Five-Day Environment	-	3,491,668	518,700	4,010,368
Collection Hours		210,373	31,252	241,625
Express Mail Delivery Hours	-	188,497	-	188,497
M-F Hours Five-Day Delivery	29,812,090	189,082,980	28,060,989	246,956,058
<b>Hours Saved</b>	<b>5,620,851</b>	<b>31,026,138</b>	<b>4,637,052</b>	<b>41,284,040</b>
Percent of Saturday Hours Saved	100.0%	88.9%	89.4%	90.3%

Source: USPS LR 6

As the table shows, Saturday hours saved are calculated as the difference between Saturday hours needed to deliver average Saturday volumes in FY 2009 (45,724,530) and average hours that the Postal Service assumes would be needed to deliver that same volume when added to Monday volumes in a five-day environment (4,010,368 + 241,625 + 188,497 = 4,440,490).

When estimating the cost savings from reducing delivery days as part of its study of the costs of the USO, the Postal Service used the accepted volume variability analysis of carrier street time costs as its starting point. The volume variability analysis

categorizes all carrier street time costs as volume variable or institutional (fixed). The Postal Service assumed that one-sixth of total delivery costs that are shown to be fixed by that analysis would be saved by avoiding Saturday delivery. It then assumed that 50 percent of the volume-variable costs would be “absorbed” if Saturday mail were delivered on weekdays because the added volume would take advantage of “economies of density.”<sup>26</sup> It later revises its estimate of the amount of variable delivery costs that would be absorbed to between 20 and 25 percent.<sup>27</sup>

In this docket, the Postal Service took a different analytical approach to estimating the street delivery costs that would be saved by eliminating Saturday delivery. To infer how much of these costs would be incurred if current Saturday volumes were delivered on Mondays under the five-day delivery environment, the

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<sup>26</sup> A more common term for “economies of density” is “economies of fill.” This refers to reductions in unit cost that occur when the cost of a resource whose capacity is fixed is spread over additional units of output. A relevant example is the cost of transporting a letter in a carrier’s satchel. The labor cost of carrying the satchel may be viewed as fixed. The unit cost of carrying the first letter is high. As the satchel fills with mail, the unit cost of carrying each piece declines until the satchel is full. The first overflow piece will require an added trip to the source of mail (parked vehicle or relay box). This will cause the cost of carrying the satchel to be replicated, and the unit cost of carrying a letter to go back up abruptly and decline until the satchel is full again. As the volume of mail delivered on the route by the carrier each day rises, the cost of carrying the mail will cycle between these economies and diseconomies of fill.

<sup>27</sup> Docket No. PI2009-1, Initial Comments of the United States Postal Service on the Commission Report, February 17, 2009, at 26.

Postal Service looked for historical data that would show how the productivity of these activities change when there are large day-to-day shifts in volume.<sup>28</sup> It found that there are five or six instances each year when Tuesdays follow a Monday holiday. On post-holiday Tuesdays, delivered volume is approximately 64 percent higher than on normal Tuesdays. The Postal Service considers this added workload on post-holiday Tuesdays to be analogous to a shift of current Saturday volumes to Mondays under a five-day delivery scenario. It says

Mondays in a five-day environment are similar to Tuesdays after Monday holidays, as: (1) volume from a previous day is shifted to that day; and (2) they are days with larger volume than the “typical” Monday (that is Mondays in a six-day environment).

Thus, Tuesdays after Monday holidays are a natural experiment for anticipating what will happen on Mondays in a six-day environment.

Tr. 2/416.

To estimate the portion of city carrier hours for street delivery that would be saved, the Postal Service compares average delivered volumes and hours for normal Tuesdays with those on post-holiday Tuesdays using DOIS data for FY 2008 and FY 2009. As shown in Figure IV-1, below, the Postal Service subtracts normal Tuesday volumes from post-holiday Tuesday volumes to calculate incremental volumes on post-holiday Tuesdays (229,668,031). Similarly, it subtracts normal Tuesday hours from post-holiday Tuesday hours to calculate incremental hours on post-holiday Tuesdays (54,751).

To find the productivity associated with delivering normal Tuesday volumes, the Postal Service divides normal Tuesday volume (361,074,661) by normal Tuesday hours (912,471). That productivity is 396. To infer how many hours would have been needed

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<sup>28</sup> As the accepted volume variability analysis and the USO work conclude, the cost of network travel time is fixed. If carriers no longer engage in network travel on Saturdays, all of that cost will be saved. The Postal Service’s approach to calculating its 90 percent absorption factor, however, makes no use of the distinctions between network travel time, delivery activity, and delivery support.

to deliver the incremental Tuesday volume *at normal productivities*, the Postal Service divides the incremental Tuesday volume (229,668,031) by normal Tuesday productivity (396). At normal Tuesday productivities, 580,394 hours would be needed. However, only an average of 54,751 hours were needed on post-holiday Tuesdays. The ratio is larger than 10 to 1. According to the Postal Service, all but 9.4 percent of incremental post-holiday volume is absorbed on post-holiday Tuesdays. It assumes that Saturday volume would be absorbed at the same rate when delivered on Mondays in a five-day delivery environment.<sup>29</sup>

Figure IV-1

**Postal Service Calculation of Percentage of Saturday Delivery Activities and Delivery Activities Support Hours Needed to Deliver Saturday Volume in a Five-Day Environment During the Week**

	A	B	C
	Normal Tuesday	Tuesday Following Monday Holiday	Difference
1 Average Volume from DOIS	361,074,661	590,742,692	229,668,031
2 Average Street Hours from DOIS	912,471	967,223	54,751
3 Street Productivity (Ln. 1 / Ln. 2)	396	611	
4 Hours Needed at Average Productivity (Col. C Ln.1 / Col. A Ln. 3)			580,394
5 Proportion of Hours Not Absorbed (Col. C Ln. 2 / Col. C Ln. 4)			9.4%
6 Percentage of Additional Hours Needed to Handle Saturday Volume (Col. C Ln. 5 rounded up)			10.0%

Source: USPS-LR-6

<sup>29</sup> Tr. 2/416. The productivity relationship between incremental Tuesday mail and normal Tuesday mail is related to the cost relationship. New post-holiday Tuesday volume (222,668) ÷ new post-holiday hours (54,751) = 4,195. Normal Tuesday volume (361,074,661) ÷ normal Tuesday hours (912,471) = 396. The productivity ratio is then 396 ÷ 4,195 = 9.4 percent, which the Postal Service rounds up to 10 percent.

## 2. Commission Analysis of Postal Service Methodology

The Postal Service employed a new approach—using hours from Tuesdays after holidays—to determine the impact on city delivery direct hours of reallocating Saturday volume to the rest of the week. The Commission welcomes the Postal Service’s efforts to explore methods other than traditional volume variability analysis to estimate savings from large day-to-day shifts in delivered volume. Examining productivities that fluctuate with volume across days of the week and attempting to discern the cause of these fluctuations is a new and important area of research. The operational judgments as to what broad categories of activities would be fixed with respect to day-of-the-week fluctuations in volume are welcome as well. The Postal Service has made a positive contribution to this aspect of the task of estimating the cost impacts of changing the frequency of delivery. This analysis goes partway toward bridging the gap between the established method of estimating volume-variable street time costs and the “different model,” discussed in chapter VIII, that the Commission suggested in its USO Report.

However, the Commission concludes that treating the difference in productivity between normal Tuesdays and post-holiday Tuesdays as the equivalent of the productivity difference that would be observed between Saturday and Monday delivery in a five-day delivery environment is an oversimplification that leads to a substantial over-estimate of the street delivery costs that would be saved by eliminating Saturday delivery.

The Postal Service’s new analysis is based on a combination of managerial experience, intuition, and limited productivity data. The Postal Service estimates the amount of Saturday hours that would be saved in the street delivery operation by calculating productivity that it associates with the large increment of volume that occurs on post-holiday Tuesdays and comparing it to the productivity of volume on normal Tuesdays. The approach implicitly assumes that there is one street delivery cost curve (hours/volume relationship) that characterizes Tuesday mail delivery, regardless of conditions on Tuesdays, and that the increment of volume that occurs on post-holiday

Tuesdays moves the delivery operation further out on that cost curve where marginal costs decline. When the Postal Service compares the productivity that it associates with the increment of mail delivered on high-volume Tuesdays with the productivity that it associates with delivering mail on Saturdays, it is implicitly assuming that the cost curve that characterizes high-volume Tuesday delivery is the same one that characterizes Saturday delivery. The assumption is that Saturday delivery is performed on the inward portion of that curve where marginal costs are higher (in fact, 10 times higher).

This conceptual approach, however, is inconsistent with the analysis that the Postal Service conducted to estimate savings for direct distribution operations in mail processing plants. There, the Postal Service focuses on the productivity associated with all mail processed on a current average Monday. It compares this with the productivity associated with processing mail on a current average Saturday. It assumes that in a five-day delivery environment, all Saturday mail that shifts to Mondays would be processed at the average (not the incremental) Monday productivity. By comparing average Monday productivities with average Saturday productivities, the Postal Service implicitly assumes that the cost curve (the hours/volumes relationship) that characterizes outgoing processing on Mondays is different from the cost curve that characterizes outgoing processing on Saturdays. The Postal Service implicitly assumes that processing costs will be saved by shifting volume from a Saturday cost curve with a relatively steep slope to a Monday cost curve with a relatively shallow slope.

The Commission used the conceptual approach that the Postal Service uses for mail processing (that mail processed on the Saturday average cost curve would shift to an average cost curve associated with a different day of the week) and applied it to the street delivery operation to investigate what cost savings in street delivery that approach would imply. The Commission calculated the average productivity of delivering mail on Saturdays and compared it to the average productivity associated with other days of the

week. Table IV-4 uses DOIS data provided in response to CHIR No. 1, question 3<sup>30</sup> to calculate the average delivery productivity associated with different days of the week under the current six-day delivery environment.

**Table IV-4**  
**FY 2009 City Delivery Volumes and Carrier Street Hours by Weekday**

	Col. 1 Volume	Col. 2 Hours	Pcs. Per Hr. Productivity (Col. 1 / Col. 2)
Monday	421,077,876	933,941	451
Tuesday	326,474,124	921,006	354
Wednesday	329,095,036	919,062	358
Thursday	334,472,819	908,866	368
Friday	335,126,740	900,748	372
Saturday	322,839,071	855,548	377
<b>Total</b>	<b>2,069,085,665</b>	<b>5,439,171</b>	<b>380</b>
Day After Holiday	487,192,012	952,020	512

Source: PRC-LR-N2010-1/2.

Figure IV-2 shows, that the results of applying different average day-of-the-week productivities differ markedly from the Postal Service's estimates of street delivery hours that would be saved by eliminating Saturday delivery. When Saturday mail is assumed to be delivered at the average productivities associated with Mondays, the implied hours saved are eight percent. At average productivities associated with days that follow a holiday, the implied hours saved are 19 percent. At average weekly productivities, the implied hours saved are negative nine percent. The negative savings indicates that if the Postal Service is not able to increase its productivity beyond the current weekly average, moving Saturday volume to Monday could increase rather than decrease costs.

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<sup>30</sup> Tr. 2/405.

**Figure IV-2****Commission Analysis of DOIS Data**

## Hours Needed to Process Average Saturday Volume on Monday

*Assuming Monday Productivity:*

Average Monday + Saturday Volume	743,916,947
Average Monday Productivity	451
Hours Needed at Monday Productivity	1,649,991
Average Monday + Saturday Hours	1,789,489
<hr/> Hours Saved (Increased)	<hr/> 139,498
Percent of Average Saturday + Monday Hours Saved	8%

*Assuming Day After Holiday Productivity:*

Average Monday + Saturday Volume	743,916,947
Average Day After Holiday Productivity	512
Hours Needed at Day After Holiday Productivity	1,453,685
Average Monday + Saturday Hours	1,789,489
<hr/> Hours Saved (Increased)	<hr/> 335,805
Percent of Average Saturday + Monday Hours Saved	19%

*Assuming Average Weekly Productivity:*

Average Monday + Saturday Volume	743,916,947
Average Weekly Productivity	380
Hours Needed at Average Weekly Productivity	1,955,594
Average Monday + Saturday Hours	1,789,489
<hr/> Hours Saved (Increased)	<hr/> (166,105)
Percent of Average Saturday + Monday Hours Saved	-9%

The Commission also estimated the hours needed to deliver Saturday volume on Monday using an incremental productivity approach similar to the Postal Service's analysis, but using average Monday productivity. Monday productivity is more relevant to the analysis than Tuesday after a holiday productivity because Monday is the day that will be receiving the bulk of Saturday volume under the Postal Service's proposal. In conducting this analysis the Commission calculated the differences in average volumes and hours between Monday and Saturday. The incremental productivity was derived by dividing the difference in volume by the difference in hours. The results are shown in Table IV-5.

**Table IV-5**  
**Estimated Hours Needed for Deliver Saturday Volume on**  
**Monday Using an Incremental Productivity Approach**

	Average Volume	Average Hours	Incremental Productivity
Mon	421,077,876	933,941	
Sat	322,839,071	855,548	
Difference	98,238,806	78,393	1,253
Monday + Saturday Volume	743,916,947		
Incremental Productivity	1,253		
Hours Needed at Incremental Productivity	593,634		
Monday + Saturday Hours	1,789,489		
Hours Saved	1,195,855		
Percent of Monday + Saturday Hours Saved	67%		

The Commission's incremental productivity analysis implies substantial savings, although they fall well short of the savings that the Postal Service calculates. The Commission cautions, however, that the productivity derived from its incremental analysis is 329 percent greater than the actual average weekly productivity, 278 percent greater than actual average Monday productivity, and 245 percent greater than the average day-after-holiday productivity. The incremental productivity implied by the Postal Service's post-holiday Tuesday analysis<sup>31</sup> is even greater—4,195, which is 820 percent higher than the average day-after-holiday productivity.

While the Postal Service has achieved remarkable productivity increases intermittently on five or six days each year, it has not presented evidence that it will be able to achieve similar increases on a sustained basis. If Saturday delivery is

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<sup>31</sup> 229,668,031 ÷ 54,751 = 4,195.

eliminated, the volume surge on Mondays would be permanent. To accurately predict the effect of ending Saturday delivery on costs, the Postal Service would have to measure the effect of sustained volume changes.

a. Delivered Volume During the Remainder of the Week  
After a Monday Holiday Shows Productivity Declines

The impact of volume surges on particular days of the week should also be analyzed in the broader context of what happens during the remainder of that week. As witness Granholm states, “The preferred solution to increased workload would be to curtail non-committed mail. If mail is not available for curtailment, supervisors will have to utilize the other tools available to them such as any undertime on another route, auxiliary assistance and overtime.” Tr. 2/293.

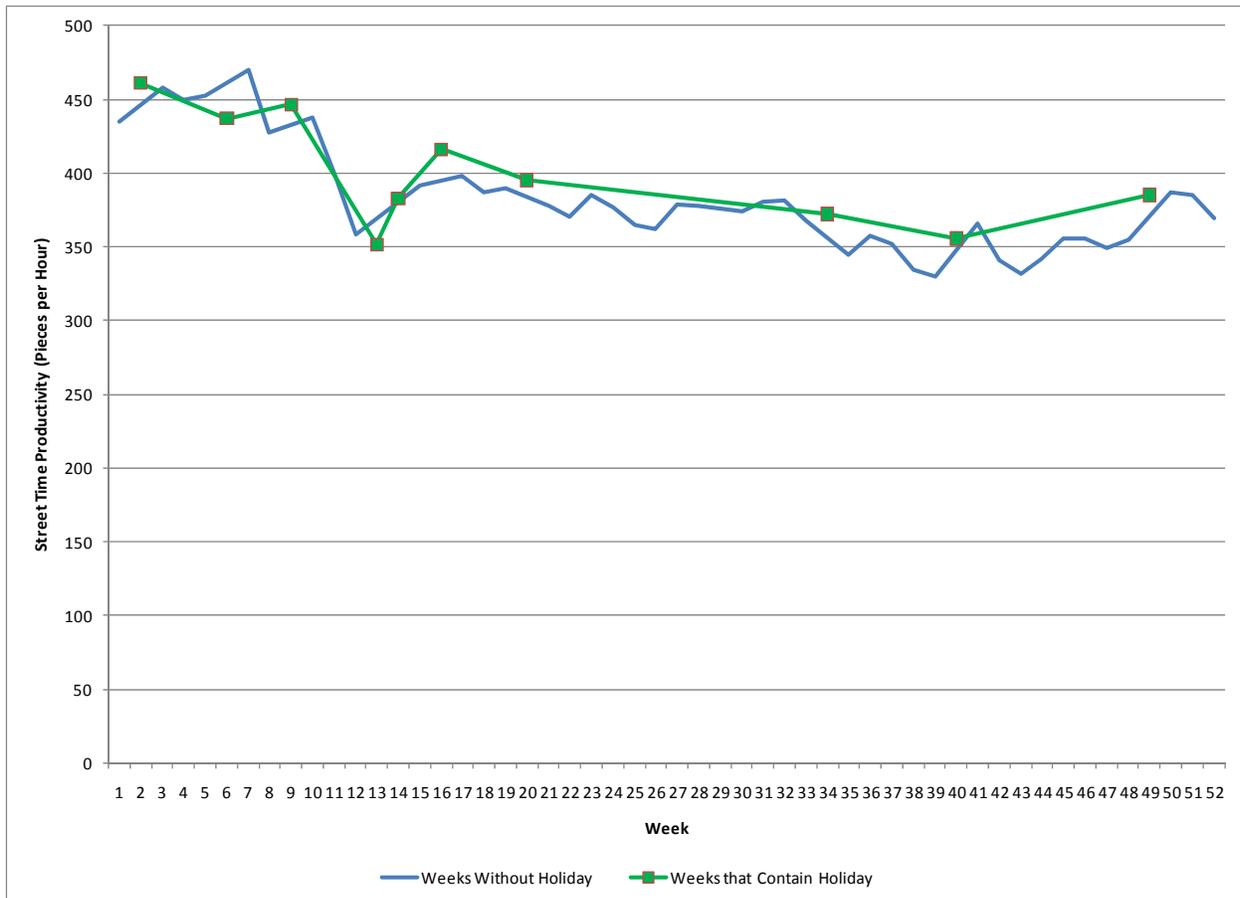
To determine the extent to which these methods may be used to accommodate holiday-related volume surges, the Commission compared weekly productivity for weeks that included a holiday with weeks that did not. Figure IV-3, displays average productivity over the entire week for weeks with and without holidays.<sup>32</sup> The data show no apparent differences in productivities. The chart implies volume is distributed over an entire holiday week to smooth the workload. When asked to comment on this finding, witness Bradley stated, “I think it is an issue of how the Saturday mail volume will be distributed across the other days that would affect the productivity....” Tr. 4/967. If there is no systematic difference in productivities, then minimal or no cost savings are suggested.<sup>33</sup>

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<sup>32</sup> Developed from raw data provided in Responses of the United States Postal Service to Questions 2-10 of Chairman’s Information Request No. 3, May 14, 2010 at CHIR.3Q.10.DOIS.Attach.xls. See Tr. 4/814.

<sup>33</sup> Intuitively, if the productivity the Postal Service puts forward for a Tuesday after a Monday holiday is sustained, the weeks with holidays would have a significantly higher productivity, *ceteris paribus*. Figure IV-3 shows that there is no obvious difference between a week with a holiday and a week without. Therefore, when the volume surges there is no evidence suggesting gains in productivity when the hours and volume response over the entire week is examined.

**Figure IV-3**  
**Relative Productivities by Holiday and non-Holiday Weeks, FY 2009**



Source: PRC-LR-N2010-1/2.

One reason why productivities may be higher on certain days of the week than on other days is the type of mail (mail mix) being delivered. Some mail, such as delivery sequenced letters (which do not need to be carrier sorted), requires less time to deliver than other types of mail, such as cased flat mail (which must be carrier sorted), or parcels. The Postal Service’s use of total daily volume to measure productivity does not reflect differences in product mix from day to day. The Commission investigated the effect of changes in the mix of mail across the week during holiday weeks.

**Table IV-6**  
**Percent of FY 2009 City Carrier Average Daily Volume by Mode and Day**

	Weeks Without Holidays			
	DPS Letters	Cased Flats	Sequenced Mail	Deferrable Mail (Cased Flats + Sequenced)
Monday	67.6%	21.9%	3.7%	25.6%
Tuesday	54.2%	24.5%	14.7%	39.1%
Wednesday	56.7%	23.5%	12.9%	36.4%
Thursday	62.2%	22.9%	7.8%	30.7%
Friday	63.3%	22.3%	7.3%	29.5%
Saturday	64.6%	22.8%	4.9%	27.7%

	Weeks With Holidays			
	DPS Letters	Cased Flats	Sequenced Mail	Deferrable Mail (Cased Flats + Sequenced)
Tuesday	67.4%	21.4%	4.5%	25.9%
Wednesday	53.8%	24.5%	15.1%	39.5%
Thursday	59.1%	24.4%	9.4%	33.8%
Friday	61.9%	22.9%	8.0%	30.9%
Saturday	64.3%	23.3%	4.9%	28.3%

Source: PRC-LR-N2010-1/2.

Table IV-6 shows large differences in the percentages of delivered DPS and deferrable mail (sequenced mail and cased flats) on Mondays and Tuesdays. The data suggest that delivery of a large portion of sequenced mail is deferred from Monday to Tuesday to moderate the effects of the current Monday volume peak. Monday currently has the highest productivity of any day of the week as measured by total pieces delivered per hour. This measure does not account for the work required to deliver different types of mail. For example, DPS letters are taken directly to the street by the carrier requiring minimal office and street time. In contrast, cased flats require in-office casing, and are more labor intensive. Cased flats require two to four times more carrier work than DPS letters.

Compared to normal Tuesdays, productivity is higher on Tuesdays after a Monday holiday. This difference is, in part, driven by a change in the mix of mail types. The mail mix of Tuesdays after Monday holidays nearly matches the mail mix of a

normal Monday. This means that the deferrable (and expensive) mail normally delivered on a Tuesday must be delivered on another day of the week. On a normal Tuesday, nearly 40 percent of the mail delivered is deferrable mail. Much of the labor intensive mail is normally deferred to Tuesday, and while fewer pieces are delivered, these pieces require more work to deliver. The same trend occurs when there is a Monday holiday. The deferrable mail is shifted from Tuesday to Wednesday and Thursday. While Tuesdays after Monday holidays exhibit increases in productivity, not all of this productivity gain will lead to a decrease in cost over the course of a full week.

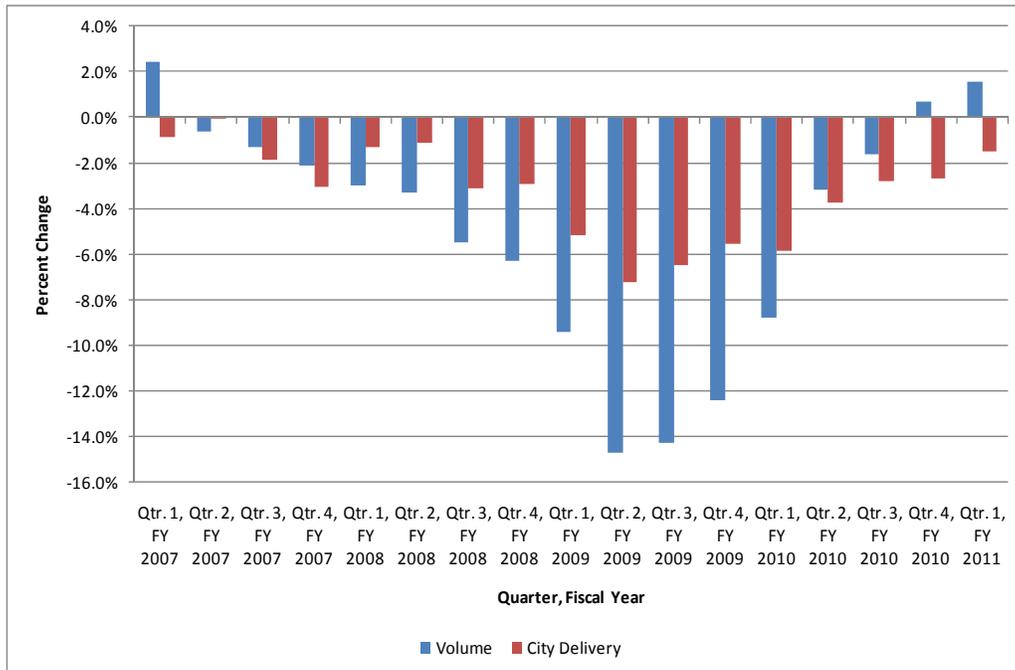
b. Savings From Existing Excess Capacity Should Not Be Attributed to Five-Day Delivery

The Postal Service has acknowledged that absent five-day delivery, it would continue to realign delivery resources to match expected volume levels. Tr. 2/408. The Postal Service considers the elimination of excess capacity and the movement to five-day delivery as separate cost reduction initiatives. In the indefinite future, it is reasonable to assume that the sharp dip in volume that accompanied the recent recession in FY 2008 and FY 2009 would moderate, and that the trimming of the carrier workforce would, over time, catch up with the decline in volume.<sup>34</sup>

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<sup>34</sup> The Postal Service seems to agree. In interpreting carrier workhour trends in the first half of FY 2010, it argues that they show employee attrition catching up with the earlier steep decline in volume associated with the recession of late 2008 and early 2009. Postal Service Reply Brief at 26.

**Figure IV-4**  
**Changes in Volume and City Delivery Workhours by**  
**Quarter FY 2007 – Quarter 1, FY 2011**



Source: USPS quarterly financial statement FY 2007; USPS Form 10-Q FY 2008 through FY 2010; USPS Form 10-K FY 2008 through FY 2010.

There is no reason to believe that whatever overstaffing of the carrier operation that currently exists would be carried into the indefinite future, given the Postal Service’s intention to realign delivery resources to match expected volumes. Once the Postal Service makes necessary staffing adjustments to match future volume levels, the realized cost savings from eliminating Saturday delivery could be lower.

Data indicate that current carrier operations are not overstaffed to a degree that carriers could absorb the increased workload inherent in a future five-day delivery environment even in the short-term. As discussed in section IV. C., it currently takes eight hours, on average to deliver mail on a city route. In addition, the amount of overtime being incurred by carriers on city routes has risen substantially in the most recent quarter. In quarter 1 of FY 2011, overtime hours in the carrier operation were 11.8 percent of total carrier hours, up from 9.8 percent of total carrier hours in quarter 1

of FY 2010. The reduction in carrier straight time hours (2.2 million) was almost entirely offset by the increase in overtime hours (2 million). This suggests that carrier staffing levels have declined to near capacity levels, even with the recent declines in delivered volume. As of February 26, 2011, overtime for full-time city delivery carriers was up 17 percent over last year.<sup>35</sup>

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. *Id.* at 129. There the Commission noted that

In order to be comfortable with the conclusion that “economies of density” in the delivery function accelerate as volume increases, the Commission would need to see whether this conclusion can be verified by an appropriate econometric model that is corroborated by either operational experience or intuition.<sup>36</sup>

The Postal Service asserts that it relied on operational experience to estimate its street delivery savings, but as explained above, the Postal Service’s estimated savings are actually based on a comparison of productivity data for low-volume and high-volume Tuesdays. The Postal Service offers its operational judgment as corroboration of those results. However, this analysis is not an acceptable substitute for a statistically

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<sup>35</sup> Figures from National Payroll Hours Summary Report, Pay Period 01-FY2011, ending date 12-31-2010; National Payroll Hours Summary Report, Pay Period 01-FY2010, ending date 01-01-2010.

<sup>36</sup> *Id.* at 130. The Commission’s reference to acceleration of economies of density needs to be read in context with its statement on the previous page. There, the Commission states “[A]ssuming that marginal costs (not average costs) decline as volume rises is the equivalent of assuming that the efficiency with which mail is sorted and delivered by carriers not only rises, but accelerates, as volume increases.” *Id.* at 129. Clearly, acceleration in this context refers to declining marginal costs.

validated study as suggested by the Commission in the section of the USO Report quoted above.

In response to CHIR No. 3, question 9, the Postal Service developed an econometric analysis, using the FY 2009 DOIS data, estimating that daily total costs were only 13 percent volume variable with daily volume. Tr. 4/853-71. However, that analysis did not reflect the impact of network variables such as the number of possible deliveries on costs. Nor was it structured to capture long-term effects caused by large, sustained daily volume changes that would follow elimination of Saturday delivery. The Commission believes that capturing the network variables and the long-term effect, would have raised variability levels in the analysis to levels much closer to those indicated in the FY 2009 Cost and Revenue Analysis (CRA).

C. City Delivery In-Office Savings

1. Postal Service Method of Estimating City Delivery In-Office Savings

The Postal Service utilizes an operational approach to estimate city carrier in-office savings. It estimates total in-office savings of \$261 million. This estimate includes In-Office Direct Labor, In-Office Support Overhead, and In-Office Support Other, as summarized in Table IV-7.

**Table IV-7**  
**Postal Service Estimate of City Carrier Direct In-Office Cost Savings**  
**(000)**

	<b>In-Office Direct Labor</b>	<b>In-Office Support Overhead</b>	<b>In-Office Support Other</b>	<b>Total</b>
Six-Day Direct Costs	\$3,298,256	\$637,600	\$599,801	\$4,535,657
Five-Day Direct Costs	\$3,108,563	\$600,930	\$565,305	\$4,274,798
Total Direct Savings	\$189,693	\$36,670	\$34,496	\$260,859
Source: USPS-LR-6.				

Similar to its calculation of street time savings, the Postal Service begins by distributing in-office hours to days of the week using DOIS data. The Postal Service starts with hours taken from its FY 2009 ACR, finds the portion applicable to in-office hours, and distributes those hours using the DOIS-developed percentages for days of the week. As seen in Table IV-8, 34 percent of Saturday In-Office Direct Labor hours are estimated to be saved.

**Table IV-8**  
**Postal Service Estimate of In-Office Hours Savings**

	<b>In-Office Direct Labor</b>	<b>In-Office Support Overhead</b>	<b>In-Office Support Other</b>	<b>Total</b>
M-F Hours Six Day Delivery	65,019,058	12,569,113	11,823,980	89,412,151
Saturday Hours Six Day Delivery	12,571,059	2,430,165	2,286,098	17,287,323
Total Hours Six Day Delivery	77,590,117	14,999,279	14,110,078	106,699,474
<b>Calculation of Hours Saved</b>				
Saturday Hours in Six Day Environment	12,571,059	2,430,165	2,286,098	17,287,323
Percent of Saturday Hours Needed in Five-Day Environment	66%	66%	66%	
In-Office Hours Needed in Five-Day Environment	8,296,899	1,603,909	1,508,825	
M-F Hours Five Day Delivery	73,315,957	14,173,022	13,332,805	100,821,784
<b>Hours Saved</b>	<b>4,274,160</b>	<b>826,256</b>	<b>777,273</b>	<b>5,877,690</b>
Percent of Saturday Hours Saved	34.0%	34.0%	34.0%	34.0%

Source: USPS-LR-6.

In estimating these hours, the Postal Service introduces the concept of “Fixed Office Time” and “Variable Office Time,” segregating carrier activities into each category

based on whether the time of the activity varies with volume. The Postal Service concludes that 34 percent of in-office time is Fixed Office Time and 66 percent is Variable Office Time. As with the Postal Service's estimate of how much street delivery cost would be saved by ending Saturday delivery, the central operational judgment that it makes with respect to the variability of in-office time is that it could deliver 58 to 77 percent greater volume on Monday without reconfiguring routes.

With respect to street delivery time, the Postal Service assumes that 90 percent of variable hours incurred on Saturdays would be absorbed when delivery is shifted to Mondays. In contrast, the Postal Service assumes that all variable in-office hours incurred on Saturdays would be transferred to Mondays (none would be absorbed). Therefore, the Postal Service estimates that only the Fixed Office Time would be saved by eliminating Saturday delivery. The Postal Service estimates Fixed Office Time by multiplying total annual Saturday office hours from DOIS by the Fixed Office Time percentage from DOIS. This yields an estimate of 5.8 million hours saved. Multiplying those hours saved by the same full-time regular wage rate applied in the Postal Service's street time analysis yields a savings of \$261 million.

## 2. Commission Analysis of In-Office Savings

Most of the in-office time that the Postal Service considers Fixed Office Time is for activities that take the same amount of time each time a carrier makes a trip to deliver a route. These include such things as clocking in, getting the keys, and inspecting the delivery truck. It is fixed in the short run because the number of trips a carrier makes to deliver a route is fixed in the short run. In the longer-run, however, such activities vary with volume. Enough new volume will require rebalancing of workload within a delivery unit by creating a new partial route (an auxiliary route) or a regular route. A new route will require an additional carrier trip each day. This will require replication of the activities that the Postal Service characterizes as Fixed Office Time.

The Postal Service agrees that its principal response to changes in delivered volume lasting a year or more is to rebalance the workload among routes. It states

The most important way the city carrier delivery network adjusts to changes in volume is through route reconfiguration—changes in the number of routes. This means that certain amounts of time that are fixed on individual routes will vary with volume through adjustment in the number of routes.

USPS-T-6 at 13.

Recent data confirm this. In FY 2009 alone, the number of city carrier routes decreased seven percent, largely in response to volume declines associated with the recent recession.

The Postal Service did not present any analysis showing that routes on Mondays would remain fixed if Saturday delivery is eliminated, other than to assert that the Monday peak volume in a five-day delivery environment would be fully accommodated through the use of short-run management techniques, including the use of overtime, flexible carrier hours, and deferral of Standard Mail for delivery on other days. However, the Postal Service proposal does not identify any new costs associated with such management techniques. Given the importance of route reconfiguration in coping with volume changes in all other contexts, the Postal Service is under an obligation to thoroughly explain why it rules out this response entirely in responding to large and predictable changes in volume by day of the week.

The Postal Service's assumption that routes will not be rebalanced in the face of large transfers of volume from Saturday to Monday implies that there is a great deal of excess capacity in current routes. The Postal Service states that due to the precipitous volume decline and slowly recovering volume levels, excess capacity exists in its present route structure, and will continue to exist in the future. *Id.* at 16-17. The Postal Service defines excess capacity as "situations where a city carrier's expected workload is less than eight hours daily." Tr. 2/408. It clarifies that when workload is between 7:50 and 8:10, routes are considered eight hours. Tr. 2/469. By that criterion, the Postal

Service does not have significant excess capacity. Table IV-9 shows that the average hours per route for city carriers from FY 2008 to FY 2010 are generally within the eight-hour criterion. As for the future, the Postal Service has stated that absent a shift to five-day delivery, it expects to realign delivery resources to match expected volume levels. Tr. 2/408.

**Table IV-9**  
**Average Hours Per Delivery Route by Fiscal Year and Quarter**

<b>Fiscal Year</b>	<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
2008	8.43	8.1	7.76	7.81
2009	8.16	7.92	7.62	7.79
2010	8.18	8.02	N/A	N/A
Source: Tr. 2/428.				

The above discussion of the costs of the street delivery function indicates that it is unlikely that any current excess capacity in the street delivery operation will carry over to the “full up” five-day delivery environment. It also indicates that from an operational and cost standpoint, there are benefits to reconfiguring routes in response to large additions of volume in a five-day delivery environment. If routes are reconfigured, most of what the Postal Service characterizes as Fixed Office Time would increase as well, as routes are divided among more carriers to cope with the Monday volume peak. Therefore, the Commission concludes that the Postal Service would continue to add carriers and reconfigure routes in a five-day delivery environment. A major portion of what the Postal Service considers Fixed Office Time would increase as a result.

#### D. Rural Carrier Savings

##### 1. Postal Service Method of Estimating Direct Savings in Rural Delivery

Overall, the Postal Service estimates direct delivery cost savings for rural routes of \$425 million. This estimate includes savings for evaluated routes, other routes and

equipment maintenance. For evaluated routes, carriers pay is based on workload. Evaluated routes are “H routes,” that are carried all six-days-a-week by a regular carrier; “J routes,” that are carried 11 out of 12 days by a regular carrier and one-day every other week by a replacement carrier; and, “K routes,” that are carried five out of six-days by a regular carrier and one-day-a-week by a replacement carrier. If there were no workload peak in a five-day delivery environment, rural relief employees that provide coverage for routes during scheduled and unscheduled leave periods, would be largely unnecessary, except where needed to fill in for carriers on leave, to serve auxiliary routes, or deliver Express Mail on Saturdays. USPS-T-3 at 13. Other routes are mileage routes and auxiliary routes. Table IV-10 summarizes the estimation of rural delivery savings from the Postal Service’s proposal.

**Table IV-10**  
**Postal Service Estimated Savings for Rural Carriers**  
**(000)**

	<b>Evaluated Routes</b>	<b>Other Routes</b>	<b>Equipment Maintenance</b>	<b>Total</b>
Six-Day Direct Delivery Costs	\$5,548,541	\$401,080	\$509,893	\$6,459,514
Five-Day Direct Delivery Costs	\$5,231,017	\$377,661	\$424,911	\$6,033,589
Saturday Express Mail Costs	\$1,365			\$1,365
Total Direct Savings	\$316,159	\$23,419	\$84,982	\$424,560
Source: USPS-LR-6.				

The Postal Service asserts that some rural delivery hours now incurred on Saturdays would not transfer to other days if Saturday delivery were eliminated. However, due to the compensation structure for rural carriers, no savings for those hours would be captured. USPS-T-6 at 25-26. As with city carriers, there would be a shift in the labor mix accompanying five-day delivery that would affect costs. Because

replacement carriers would be eliminated under five-day delivery, all weekday hours would be paid at the higher regular carrier wage rate.

This means that variable hours on Saturdays that were formerly paid at the replacement carrier wage would be paid at the higher regular wage in a five-day delivery environment. Therefore, except for “H routes” (where there are no replacement carriers), this shift in the labor mix for variable hours would reduce any savings that would come from eliminating the various forms of non-volume workload on Saturdays and their associated evaluation factors. *Id.* at 27-30.

The percent of total hours that vary by route type differ somewhat by route type. Therefore, these percentages are applied separately by route type to the corresponding total Saturday hours to estimate the Saturday variable hours transferred to weekdays under the five-day profile. Saved hours are multiplied by the average rural carrier wage rate and an adjustment factor of .5753. This factor is comprised of the ratio of direct rural carrier costs saved per hour to the average rural carrier wage. The rural carrier costs saved per hour, which forms the numerator of the ratio, includes the effects of the labor mix adjustment. This procedure yields total unadjusted direct savings of \$341 million. This figure is adjusted to \$425 million by adding equipment maintenance allowance savings and subtracting costs for Saturday Express Mail delivery on rural routes.

## 2. Commission Analysis of Rural Carrier Direct Savings

Transferring all Saturday variable hours for rural delivery to weekdays, as the Postal Service does, is consistent with the fact that rural carriers are paid essentially by the piece count of mail that they deliver. Therefore, if Saturday volume is transferred to other days, total weekly Saturday variable costs must remain the same because volume remains the same. Only Saturday hours associated with non-volume-related workload and the associated evaluation factors would be saved by eliminating Saturday delivery.

The Commission also recognizes that the change in the labor mix accompanying five-day delivery reduces savings by 57.5 percent (the adjustment factor). The Commission commends the Postal Service for explicitly considering the new labor mix resulting from five-day delivery and the consequential cost effect. The analysis accounts for savings reductions that would have been omitted using previous methods. The use of route type variability factors also increases the overall accuracy of the savings estimate.

E. Wage Rate to Be Applied to Hours Saved

1. Postal Service Method

The Postal Service applies the full-time regular carrier wage rate to the estimated hours saved to estimate the total dollar savings. The use of the full-time regular wage rate differs from past approaches that used the average wage rate for all carriers, including part-time flexible.

The Postal Service contends that its carrier technicians, usually the employee that fills in for a regular carrier on the sixth delivery day, would no longer be necessary with regard to the wage rate. USPS-T-3 at 12. The Postal Service estimates that the hours saved for those positions that are eliminated would be priced at the average full-time regular wage for carriers. *Id.* The Postal Service notes that the wage rate for carrier technicians is higher than the average wage rate for carriers. *Id.* The Postal Service contends that it is not appropriate to use transitional employee wage rates (which are significantly lower than the average wage) to capture full-up savings because the positions eliminated will be carrier technician positions. Tr. 2/367. However, the Postal Service admits that some workhours would be eliminated by moving carrier technicians into regular positions and eliminating transitional employees in the short-term. *Id.* at 436.

The Public Representative questions the Postal Service's assumption that the average full-time city carrier wage is the correct rate on which to base savings. PR Brief at 18. The Public Representative and GCA contend that the Postal Service, due to collective bargaining restrictions, may be required to replace transitional employees (at their lower wage rate) before full-time carriers, which would reduce the savings. *Id.*; GCA Brief at 14-15. The Public Representative also notes that the Postal Service assumes it will not have to expand the number of routes currently deployed, and that it may have underestimated the overtime hours required. PR Brief at 19.

NALC states that the Postal Service's assumptions regarding the amount of letter carrier overtime are incorrect. NALC Brief at 21. NALC notes the significant increase in overtime hours utilized on Tuesdays after a Monday holiday. *Id.* at 22.

The Postal Service responds that even if any additional costs are substantially understated, the magnitude of the cost savings dwarf any costs arising from the five-day plan. Postal Service Brief at 71. The Postal Service also notes that criticism by parties of its estimated cost savings are not quantified or estimated. Postal Service Reply Brief at 37-38. Further, the Postal Service states that the use of overtime as compared to regular time "actually lowers the average cost per work hour, since no additional leave or other benefits are earned." *Id.* at 54. If the Postal Service had the ability to estimate the amount of overtime hours it would require under five-day delivery, it claims, it could actually increase its savings estimate. *Id.* at 55.

The Postal Service contends that its "full-up" savings identify savings ultimately achieved after all transition periods. *Id.* at 46. The Postal Service criticizes GCA's contention that it would only save a lower transitional employee wage rate as shortsighted because that only considers the "first step" of five-day implementation. *Id.* at 47. The Postal Service states that even if the average Saturday wage is employed to determine cost savings, it only results in a four percent decrease in its estimated cost savings. *Id.* at 52. The Postal Service acknowledges that in the short-term, it may shed

transitional employees, but that in the long-term, it will again add transitional employees to replace retiring full-time employees to keep flexibility in the system. *Id.* at 52-53.

## 2. Commission Analysis of the Appropriate Wage Rate

Using the average city carrier wage rate to determine cost savings implicitly assumes that there will be no change in the mix of the carrier labor force (percent of full-time regular carriers relative to temporary and part-time and transitional employees). By estimating savings at the full-time carrier wage rate instead, the Postal Service anticipates reducing the level of full-time regular carrier staff while retaining non-full-time staff at current levels to shoulder future delivery workloads. At “full-up” savings, non-full-time regular hours would remain at current levels (FY 2009), and the full-time regular hours would be reduced by the estimated hourly savings.<sup>37</sup> The Postal Services expectation concerning the composition of its future labor force is reasonable. Therefore, it is appropriate to use the full-time regular wage rate to estimate the savings.

### F. Estimate of Indirect Carrier Cost Savings

The final step in the Postal Service’s estimation of total delivery savings is the calculation of indirect costs. In previous analyses, the Postal Service relied on piggyback factors from the cost roll forward process to estimate indirect costs. In the five-day proposal, the Postal Service estimates indirect cost savings by examining indirect costs, element-by-element, and then assessing how costs would be affected by eliminating Saturday delivery. The Postal Service estimates that eliminating Saturday delivery would result in indirect delivery savings of \$378 million.

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<sup>37</sup> USPS-T-6 at 19. The Postal Service defines “full-up” savings as “the annual savings less associated volume reductions available after the completion of all adjustments needed to reduce staffing and adapt contracts, plants and equipment to the changed operational environment.” USPS-T-7 at 2.

## 1. Postal Service Presentation

In the established piggyback analysis, city carriers are allocated a portion of supervision, vehicle maintenance and depreciation, building maintenance and depreciation, and other indirect costs. These costs are assumed to change in response to total volume changes in the same proportion as city carrier direct labor costs. However, because five-day delivery would result in a volume shift rather than a volume change, the Postal Service estimates that some of the indirect cost changes would be minimal and not affect other indirect costs. Therefore, while the Postal Service estimates that only some indirect costs, such as supervision and vehicle maintenance, would change, it anticipates no changes to other indirect costs, such as building maintenance and depreciation, or vehicle depreciation. For servicewide benefits that vary with direct labor costs such as workers compensation and annuitant health benefits, the Postal Service develops and then applies a servicewide 10 percent piggyback factor to the direct city carrier savings estimates to determine how much of these costs would be saved. *Id.* at 4-10.

## 2. Commission Analysis of Indirect Cost Savings

The Commission agrees with the Postal Service's new approach for calculating indirect costs. In the traditional piggyback analysis, city carriers are charged for their portion of supervision, vehicle maintenance and depreciation, building maintenance and depreciation, and other indirect costs. These costs are assumed to change in response to total volume changes, in the same proportion as city carrier direct labor costs. However, because five-day delivery results in a volume shift rather than a volume change, the Postal Service recognizes that not all costs are affected in the way assumed by the traditional method, and therefore decided to analyze the effect on each indirect cost separately. However, the Postal Service uses the traditional piggyback approach to estimate service-wide benefits, such as workers compensation and annuitant health benefits, because these costs are tied directly to variations in direct labor costs. *Id.*

The Commission finds that the Postal Service's element-by-element analysis is the appropriate approach to take in the context of changes to the frequency of delivery. It evaluates how the changed operating environment would affect costs at the level of detail necessary to yield more accurate cost estimates.

Commission estimates that total indirect costs are \$305 million.

#### G. Commission Estimate of Delivery Savings

The Commission's estimate of city carrier street time savings is based on the Postal Service's analysis and the adjustments that the Commission describes above. The Commission estimates savings in hours for the street delivery cost segment using the FY 2009 CRA component-level variabilities. Those variabilities are based on an econometric model that measures cost effects from sustained volume changes and includes network variables.

The Commission estimated net hourly savings from five-day delivery, first, by multiplying the FY 2009 estimate of total Saturday street hours distributed by segment 7 cost component by the respective CRA volume variabilities. The resulting values indicate the portion of Saturday street hours added to weekdays to support delivery of Saturday volume. These hours are then subtracted from the total Saturday hours to estimate net savings by component. The Commission estimates net savings of 28.1 million city carrier street hours as the sum of component level savings.

The Commission's calculation of street cost savings is shown in Table IV-11. The costs and savings are calculated using the average wage rate, the last row converts the average wage rate savings to full-time regular wage rate by applying the adjustment factor.

**Table IV-11**  
**Commission Estimate of City Route Street Cost**  
**Savings From Eliminating Saturday Delivery**  
**(000)**

	<b>Network Travel</b>	<b>Delivery Activities</b>	<b>Delivery Activities Support</b>	<b>City Carrier Street Savings</b>
<b>Six-Day Totals</b>	\$1,383,270	\$8,592,860	\$1,276,502	\$11,252,631
<b>Five-Day M-F</b>	\$1,154,171	\$7,790,898	\$1,145,242	\$10,090,311
<b>Saturday Express</b>	0	\$6,878	0	
<b>Savings</b>	\$229,099	\$795,084	\$132,259	\$1,155,442

Source: PRC-LR-N2010-1/1.

This estimate assumes that there would be no density effect beyond that reflected in the Commission's econometric models. In other words, it assumes that the Postal Service would incur all of the variable costs that it now incurs on Saturday on other weekdays after Saturday delivery is eliminated. In that case, the absorption rate would be zero. This savings estimate provides an approximation of the result that would have been obtained from applying the established econometric model directly, which already includes any density effects to be expected in a longer-run or "full-up" environment. This approach can be expected to yield volume variabilities at or close to the CRA variabilities used by the Commission.

The Commission re-estimates in-office savings using the FY 2009 CRA volume variabilities. The Commission's analysis indicates savings of \$102 million, as indicated in Table IV-12.

**Table IV-12**  
**Commission Estimate of City Route Office Cost Savings**  
**from Eliminating Saturday Delivery**  
**(000)**

	In-Office Direct Labor	In-Office Support Overhead	In-Office Support Other	City Carrier In-Office Savings
Six-Day Totals	\$3,298,256	\$637,600	\$599,801	\$4,535,657
Five-Day M-F	\$3,253,945	\$629,034	\$550,975	\$4,433,953
Savings	\$44,311	\$8,566	\$48,827	\$101,704
Source: PRC-LR-N2010-1/1.				

#### H. Timeline to Full Savings

##### 1. Postal Service Estimate of the Time Required to Achieve “Full Up” Savings

The Postal Service states that after absorbing approximately \$110 million in implementation costs in the first fiscal year, it could reach “full-up” savings one fiscal year later.<sup>38</sup> USPS-T-2 at 16. Subsequently, the Postal Service revised its estimate of the length of the transition, and estimated that if five-day delivery is implemented in FY 2011, “[i]t would be more realistic to expect savings to begin to approach ‘full-up’ levels in FY 2012.” Tr. 2/114.

NALC contends that the Postal Service is underestimating the transition costs that would be incurred in connection with the proposal. Tr. 8/2373. NALC claims that given the organizational complexity and size of the Postal Service, transition costs of only \$110 million represent too small a figure to be credible. *Id.* at 2373-75. NALC also states that transition in an organization as large as the Postal Service would likely take more than one year as route adjustments and processing adjustments are made, delaying the date of “full-up” savings. *Id.* at 2375.

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<sup>38</sup> All of the gross savings estimates are “full-up” savings expressed in terms of FY 2009 dollars. These “full-up” savings assume implementation and completion of all operational adjustments needed to bring about these savings. See USPS-T-7 at 2.

The Postal Service responds that while transition costs to the five-day delivery environment are in the millions of dollars, the projected savings are in the billions. Postal Service Brief at 52. Consequently, the Postal Service claims that even fairly large errors in estimating the costs associated with the transition would not change the financial justification for the proposal. *Id.* It asserts that further expenditure on research or study of transition costs, given their magnitude relative to the expected savings, would be wasteful. *Id.* at 77.

GCA criticizes the Postal Service's cost savings estimates because they are based upon one single year of data. GCA Brief at 2, 5-6. GCA states that this criticism is compounded by the fact that the year used as a basis for all the Postal Service's savings and capacity analysis is "an abnormal one in terms of postal volumes and revenues...." *Id.* at 2. GCA contends that since the Postal Service utilized a "snapshot" of FY 2009 to determine capacity and savings, and did not roll forward estimates concerning staffing, expenses, and other data, its savings estimates cannot be relied upon. *Id.* at 5-6. GCA also contends that the Postal Service's cost savings may be inflated due to its estimate of the amount of excess capacity available in the network to deliver mail shifted from Saturday. *Id.* at 7-12.

The Postal Service responds to GCA's contention that FY 2009 was an abnormally low volume year by stating that the Postal Service has continued to experience volume loss since FY 2009. Postal Service Reply Brief at 33. The Postal Service also relies on its consultants who forecast that in the next 11 years, there will not be volumes approaching FY 2009 levels. *Id.* at 34. If anything, therefore, the Postal Service contends that FY 2009 might be unsuitable to use as a base year due to abnormally high volumes in comparison to years moving forward. *Id.* Similarly, the Postal Service also defends its use of a base year rather than a roll-forward to estimate costs because a roll-forward would require historical data to model mailer behavior in response to the change—data that do not exist. *Id.* at 38-39. The Postal Service states that GCA's concern about excess capacity is groundless since the Postal Service

estimates that only 10 percent of Saturday's delivery time would be transferred to other days. *Id.* at 44.

2. Commission Estimate of the Time Required to Achieve "Full-Up" Savings

Using data provided by the Postal Service, the Commission calculates that the Postal Service could achieve "full-up" savings in the third year after implementation of five-day delivery. If implementation took place in July of 2011, the Postal Service could reach "full-up" savings in FY 2014. These "full-up" savings would equal the Commission's estimate of \$1,257 million in total direct city carrier savings. The Commission uses the average retirement rate from FY 2008 and FY 2009 of 3.72 percent for city carriers in bargaining status.

Of the total savings, the Commission estimates that \$944 million or approximately 75 percent would be reached in the first year. This assumes that the "full-up" hours savings are reached in the first year through a combination of attrition of full-time regular carriers and reductions in non-career carrier hours. However, to reach that target in the first year, would require a 66 percent reduction in non-career hours.<sup>39</sup> These reductions may not be possible because of the loss in scheduling flexibility. In that case, first year savings would be reduced, but the reduction would not affect full dollar savings achieved in the third year. The hours saved over three years remain constant, but the savings increase as non-career carriers are substituted for full-time regular carriers, as the latter retire.

The Commission also examines the effect of using the retirement rates of 2.97 percent and 4.47 percent for FY 2008 and FY 2009 for carriers in bargaining status. Using the former, first year savings would be lowered to \$901 million and the full amount would be reached in the fourth year. The non-career work hours would be

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<sup>39</sup> The reduction is relative to FY 2009 hours.

reduced by 74 percent to reach full workhour savings in the first year. The higher FY 2009 rate of 4.47 percent yields full savings in the third year and the first year amount increases to \$986 million.

The Commission concludes that if the Postal Service uses its management flexibility to rapidly downsize its non-career workforce, then the majority of the full annual savings can be reached in the first year after implementation of five-day delivery. However, if the Postal Service cannot rapidly downsize then first year savings would be reduced. These concerns would not prevent the Postal Service from reaching full savings by the third or perhaps fourth year if retirement rates remain relatively stable.

## V. CALCULATION OF MAIL PROCESSING SAVINGS

### A. Introduction

The Postal Service estimates that approximately \$176 million in mail processing labor costs would be saved by eliminating the processing of outgoing mail on Saturdays. The Commission estimates a savings of \$120 million, or \$56 million less than the Postal Service's estimate.

The Postal Service estimate is based on its operational assessment that 38 percent of the cost of overall outgoing mail processing operations is fixed with respect to volume. It bases this 38 percent on its assessment that 28 percent of the labor cost of direct sorting operations is fixed and all of the labor cost in allied operations is fixed.<sup>40</sup> Its estimate is higher than previous estimates of volume variability, and high when compared with the estimate that is derived from a straightforward application of within-week differences in productivity. The Postal Service also estimates savings from the elimination of distribution clerk operations that support Saturday delivery in post offices.

The Commission's established method of estimating the volume variability of mail processing labor costs results in an overall level of fixity of about six percent. Analysis of differences in overall daily average productivity data results in an estimated savings in workhours of not more than five percent.

The Commission accepts the Postal Service's analysis of direct distribution, supervisor and indirect workhour savings, as well as its equipment maintenance and custodial savings estimates. The Commission also accepts the Postal Service analysis of distribution clerk savings within local post office operations. However, for clerk and mailhandler workhours related to allied operations, the Commission calculates savings

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<sup>40</sup> In mail processing, allied operations support mail processing operations that sort or handle individual pieces of mail. Allied operations include moving pallets of bundled mail on loading docks (platform operation) and opening trays of letters (opening unit operation), among others.

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 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.

Applying the established method to allied operations, while accepting the other Postal Service methods, results in an estimated savings of approximately \$120 million compared with the Postal Service's estimate of approximately \$176 million. The two estimates are set forth in Table V-1.

**Table V-1**  
**Costs Saved in Outgoing Mail Processing Operations**  
**By Eliminating Saturday Delivery**  
**(000)**

	<b>Commission</b>	<b>Postal Service</b>	<b>Difference</b>
Clerks and Mailhandlers	\$ 33,725	\$ 90,114	\$ (56,389)
Supervisor	19,494	19,494	-
Equipment Maintenance	13,333	13,333	-
Custodial	131	131	-
Post Office	53,000	53,000	-
<b>Total</b>	<b>\$ 119,683</b>	<b>\$ 176,072</b>	<b>\$ (56,389)</b>

The Commission recognizes that, given the lack of directly-relevant data concerning the flexibility of staffing within Tour 3, and across days of the week, the response of staff levels to the proposed five-day scenario is uncertain. As discussed in chapter VIII, the five-day delivery proposal could increase unit mail processing labor costs, leave them little changed, or reduce them. The Commission's estimate is a middle ground. It finds that the Postal Service overstates the potential mail processing savings.

## B. Postal Service Presentation

The Postal Service has calculated the savings in mail processing labor costs that would result from eliminating the processing of outgoing mail on Saturday by estimating the costs that would be avoided if outgoing processing were eliminated on Saturdays, and the added costs that would be incurred in processing plants by the need to sort post office box addressed mail to delivery point sequence on Friday to support delivery on Saturday. This extra expense is relatively small.

For direct distribution operations, which include manual and automated processing of letters, flats, and mixed mail sorting, as well as supervisor and indirect time, witness Neri compares Saturday outgoing productivities with Monday outgoing productivities. On Mondays, the productivities are from 10 to 35 percent higher for automated operations, and from 25 to 35 percent higher for manual operations. Witness Neri assumes that the productivities observed on Mondays will be unaltered when the workload is shifted from Saturday. He offers operational reasons for concluding that the percent of labor hours saved on Mondays in these operations will equal the difference in productivities between Saturdays and Mondays.

For operations that are not direct distribution operations, witness Neri bases estimates of the percent of labor hours that are fixed solely on operational experience. These operations are categorized as "allied operations" since they support more than one distribution operation. They consist of loading mail in bulk form, generally out of larger containers into other containers, or vice versa, and moving the mail from the dock to sorting operations, or from sorting operations to the dock. Allied operations also involve some prepping of mail for sorting or for dispatch. Allied operation groups are the Other Cancellations, Dock Operations, Dispatch Operations, Mail Movement via Equipment, Expediter, Priority Outgoing, Supervisor, and Indirect Operations. The percent of workhours in allied operations that witness Neri considers fixed for purposes of delivery frequency analysis range from 10 percent to 100 percent.

Witness Neri's direct testimony contains a detailed list of activities that are designed to illustrate outgoing operations that do not fully respond to changes in volume. USPS-T-4 at 15-16. Some of them consist of moving bulk containers around the plant, but most involve "set up and take down" activities—activities required either to initiate or terminate sorting on a particular machine.

Witness Neri implies that fixed mail processing costs would increase going forward because the relative capacity of processing plants to handle outgoing mail volume will grow over the longer run. He notes that single-piece First-Class Mail will continue to decline, and that automation of the mailstream will continue to expand capacity as Flat Sorting Machines, more advanced facer cancellers, and more efficient barcode reading software come on line. USPS-T-4 at 12-13.

In response to question 1 of Chairman's Information Request No. 3, witness Neri provides a comprehensive evaluation of outgoing mail processing operations to estimate what percent of each is fixed. Tr. 6/1570. His estimates, when added together, suggest that two-thirds of outgoing processing labor hours on Mondays are fixed, and would remain unchanged even if Monday volumes were to increase by the large percentages expected.

Witness Neri offers two reasons for concluding that a "large" percentage of workhours in outgoing processing operations do not respond to changes in volume, and therefore outgoing volumes shifted from Saturday to Monday would cause only a small increase in workhours. He suggests that, for purposes of delivery frequency analysis, the large majority of allied workhours are fixed. Much of allied activity consists of handling mail in containers (trays, bins, hampers, pallets). He does not dispute that when handling the contents of those containers, workhours are largely driven by the volume of mail in those containers. However, he emphasizes that when handling the container itself, it generally does not matter how full the container is. Therefore, he concludes, time spent handling containers tends not to change when volume within the container changes. USPS-T-4 at 16; Tr. 6/1570-1584.

Witness Neri offers “operational experience” as the primary basis of his estimates of the percent of outgoing mail processing labor hours in each operation group that are fixed. He supplements that by comparing productivity estimates for direct distribution operations groups by day of the week.

The estimates for each group, when added together, imply that 38 percent of outgoing processing labor hours is fixed on any given day of the week, including Mondays.<sup>41</sup> The percent of cost in an operation that is considered to be fixed is the complement of the percent that is considered volume variable. Therefore, witness Neri’s estimate that the cost of outgoing processing operations is 38 percent fixed equates to a volume variability of 62 percent for those operations (in the context of day of the week responses to changes in volume).

Witness Granholm describes the changes in post office operations as a result of eliminating Saturday delivery. USPS-T-3 at 9. Distribution clerks at local post offices manually sort residual letters and flats, and parcels to the carrier route level.<sup>42</sup> Distribution clerks also perform other duties, such as documenting the transfer of responsibility for “signature required” mail and providing delivery of firm holdout mail. Most of the clerks performing these duties would not be needed on Saturdays in a five-day environment although a few would remain to support the delivery of mail to post office boxes.<sup>43</sup>

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<sup>41</sup> Since the table provides both annual fixed labor hours for each group of operations, and a percent of total labor hours, for each group, the percent of total annual labor hours for each group that are fixed can be calculated by dividing the fixed labor hours by the percent of total. Derived total labor hours appear in the column headed “Annual Hours,” supplied by the Commission. In the bottom row of the table, the Commission has supplied fixed labor hours as a percent of total labor hours for outgoing processing operations as a whole.

<sup>42</sup> The majority of letter and flat mail is sorted on automated equipment into carrier walk sequence or to a carrier route level. The letters and flats sorted manually are the residual pieces that were not sorted on automated equipment.

<sup>43</sup> The retail functions of post offices will remain largely unchanged. The savings calculated in this section relate solely to the delivery support operations that clerks perform at local post offices. *Id.* at 7.

The Postal Service calculates savings for post office operations by eliminating the carrier support clerk hours related to Saturday activities that would not be needed in a five-day environment. USPS-T-7 at 16. The Postal Service partially offsets these savings by adding additional hours for retail or window services to allow for additional package pickups and customer inquiries. *Id.* Overall, the Postal Service estimates a total net savings, including both labor and service-wide benefits, of \$53 million. *Id.*

### C. Commission Analysis

As the Postal Service's estimated percentage of workhours saved is greater than the results of previous analyses, the Commission attempted to corroborate the estimates through analysis of In-Office Cost System (IOCS) data and overall productivity. The following discussion, which focuses on the Postal Service's arguments related to the fixed nature of allied costs and its productivity analysis of direct distribution activities, explains why the Commission was unable to corroborate the estimates.

By eliminating Saturday outgoing processing, substantial volume moves to Monday. The actual cost savings depend on how such peak volume periods are managed in the long run. This is true for delivery operations and transportation as well. The Postal Service's presentation does not address this issue. Chapter VIII discusses this subject in detail.

#### 1. Examination of Direct Distribution Operations

The Postal Service's analysis of workhours saved in direct distribution operations compares average productivities between Saturday and Monday and assumes that the volume shift from Saturday will be processed at Monday productivity. This differs from the analysis witness Granholm presented for city carrier workhour savings which assumed incremental productivities. Witness Neri's examination is a useful exercise in

evaluating how workhours may respond to volume in a changed processing environment.

The Commission finds this analysis appropriate in this context and accepts the Postal Service's estimates of workhour savings. However, it cautions that the achievable productivity depends on many factors. Monday is the day of the week that exhibits the highest productivity. If mailing behavior changes in response to elimination of Saturday delivery results in mail shifting to other days of the week, the overall productivity gain may be lower.

In addition, there is evidence that mail processing staff move between operations without clocking in and out causing a mismatch in recordkeeping between hours and volumes in individual operations. If the lower productivity for the selected outgoing operations on Saturday reflects the time staff was clocked into one outgoing operation but was working in another operation, the overall hours saved by handling mail on Monday may be overstated. To test these possibilities, the Commission reviewed facility-wide outgoing mail processing productivity throughout the week.

To model what seems to be the most realistic five-day scenario described by the Postal Service, Table V-2 shifts 75 percent of current outgoing Saturday volumes to Mondays, and shifts 25 percent of current outgoing Saturday volume to Fridays.<sup>44</sup>

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<sup>44</sup> Witness Neri does not identify how much Saturday mail processing volume will shift to Mondays. Witness Granholm provides an estimate that assumes 75 percent of mail now entered on Saturday would be delivered on Monday and 25 percent would be delivered on Friday. Although outgoing processing volume is not proportional to delivered volume, because the Postal Service does not provide an explicit estimate of how much outgoing volume currently processed on Saturdays would shift to other days, the most reasonable available assumption is that the amount of processing volume shifted would be proportional to the amount of delivered volume shifted. If 75 percent of outgoing processing volume would shift to Mondays, and 25 percent to Fridays, Monday processing workload would increase by 33 percent, and Friday workload by 11 percent over current average volume for those days.

**Table V-2**  
**Volume and Productivity**  
**Current Six-day and Proposed Five-day Scenarios Compared<sup>1</sup>**

<u>Day of the Week</u>	<u>Volume</u>	<u>Hours</u>	<u>Productivity</u>	<u>Productivity Difference (from current 6-day avg)</u>
Monday	9,073,372,567	2,775,116	3,270	6.9%
Tuesday	9,319,796,565	2,990,563	3,116	1.9%
Wednesday	9,282,121,180	3,035,357	3,058	0.0%
Thursday	8,451,568,034	2,834,238	2,982	-2.5%
Friday	9,214,819,370	2,896,305	3,182	4.0%
Saturday	3,968,916,196	1,586,374	2,502	-18.2%
<b>Current 6-day total</b>	<b>49,310,593,912</b>	<b>16,117,953</b>		
<b>Current 6-day average</b>	<b>8,218,432,319</b>	<b>2,686,326</b>	<b>3,059</b>	
% Sat volume below 6-day average		-52%		
<b>Impact on Monday Hours</b>				
Add 75% of current Saturday volume	2,976,687,147			
New Monday Volume	12,050,059,714			
% new Monday greater than 6-day average		47%		
Hours needed at current weekly average prod	3,938,754			
Reduction in hours		-1%		
Hours needed at current Monday productivity	3,685,543			
Reduction in hours		-7%		
<b>Impact on Friday Hours</b>				
Add 25% of current Saturday Volume	992,229,049			
New Friday Volume	10,207,048,419			
% new Friday greater than 6-day average		24%		
Hours needed at current weekly average prod	3,336,336			
Increase in hours		1%		
Hours needed at current Friday productivity	3,208,172			
Reduction in hours		-3%		
<b>Impact on Total Hours</b>				
		<b>New Hours</b>	<b>Current Hours</b>	
Overall change in hours (avg prod)	0%	7,275,090	7,257,795	
Overall change in hours (daily prod)	-5%	6,893,716	7,257,795	

<sup>1</sup>FY09-MODS Data Total Pieces Handlings (TPH) used as proxy for outgoing processing volume. Excludes observations with negative TPH, zero TPH, zero hours, or both (32% of total observations). Excludes Sunday TPH.

The table derives total hours that would be saved from specific assumptions about what would happen to productivity. It divides new Monday volumes by the historical average weekly productivity under the current six-day delivery environment.<sup>45</sup> The result is the number of workhours that would be needed to process new Monday volumes under the five-day scenario. Subtracting the number of future workhours needed from current workhours yields the number of workhours that would be saved by implementing five-day delivery. The result indicates that one percent of workhours would be saved.

An alternative calculation is also demonstrated. It divides new Monday volumes by current Monday productivities. This measures the impact on workhours if improved productivity is assumed for Monday processing under a five-day delivery environment. In this case, seven percent of workhours would be saved. Applying the same analysis to Friday volumes and productivities shows that future Friday workhours would be increased by one percent, assuming that current average weekly productivities would apply, or reduced by three percent, assuming that current Friday productivities apply. Combining the Monday savings and the Friday savings indicates that no workhours would be saved if current average weekly productivities prevail at the new levels of volume. Five percent of workhours would be saved if current Monday productivities prevail at the new Monday volume level and current Friday productivities prevail at the new Friday volume level. Under the proposed five-day scenario, whether historical average weekly productivities or Monday-specific and Friday-specific productivities prevail, the Postal Service would save far fewer outgoing processing workhours than witness Neri estimates.

The question remains whether new Monday and new Friday volume levels would exhibit either of the historical productivities modeled above, or some other productivity

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<sup>45</sup> The current average weekly productivity is a relevant benchmark if one assumes that the typical plant manager maintains staff levels designed to process the weekly peak volume without delay. Chapter VIII discusses Postal Service staffing strategies in detail.

that has no historical precedent. Which productivity would prevail depends largely on how efficiently staffing is currently matched to workload and whether it can be more efficiently matched in the future.

## 2. Examination of the Fixed Nature of Allied Labor Costs

Witness Neri asserts that “a large portion of the activity performed in our plants is constant and does not vary with changing mail volumes.” USPS-T-4 at 15. He considers loading or unloading mail to or from bulk containers, and moving mail through the plant in bulk containers, to be “allied activity” whether it occurs in a support operation (what the Postal Service’s data collection system defines as an “allied operation”) or a direct sorting operation. He contends that the majority of workhours in what are officially designated as “allied operations” are fixed. *Id.* at 16-17. He regards much of the time spent in direct sorting activities as “allied” in nature as well. Spreading this fixed “allied” activity over high volumes on Mondays, he believes, is the principal reason that productivities in direct sorting operations are higher on Mondays than on Saturdays. Tr. 6/1570-84.

He provides a list of activities, shown in Table V-3, that are allied in nature that he believes illustrate his assertion. Many of the activities listed are part of the “set-up” process that prepares processing equipment to run a sort program and the “take-down” process that prepares sorted mail to be sent downstream. Witness Neri also states that mail will arrive earlier on Monday allowing hours to be saved. This implies that employees currently wait for mail to arrive. When discussing cancellation specifically, he claims that “much of the time is spent waiting for the mail” and considers this time fixed as well. Tr. 6/1575. Most of the remaining activities listed consist of various kinds of container handling. USPS-T-4 at 15-16. Table V-3 shows proportions of time spent on mail sorting and cancellation operations taken from IOCS tallies.

Table V-3

## Percent of Total Processing Time Spent on Arguably Fixed-time Activities Within Operations

Cost Pool	Percent of Time Spent on Setup and Take Down	Percent of Time Spent Waiting for Mail	Subtotal	Percent of Time Spent Handling Containers	Total
<b>DBCS (Incoming)</b>	<b>9%</b>	<b>1%</b>	<b>10%</b>	<b>2%</b>	<b>12%</b>
<b>DBCS (Outgoing)</b>	<b>8%</b>	<b>1%</b>	<b>9%</b>	<b>2%</b>	<b>11%</b>
<b>OCR</b>	<b>7%</b>	<b>1%</b>	<b>8%</b>	<b>2%</b>	<b>10%</b>
<b>AFSM 100</b>	<b>8%</b>	<b>1%</b>	<b>9%</b>	<b>2%</b>	<b>11%</b>
<b>FSM 1000</b>	<b>6%</b>	<b>1%</b>	<b>7%</b>	<b>1%</b>	<b>8%</b>
<b>SPBS Other</b>	<b>6%</b>	<b>2%</b>	<b>8%</b>	<b>3%</b>	<b>11%</b>
<b>SPBS Priority</b>	<b>5%</b>	<b>1%</b>	<b>6%</b>	<b>3%</b>	<b>9%</b>
<b>Manual Flats</b>	<b>4%</b>	<b>2%</b>	<b>6%</b>	<b>5%</b>	<b>11%</b>
<b>Manual Letters</b>	<b>3%</b>	<b>2%</b>	<b>5%</b>	<b>2%</b>	<b>7%</b>
<b>Manual Package</b>	<b>5%</b>	<b>3%</b>	<b>8%</b>	<b>12%</b>	<b>20%</b>
<b>Priority</b>	<b>5%</b>	<b>3%</b>	<b>8%</b>	<b>10%</b>	<b>18%</b>
<b>Cancellation</b>	<b>4%</b>	<b>4%</b>	<b>8%</b>	<b>11%</b>	<b>19%</b>
<b>All Letter Sorting</b>	<b>6%</b>	<b>1%</b>	<b>7%</b>	<b>2%</b>	<b>9%</b>
<b>All Flat Sorting</b>	<b>6%</b>	<b>2%</b>	<b>8%</b>	<b>2%</b>	<b>10%</b>

Table V-3 shows that set-up/take-down time is less than 10 percent of the workhours logged in any listed mail processing operation, waiting time is less than five percent of the those workhours, and container handling is less than 10 percent for all but three of the cost pools. In letter sorting and flat sorting operations as a whole, combined set-up/take-down, wait time and container handling is no more than 10 percent. This analysis is not strictly comparable to witness Neri's estimate of fixed costs because it includes both incoming and outgoing operations.<sup>46</sup> However, the percent of time spent on set-up and take-down, waiting, and container handling should not be significantly different. The result is less than witness Neri's estimate that outgoing mail processing labor costs are 38 percent fixed.

In Docket No. R2006-1, the Postal Service was asked to extend this IOCS tally analysis to as many operations as possible beyond those shown in Table V-3. The

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<sup>46</sup> The IOCS tallies used in this analysis do not distinguish between incoming and outgoing operations.

analysis was extended to 40 additional operations, most of them allied in nature.<sup>47</sup> The 40 additional operations, together with the Table V-3 operations, constitute almost all mail processing operations regardless of the facility in which they occur.

All activities in those operations that potentially could have been defined as fixed time are included in this detailed and comprehensive set of IOCS tallies. Consequently, the analysis provides an upper bound on those costs. When the IOCS analysis is extended to the vast majority of mail processing operations, the unweighted average of the “fixed time” shares for the 40 additional operations is slightly over 14 percent.

### 3. Examination of the Cost of Handling Containers

Witness Neri interprets the lower outgoing mail processing labor productivities recorded on Saturdays relative to those recorded on Mondays as a reflection of what can be summarized as the “container effect.” He states:

for some activity performed in our plants, there is a component that is used to support the operation, but is not dependent on the amount of mail being processed. These are activities that are not closely tied to volume and thus hold the potential for absorbing additional volume without generating additional hours. The hours required for these activities may vary on a daily basis, but do not necessarily change as volume increases or decreases. For instance, when mail is sorted into a bin on one of our machines, it takes the same amount of effort to sweep 20 pieces of mail as it does to sweep 100 pieces of mail. Moving a tray takes the same amount of time whether that tray contains a single piece of mail or 500 pieces of mail.

Tr. 6/1572.

Witness Neri believes that the container effect has profound consequences for the volume variability of labor costs. As the Commission has pointed out in past dockets, there is a theoretical reason not to place great weight on the container effect in

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<sup>47</sup> See Docket No. R2006-1, Response of United States Postal Service Witness Bozzo (USPS-T-12) to Interrogatory of Magazine Publishers of America, Inc., and Alliance of Nonprofit Mailers (MPA/USPS-T12-1-4), July 14, 2006.

evaluating the volume variability of mail processing labor costs. The container effect, the Postal Service has elsewhere acknowledged,<sup>48</sup> is a description of the “economies of density,” or “economies of fill.” A mail container can be viewed as a fixed resource. As the container fills up, the unit labor cost of handling it goes down. However, when capacity is exceeded, handling the next added container, with a small amount of volume, has a high unit cost. The unit cost of the marginal container gradually decreases as the container reaches capacity. As long as rising volume is added to one container economies of fill are exploited. When volume reaches the point where a new container is needed diseconomies of fill set in. The economies and diseconomies of fill will be offsetting and result in volume variabilities of 100 percent in container handling costs.<sup>49</sup>

An illustration of this is loading trucks. Opening and closing the truck door represents fixed time. However, if sacks or pallets are loaded, the time required to do this will vary with the number of sacks or pallets, and the number of sacks or pallets will vary with volume. Sack sorting is an allied operation. Higher volumes will result in more sacks to sort. Pouching is an allied activity where bundles of mail are sorted into sacks that will be directed toward different destinations within the plant. Even though the mailpieces within the bundle are not handled individually, the time that it takes to sort the bundles varies with volume. The same consideration applies to traying single-piece mail that comes off the Advanced Facer Cancellor Machine.<sup>50</sup> The more volume, the more trays that have to be filled.

Even the labor cost of moving empty equipment can vary with volume. The amount of equipment needed depends on the volume of mail, and therefore the amount

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<sup>48</sup> See Docket No. R2006-1, Tr. 10/2656-60; USPS-T-10 at 30.

<sup>49</sup> Docket No. R2006-1, Tr. 23/8605-06.

<sup>50</sup> The Advanced Facer Cancellor Machine operation is a hybrid between an allied operation and a direct sorting operation.

of equipment that is emptied will depend on volume.<sup>51</sup> Witness Neri assumes that most allied operations will require no additional labor time under a five-day scenario, despite higher volumes on Mondays. In doing so, he has not taken into account the effect that higher volumes can have, both on the number of containers that would need to be handled, and the time that it takes to handle the contents of these containers.

Witness Neri notes that “moving a tray takes the same amount of time whether that tray contains a single piece of mail or 500 pieces of mail.” Tr. 6/1572. The significance of this observation depends on what portion of containers used in an operation are typically nearly empty. With respect to outgoing letter trays, that proportion is likely to be very small. Letter trays of single-piece mail filled by the Postal Service in the cancellation operation are generally full, except for residual trays. The same is true of trays prepared by bulk mailers. The Postal Service’s bulk mailing restrictions require a mailer to use the fewest number of trays possible in a given mailing, and to fill a tray before it places mail in the next tray, until only residual mail is in a partially filled tray. The Postal Service’s regulations contain incentives to ensure that even residual mail at one depth of sort will be doubled up in a tray containing mail at the next shallower depth of sort.<sup>52</sup>

As noted, witness Neri concludes that under the five-day scenario, large volume shifts from Saturdays to Mondays will lead to productivity increases in allied operations reflecting pervasive economies of fill caused by the container effect. In an attempt to corroborate this assumption, the Commission reviewed the productivity data of the AFSM 100 flat sorting operation with and without its related allied functions.

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<sup>51</sup> See Summary Description of USPS Development of Costs By Segments and Components, Cost Segment 3, FY 2009 (Cost Segment 3, FY 2009).

<sup>52</sup> See Domestic Mail Manual (DMM) section D235.3.3 and D235.6.6. Summary of MERLIN Move-Update Tests FY 2010 Q2 and Q3 suggest that the average outgoing Presorted First-Class mailing consists of from 20,000 to 35,000 letters. If the average tray consists of 500 letters, a typical mailing would contain between 40 and 70 trays of mail, only a handful of which would be partially filled with residual mail.

Witness Neri asserts, for cost tracking purposes, that the Postal Service includes all allied functions that can be associated with a particular processing operation with that operation. USPS-T-4 at 15-16. This includes the regular AFSM 100 operations (defined by MODS numbers 331 and 332). However, the AFSM 100 that has Automatic Induction and an Automated Tray Handling System (AFSM AI/ATHS defined by MODS numbers 141 and 142) is an exception to the rule that allied functions are included with the related direct sorting operations. The AFSM AI/ATHS eliminates labor costs in the induction and tray handling functions, which are allied in nature. Other allied costs associated with the automated AFSM AI/ATHS are reported separately in MODS operation number 140. If the productivity for allied operations increases as volume increases because of economies of fill, productivity of the AFSM 100 operation should increase more than the productivity of the AFSM AI/ATHS operation.

The table below shows how the productivity of the AFSM 100 operation (the one that includes related allied labor) changes when moving from low-volume (Saturday) conditions to high-volume (Monday) conditions. It also shows how the productivity of the AFSM AI/ATHS operation (the AFSM 100 operation that excludes related allied labor) changes when moving from low-volume to high-volume levels.

**Table V-4**  
**AFSM Operations Compared (With and Without Related Allied Labor)<sup>1</sup>**

Operation	Saturday productivities (low volume)	Monday productivities (high volume)	Implied productivity change shifting Saturday volume to Monday
Without related allied labor: AFSM 100 ATHS/AI Outgoing Primary (OPN 141)	3308	4340	31% increase
With related allied labor: AFSM 100 Outgoing Primary (OPN 331)	1308	1744	33% increase
Without related allied labor: AFSM 100 ATHS/AI Outgoing Secondary (OPN 142)	4388	4355	1% decrease
With related allied labor: AFSM 100 Outgoing Secondary (OPN 332)	2118	1863	12% decrease

<sup>1</sup> January through September 2009 data from USPS-LR-N2010-1/19

Contrary to witness Neri's theory, productivity gains on Mondays are essentially the same for the AFSM 100 operation that excludes related allied labor and the one that includes it, when they perform Outgoing Primary sorts (compare row 1 with row 2). When it performs Outgoing Secondary sorts, the productivity of the AFSM 100 operation that excludes related allied labor is essentially unchanged moving from low-volume to high-volume conditions (row 3, last column). The productivity of the AFSM 100 operation that includes related allied labor, however, substantially declines moving from low-volume to high-volume conditions (row 4, last column). These results are not compatible with witness Neri's theory that the allied portion of flat sorting operations will

experience large productivity gains as those operations move from low Saturday volumes to high Monday volumes.

#### 4. Examination of the Variability of Cancellation Operations

The Postal Service, in other dockets, has asserted that the cancellation operation needs to be fully staffed while the operation is being ramped up and while it is winding down.<sup>53</sup> However, it also notes that during lulls in workload in the cancellation operation, staff is typically rotated to tasks outside the cancellation operation without clocking out.<sup>54</sup> The result is that hours are recorded as accumulated in the operation regardless of how much or how little volume is present. This gives the impression that labor hours are partially fixed. The cost of the staff that rotates in and out of the cancellation operation is not fixed, however, if one is evaluating the cost response of the processing plant as a whole.

#### 5. Examination of Post Office Operations Savings

The Commission agrees with the Postal Service's analysis of post office operations savings. The analysis presents a reasonable approach to determine workhours that would not be needed in a five-day environment. The Postal Service also properly recognizes the need for additional clerk hours necessary to allow for additional package pickups and customer inquiries on Saturdays in a five-day environment. The Commission adopts the Postal Service's estimate of \$53 million in savings for post office operations as a result of the elimination of Saturday delivery.

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<sup>53</sup> See Docket No. R2001-1, USPS-T-39 at 34-35 (Kingsley); Docket No. R2000-1, USPS-T-10 at 30-31 (Kingsley).

<sup>54</sup> See, e.g., Docket No. R2006-1, USPS-T-42 at 39 (McCrery).

## 6. Conclusion

The evidence presented in this docket, when examined in relation to overall outgoing mail processing operations, does not support the Postal Service's contention that 51 percent of clerk and mail handler workhours will be saved. The Commission finds that estimated workhour savings is closer to 20 percent. The Commission accepts, with caution, the Postal Service's analysis of direct distribution operations but finds that the evidence does not support the Postal Service's analysis of allied operations. For these operations, the established volume variability method is more reasonable. The Commission also accepts the Postal Service's analysis of distribution clerk savings within post office operations.

The Commission's established volume variability estimate can be characterized as an in-depth version of the bookkeeping analysis of the volume variability of mail processing labor illustrated in Table V-4. It provides a more comprehensive analysis of processing activities and applies engineering analysis and operational experience to determine the portion of those various activities that vary with volume. This more comprehensive analysis yields a volume variability for mail processing labor costs overall of about 94 percent, which implies that about six percent of those costs are fixed, at least over a rate cycle. See Cost Segment 3, FY 2009.

Applying the two methods—productivity analysis for direct distribution and established volume variability for allied—results in a Commission workhour savings estimate of 1.5 million. This estimate is 1.2 million less than the Postal Service's estimated workhour savings and results in a difference in cost savings of \$56 million.

## VI. CALCULATION OF MAIL TRANSPORTATION COST SAVINGS

### A. Introduction

The Postal Service estimates \$377 million in transportation savings from diverting transportation from Saturday and Sunday to other weekdays. The transportation savings estimate is calculated separately for air and surface. The Commission accepts the Postal Service's estimates for air and some elements of surface. However, for highway transportation the Commission does not find the evidence presented in this docket supports the Postal Service's conclusions. Therefore, the Commission calculates savings using highway variabilities presented in the FY 2009 ACR. The Commission and Postal Service estimates are presented in Table VI-1.

**Table VI-1**  
**Comparison of Commission and Postal Service Transportation Savings Estimates**  
**(000)**

<b>Mode of Transportation</b>	<b>Commission Estimate</b>	<b>Postal Service Estimate</b>	<b>Difference</b>
Air	\$ 62,346	\$ 62,346	\$ -
Highway	\$ 12,676	\$ 220,215	\$ (207,539)
Box Routes	\$ 35,154	\$ 35,154	\$ -
Vehicle Service Drivers	\$ 59,320	\$ 59,320	\$ -
	\$ 169,496	\$ 377,035	\$ (207,539)

### B. Postal Service Estimate of Mail Transportation Savings

The Postal Service estimates cost savings for air transportation and surface transportation separately. Surface transportation is further broken down into purchased highway transportation, box route transportation, and vehicle service driver activities Vehicle Service Drivers (VSD). In developing transportation cost estimates, the Postal Service used fundamentally different approaches. With air and box route transportation contracts, the Postal Service recognizes added costs during weekdays to move mail that would have otherwise been delivered or processed on the weekend. However, cost

estimates for highway contracts and VSD activities only include the weekend costs that are saved. For the latter, the Postal Service claims that there is sufficient truck capacity to move the diverted weekend mail without incurring added trips.<sup>55</sup>

For air transportation, the Postal Service estimates savings of \$62 million, based on the assumption that Sunday air transportation of Saturday outgoing mail would be delayed until Tuesday because outgoing processing would be postponed until Monday. See NALC-LR-N2010-1/7. It expects savings because air transportation is less expensive on Tuesdays than on Sundays.

On box route contracts, the Postal Service applies standard variability analysis to estimate savings of \$35 million. The variability for box route contracts is 31.9 percent. Therefore the Postal Service assumes that 31.9 percent of Saturday costs would be incurred during weekdays to deliver Saturday mail. The remaining 68.1 percent of Saturday costs, or \$35 million, is the amount saved.

The Postal Service estimates cost savings for purchased highway transportation by examining six contract types: inter-Area, inter-Cluster, inter-P&DC, intra-BMC, intra-CSD, and intra-P&DC. Total FY 2009 transportation costs are identified from the CRA for each of these types, and the Saturday and Sunday portions of these costs are estimated using the Transportation Cost Surface System (TCSS) data base. USPS-T-6 at 35. The Postal Service estimates the percentage reductions of Saturday and Sunday transportation capacities, measured in cubic foot miles (CFM), by contract type as a result of eliminating Saturday delivery and outgoing processing. These percentages are shown below in Table VI-2.

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<sup>55</sup> The Postal Service indicates it has sufficient weekday capacity based on the existence of empty truck space. See USPS-T-6 at 41; USPS-T-5 at 12; Tr. 4/886-88.

**Table VI-2**  
**Percent Reductions in Highway Contract Transportation Capacity with Five-day**

Contract Type	Saturday Reductions in CFM	Sunday Reductions in CFM
<b>INTER AREA</b>	20%	80%
<b>INTER CLUSTER</b>	30%	80%
<b>INTER P&amp;DC</b>	30%	80%
<b>INTRA BMC</b>	40%	50%
<b>INTRA CSD</b>	60%	80%
<b>INTRA P&amp;DC</b>	60%	80%
Source: USPS-T-6 at 42.		

Table VI-2 shows that on Saturday, the Postal Service expects to reduce short haul transportation (Intra) more than long haul contracts (Inter) because Saturday delivery and pick-up, which travels on short haul contracts will be postponed until Monday while Friday outgoing mail, which travels on long haul contracts will still need to be moved on Saturday. USPS-T-5 at 9-10. The Postal Service will not be able to save all of the short haul costs due to continued Saturday Express and mail box delivery, and Express Mail pickup and transportation back to plants. *Id.* at 11-12. Except for intra-BMC, the Postal Service estimates an 80 percent reduction on Sunday.

Transportation cost savings do not equate one to one with reductions in CFM. The Postal Service has estimated capacity variabilites for each contract type. These variabilities are shown in Table VI-3.

**Table VI-3**  
**Postal Service Capacity Variabilities FY 2009**

<b>Contract Type</b>	<b>Capacity Variability Percent</b>
<b>INTER AREA</b>	91.3
<b>INTER CLUSTER</b>	90.4
<b>INTER P&amp;DC</b>	84.1
<b>INTRA BMC</b>	98.3
<b>INTRA CSD</b>	70.6
<b>INTRA P&amp;DC</b>	70.2
Source: USPS-T-6 at 44.	

To estimate dollar savings, the Postal Service multiplies the percent capacity reductions, shown in Table VI-2, by the corresponding contract type capacity variabilities shown in Table VI-3 and applies the result to current Saturday and Sunday costs. Summing all Saturday and Sunday savings yields total highway transportation cost savings of \$220 million.

Table VI-4, below, displays savings by contract type and day.

**Table VI-4**  
**Purchased Highway Transportation Cost Savings by Contract Type and Day**

<b>Contract Type</b>	<b>Saturday cost Savings</b>	<b>Sunday Cost Savings</b>
<b>INTER AREA</b>	\$15,466,565	\$49,878,797
<b>INTER CLUSTER</b>	7,356,670	15,149,858
<b>INTER P&amp;DC</b>	3,654,243	6,410,552
<b>INTRA BMC</b>	16,020,706	18,067,455
<b>INTRA CSD</b>	4,818,807	1,346,258
<b>INTRA P&amp;DC</b>	59,209,337	22,836,969
<b>TOTAL</b>	\$106,526,328	\$113,689,891
Source: USPS-T-6 at 45.		

The Postal Service estimates VSD cost savings of \$59.3 million in a slightly different manner. It concludes that 42 percent of Saturday VSD labor hours for FY 2009 would be saved by eliminating delivery on that day. The Postal Service estimates the labor portion of VSD savings of \$38.3 million by applying the average VSD rate of \$42.10 per hour to the saved hours. Fuel-related savings of \$2.8 million are calculated based on mileage saved, vehicle fuel efficiency and fuel costs. Indirect savings of \$18 million are also calculated. As with highway contracts, the Postal Service asserts it has sufficient VSD weekday capacity to carry the diverted volume. USPS-T-6 at 39-41.

### C. Commission Analysis of Air Transportation

For air transportation, the Postal Service estimates savings of \$62 million under the assumption that Sunday air transportation of Saturday outgoing mail would be delayed until Tuesday with five-day delivery because outgoing processing would be postponed until Monday. The estimated savings accrue from two sources, existing capacity in the FedEx contract and the ability to purchase air transportation from United Parcel Service (UPS) at a lower per-pound rate. UPS does not provide service on Sunday but does on Tuesday, witness Grossman states:

The assumption about FedEx's ability to absorb additional Tuesday volume is informed by FedEx's current ability to carry extraordinary volumes on Tuesdays over the course of the year (excluding peak periods)...The assumption about UPS is based on the fact that the Postal Service has the opportunity to request additional volume under the current UPS contract, as well as on operational knowledge of the Postal Service's ongoing discussions with UPS.

Tr. 6/1496.

The Postal Service provides under seal an analysis of current and projected total costs and supplemental data filed in response to CHIR No. 5, question 8. *Id.* at 1496-87.

The Postal Service assumes that the pounds transported by air remain the same in a five-day delivery environment, although Postal Service witness Pulcrano states, “[w]e can take advantage of the additional day for use in routing and transporting mail via surface transportation as opposed to using air transportation while still achieving the required service performance.” Tr. 2/101. This implies that air pounds may decrease. The Postal Service analysis, therefore, presents a conservative estimate of potential savings.

The Commission finds the Postal Service calculation of air transportation savings reasonable. It is based on a redistribution of volume to lower cost carriers on Tuesday and is corroborated by an analysis of current contracts with these carriers.

#### D. Commission Analysis of Surface Transportation Savings

The estimation processes applied for air and box route transportation contracts match cost effects with changes in the distribution of workload during the week. With air contracts, the Sunday savings are partially offset by increased transportation costs on Tuesday. On box route contracts, the Postal Service recognizes that additional volume-variable costs are incurred Monday through Friday to deliver Saturday mail.

The cost savings analysis undertaken for highway contract transportation and VSD is fundamentally different. Whereas the Postal Service assumes that all weekend activity for air and box route contracts ceases in a five-day delivery environment, it assumes that some highway and VSD transportation continues. Only the avoided portion of total highway and VSD transportation is considered savings. For highway transportation, the Postal Service estimates the cost savings as a function of changes in the CFM cost driver. For VSD activities, the Postal Service estimates cost savings, directly, based on VSD labor hours saved.<sup>56</sup>

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<sup>56</sup> For the VSD cost segment, the Postal Service uses a capacity variability, accepted by the Commission in Docket No. R97-1, to apportion accrued VSD costs into capacity-related variable and institutional portions. As with highway contract transportation, CFM is the cost driver for VSD costs.

In both instances, estimated savings are equal to a reduction in variable costs rather than fixed costs as was done in mail processing and delivery. The Postal Service claims no additional weekday trips are necessary because of existing excess capacity.

The Postal Service's analysis recognizes a daily CFM-cost curve and moves down that curve when estimating savings for Saturday and Sunday. However, the Postal Service does not move up that curve when estimating the impact of, transporting more mail during the week.

The effects of excess capacity on this cost curve can be viewed in one of two ways. First, the Postal Service can operate at the existing level of excess capacity over a wide range of truck trip or CFM variation. This would not deny the existence of a cost curve, but simply imply an upward shift from the curve reflecting no excess capacity.<sup>57</sup> However, there would still be cost increases and decreases along the shifted curve, as mail volume varies up or down.

Second, if the Postal Service's assertion that added mail would be moved on weekdays at no extra costs is true, the link between the amount of transported mail and the number of truck trips on any day of the week would be severed. In this case, excess capacity would decrease with volume increases as truck space fills up without increasing the number of trips during the week. Conversely, excess capacity would increase as the amount of mail being transported decreases without decreasing the number of truck trips. Under this scenario, the cost-CFM "curve" is a horizontal line, implying that all costs are fixed with respect to volume.

Focusing on excess physical capacity in attempting to determine whether added trips are necessary to move diverted Saturday mail implies that operating at zero or

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<sup>57</sup> In Docket No R-97-1, Postal Service witness, Professor John Panzar, submitted testimony claiming that any costing exercise that is undertaken does not need to assume full cost efficiency, but just an operating plan as to how the Postal Service would respond to allocating resources when workload changes. The clear implication from Professor Panzar's remarks is that the Postal Service's plan can reflect varying amounts of resources in response to workload changes along an inefficient curve that is shifted out from the cost curve reflecting full efficiency.

close to zero excess physical truck capacity is economically efficient and that the Postal Service strives to reach that point. The Postal Service has not shown this to be true. As shown in the Commission's analysis below, there is a high degree of correlation between volume and number of trips for FY 2008, 2009, and 2010 even though there was substantial average excess capacity per truck trip.

Using the Transportation Cost System (TRACS) data base,<sup>58</sup> the Commission performed an analysis to examine the Postal Service's claim that there would be no added highway transportation costs during weekdays. The Commission developed separate models for inter-BMC, inter-SCF, intra-BMC and intra-SCF contract types to estimate the response (elasticity) of the number of truck trips to transported cubic feet of mail using four years of TRACS data (FY 2005, FY 2008, FY 2009, FY 2010).

The estimated elasticities of the number of trips to cubic feet of volume from the models, along with the average annual unused capacities per truck trip, by contract type and year are shown below in TableVI-5.

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<sup>58</sup> The TRACS data base is used by the Postal Service to distribute total variable costs to Postal Service products. However, the data base also contains other data useful for estimating the response of transportation activity to mail volume levels. The data base includes a sample of the number of truck trips and corresponding cubic feet of volume data segmented by contract type, fiscal year, quarter and day of the week.

Table VI-5

**TRACS FY 2008 - FY 2010 Average Unused Capacity Percentages and Elasticities of Number of Trips with Respect to Cubic Feet of Transported Mail By Contract Type**

<b>Contract Type</b>	<b>Elasticities</b>	<b>FY 2008 Unused Capacity Percent</b>	<b>FY 2009 Unused Capacity Percent</b>	<b>FY 2010 Unused Capacity Percent</b>
INTER- BMC	.6856	42.02	43.29	44.63
INTER-SCF	.6679	59.46	59.84	61.90
INTRA-BMC	.5714	59.80	53.73	54.00
INTRA-SCF	1.0960	65.57	66.33	66.77

Source: PRC-LR-N2010-1/5.

Average unused capacities per truck trip are relatively consistent for all years. However, the elasticities indicate that the number of trips is relatively sensitive to changes in volume levels. For example, the inter-BMC model predicts that a 10 percent increase in transported inter-BMC mail causes approximately a 6.9 percent increase in the number of inter-BMC trips. For intra-SCF the elasticity is over 100 percent. Interestingly, this contract type also indicates the highest level of average unused capacity.<sup>59</sup> When trip elasticity values are over 100 percent unused capacity increases as cubic feet increase because the number of trips increase disproportionately to volume. This type of sensitivity may be indicative of the acute service-related constraints that might be expected on intra-SCF transportation runs.

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. This modification is supported by the Commission's analysis indicating that the number of truck trips, and therefore costs, respond to transported volume changes.

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<sup>59</sup> It is important to note that when trip elasticity values are over 100 percent, then as transported volume increases, unused capacity increases as well because trips increase in greater proportion than volume. This type of sensitivity may be indicative of the acute service-related constraints that might be expected on intra-SCF transportation runs.

The Commission accepts the proposed VSD cost savings estimate although it recognizes that VSD costs may be subject to the same concerns as highway transportation.

#### E. Commission Estimates for Highway Transportation Contracts

The Commission uses the daily CFM-cost curve for estimating both the Saturday and Sunday cost savings and the additional costs incurred during the week. Using this approach, the estimated Saturday and Sunday savings of \$220 million are offset by additional weekday costs of \$207.5 million. This yields the Commission's estimate of transportation savings of \$13 million. Table VI-6 summarizes the Commission's analysis by contract type. The first and second columns, showing weekend accrued costs and savings, are obtained from the Postal Service's analysis. The Commission's added weekday costs from five-day delivery and net savings are shown in the last two columns.

**Table VI-6**  
**Commission Estimates of Contract Highway Transportation Costs**  
**with Cubic Foot Mile Offsets**

<b>Contract Type</b>	<b>Saturday and Sunday Costs</b>	<b>Saturday and Sunday Savings</b>	<b>Incremental Weekday Costs</b>	<b>Net Savings</b>
<b>INTER AREA</b>	\$152,991,592	\$65,345,363	\$64,052,392	\$1,292,970
<b>INTER CLUSTER</b>	48,074,731	22,506,529	21,967,838	538,691
<b>INTER P&amp;DC</b>	24,011,889	10,064,795	9,677,449	387,346
<b>INTRA BMC</b>	77,504,248	34,088,161	34,064,945	23,217
<b>INTRA CSD</b>	13,756,201	6,165,065	5,502,164	662,901
<b>INTRA P&amp;DC</b>	181,184,563	82,046,306	72,274,935	9,771,371
<b>TOTAL</b>	<b>\$497,523,225</b>	<b>\$220,216,219</b>	<b>\$207,539,724</b>	<b>\$12,676,495</b>

Source: PRC-LR-N2010-1/5.

Although the total volume requiring transportation during the week is the same under six and five-day delivery schedules, minimal cost savings are estimated from scale effects in highway contract transportation. The capacity variabilities estimated by the Postal Service indicate that costs per CFM decrease, as CFM increases (in absolute terms). The unit cost decline yields net savings from the diverted transportation activity because unit incremental costs for the added weekday CFM are less than the unit incremental costs saved on Saturday and Sunday.

The Commission also performed an alternate analysis, integrating results from its trip frequency per cubic feet of volume models with the Postal Service's previous analysis. Although these results are exploratory in nature, they do provide an alternate means for estimating savings based on cubic feet of volume diversion, not CFM diversion, as assumed above. In this second analysis, the Commission recognizes that cubic feet of volume is the true cost driver, whereas as CFM is an intermediate driver, reacting to changes in cubic of volume. Daily transportation costs are explained as a function of daily cubic feet of volume for each contract type. Net cost effects from volume diversion are calculated under the assumption that total weekly volume levels remain constant.<sup>60</sup>

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<sup>60</sup> Assume that transportation costs for contract type  $i$  are represented by a constant capacity variability function  $C_i = b(\text{CFM}_i)^{\epsilon_C}$  where  $\text{CFM}_i$  is cubic foot miles of transportation for contract  $i$  and  $\epsilon_C$  is the capacity variability. For any given route structure, CFM can be expected to vary proportionately with the number of trips according to  $\text{CFM}_i = T_i K_i$  where  $K_i$  is an appropriate proportionality constant for contract type  $i$ . Therefore, substituting in the original cost function gives  $C_i = b(T_i K_i)^{\epsilon_C}$ . Now assume a constant trip variability function  $T_i = a(\text{CF}_i)^{\epsilon_T}$  where  $T_i$  is trip frequency for contract type  $i$ ,  $\text{CF}_i$  is cubic feet of transported mail for the same contract type and  $\epsilon_T$  is the trip variability. Substituting the last into the capacity variability function then gives:  $C_i = b(a(\text{CF}_i)^{\epsilon_T} K_i)^{\epsilon_C} = z(\text{CF}_i)^{\epsilon_T \epsilon_C}$ , where  $z = b(a K_i)^{\epsilon_C}$ . The elasticity of costs with respect to CF is shown as the product of the two variabilities  $\epsilon_T \epsilon_C$ . The cost effect calculated in the exploratory analysis uses the product of these two variabilities and assumes offsetting changes in CF of volume during the week.

Table VI-7 contains the results from the Commission's exploratory analysis.

**Table VI-7**  
**Commission Estimates of Contract Highway Transportation Costs**  
**with Cubic Foot of Volume Offsets**

<b>Contract Type</b>	<b>Saturday and Sunday Costs</b>	<b>Saturday and Sunday Savings</b>	<b>Incremental Weekday Costs</b>	<b>Net Savings</b>
<b>INTER AREA</b>	\$152,991,592	\$65,345,363	\$57,723,335	\$7,622,028
<b>INTER CLUSTER</b>	48,074,731	22,506,529	19,613,181	2,893,348
<b>INTER P&amp;DC</b>	24,011,889	10,064,795	8,642,698	1,422,097
<b>INTRA BMC</b>	77,504,248	34,088,161	33,082,068	1,006,094
<b>INTRA CSD</b>	13,756,201	6,165,065	5,657,819	507,246
<b>INTRA P&amp;DC</b>	181,184,563	82,046,306	74,649,847	7,396,459
<b>TOTAL</b>	<b>\$497,523,225</b>	<b>\$220,216,219</b>	<b>199,368,947</b>	<b>\$20,847,272</b>

Source: PRC-LR-N2010-1/5

The new savings of \$21 million are somewhat higher than the \$13 million estimate shown earlier due to increased scale effects with the exception of the intra-P&DC contract type. All other contract types show greater savings than before because the trip variabilities are less than 100 percent. The intra-P&DC contract type shows lower savings because the trip variability is over 100 percent. However, the effect from the first five categories dominates and total savings increase.

## VII. QUANTITATIVE MARKET RESEARCH AND VOLUME RESPONSE

### A. Introduction and Summary

This chapter analyzes the Postal Service's estimate of the volume that would be lost, and the associated net revenue that it would give up by moving to five-day delivery. The Postal Service creates that estimate by performing market research, including surveys and interviews, and interpreting the results. The Commission finds the market research performed by the Postal Service well-designed, but finds that a portion of the research should be interpreted differently. The Postal Service estimates it will give up \$201 million in net revenue. The Commission estimates the Postal Service's lost revenue at \$587 million. The Postal Service's estimate, and the reasons the Commission finds a different estimate more likely, are explained in this chapter.

The Postal Service estimates a net annual cost savings of \$3.1 billion resulting from the shift from six-day to five-day delivery (gross savings totaling \$3.3 billion less approximately \$200 million in forgone contribution). USPS-T-7 at 17-18. This foregone contribution element is calculated by predicting mailers' volume response to the implementation of five-day delivery. To predict mailers' volume response, the Postal Service conducted quantitative market research and applied the results to its volumes.

Section B of this chapter summarizes the market research conducted by the Postal Service. There are two main issues with the market research, the precision of the data measured by the confidence interval of the conclusions drawn from that data, and the way the data are used to generate conclusions. Section C of this chapter discusses the quality of the data collected in the quantitative market research. Section D of this chapter examines the adjustments made to the data to generate conclusions.

This chapter shows that the market research cannot provide precise figures, but demonstrates the Postal Service will experience a loss in demand due to five-day delivery.

## B. Quantitative Market Research

The quantitative research consists of surveys of National, Premier, and Preferred Accounts, Small Businesses, and consumers.<sup>61</sup> National, Premier, and Preferred Accounts were interviewed over the telephone. Small businesses were surveyed online. Consumers were surveyed by telephone.

Witness Gregory Whiteman uses the quantitative research conducted by witness Elmore-Yalch in his analysis of the changes in volume and revenue in a five-day delivery environment. Witness Elmore-Yalch's research estimates the percentage change in volume by product following elimination of Saturday delivery in each of the Postal Service's business segments. The five segments included: National Accounts, Premier Accounts, Preferred Accounts, small business accounts and consumers.

For individual consumers the Postal Service utilized a CARAVAN<sup>®</sup> telephone survey of households. USPS-T-8 at 28-29. The Postal Service weighted the responses by population, effectively eliminating small population states from the sample. States such as Alaska and Hawaii were not sampled at all because their low populations would drop them out of the sample. Tr. 5/1158-62.

During the survey process the respondents were asked about: (1) their mail volumes during the past 12 months; (2) their projected mail volumes for the next 12 months; (3) their projected mail volumes in the first 12 months after five-day mail delivery was implemented; and (4) the likelihood that implementation of five-day delivery would impact their mail and package volumes. USPS-T-8 at 12.

Each survey respondent was asked to estimate what their volume by product would be before and after implementation of five-day delivery. After the customer

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<sup>61</sup> National, Premier, and Preferred accounts refer to volume-based groups of commercial mailers, from largest to smallest from the Commercial Business Customer Information System. The Postal Service notes that these designations are no longer used after a recent restructuring of the sales organization. See Responses of the United States Postal Service to Questions 1-7 of Chairman's Information Request No. 1, April 28, 2010, question 6.

estimated how volumes might change, the customer was asked how likely it was that the volume change would take place using a numerical rating from 0 to 10 where 1 was “extremely unlikely” and 10 was “extremely likely.” The Postal Service used this “likelihood factor” to adjust, downwards, the raw responses given by the respondents. USPS-T-8 at 36. The Postal Service converted the numerical rating to a percentage reduction. If the rating was 2, the Postal Service assumed 20 percent of the projected volume changes would occur, while if a rating of 8 was given, the Postal Service assumed 80 of the projected volume changes would occur.

Following the in-depth interviews, the next phase of market research was conducted in five segments to assist in the development of volume forecasts for: First-Class Mail, Priority Mail, Express Mail, Standard Regular and Nonprofit Mail, Periodicals Regular and Nonprofit Mail, Parcel Select and Parcel Post, in a five-day mail environment.

The Postal Service presented volume change forecasts by business segment in response to a change to five-day delivery. USPS-T-8 at 32-37. The adjusted forecasted volume response to five-day by National Accounts, as a percentage of the next 12 months’ volume, ranged from a 7.8 percent reduction in Priority Mail to a 5.1 percent *increase* in Nonprofit Standard/Bulk Mail. *Id.* at 32. Similarly for Premier Accounts the adjusted forecasted volume response to five-day, as a percentage of the next 12 months’ volume, ranged from a 4.0 percent reduction in Nonprofit Standard/Bulk Mail to a 2.0 percent *increase* in Nonprofit Periodical Mail. *Id.* at 33. For Preferred Accounts the adjusted forecasted volume response to five-day, as a percentage of the next 12 months’ volume, ranged from a 7.1 percent decrease for Express Mail to a 0.8 percent *increase* in Nonprofit Standard/Bulk Mail. *Id.* at 34. For Small Businesses, the Postal Service presents the adjusted forecasted volume response to five-day delivery as a 9.6 percent decrease for Express Mail to no change in Priority Mail volume. *Id.* at 35. Although Express Mail would continue to be delivered, accepted at post offices, and processed on Saturdays, there would be no carrier pickup of Express Mail on

Saturday, which may account for the expected decrease. *Id.* at 8; USPS-T-9, Appendix A. For consumers, the volume response to five-day delivery ranged from a 1.9 percent decrease in the use of First-Class Mail, to an *increase* of 16.0 percent in the use of Priority Mail. USPS-T-8 at 37. Overall, the Postal Service estimates that the loss of volume would be 1.242 billion pieces or 0.7 percent, and the total revenue loss of \$428 million or slightly less than 0.7 percent. USPS-T-9 at 2.

Witness Whiteman provides some explanation, based on conversations with mailers, as to why several specific products may increase volume in a five-day delivery environment. The Regular Standard Mail product may increase because advertisers can adjust by rescheduling the planned in-home delivery to ensure deliveries will not be affected by changes in Saturday service. *Id.* Likewise, the Periodical Nonprofits may gain volume in a five-day environment because such mailers will not alter their perceptions of the value of the mailpiece due to a loss of a delivery day. Tr. 5/1249. Priority Mail volume may increase due to increased consumer use of Priority Mail to ensure the timely delivery of materials. USPS-T-9 at 12.

### C. Confidence Intervals—Limitations on the Underlying Data

The Postal Service's quantitative market research is an attempt to forecast the mailing behavior of a wide range of businesses, consumers, and others using a statistical sample developed from a survey. The degree to which the survey responses reflect the population at large determines the precision of the survey results, and the certainty of the results and conclusions one draws from those results.

In statistics, one measure of the precision of such results is a confidence interval. A confidence interval is a range that has a known and controlled probability (generally 95 percent or 99 percent) to contain the true value.<sup>62</sup> Confidence intervals are used to show the precision of a statistical estimate. If a confidence interval is over a narrow

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<sup>62</sup> Assessment of the Quality in Statistics, fifth meeting, Eurostat, Luxembourg, 2-3 May, 2002, Item 4: Glossary.

range, that implies that there is a high probability that the true population value is in that range. Likewise, if the confidence interval is over a broad range, one cannot tell with much certainty where the true value will lie.

The Postal Service interpreted its market research and developed a single point estimate for the amount of revenue it would lose if it moved to five-day delivery. The table below shows the point estimates<sup>63</sup> calculated by witness Whiteman using the percentage change volume inputs derived by witness Elmore-Yalch as adjusted by the likelihood factor. The point estimates that the Postal Service used to determine revenue it will lose did not include a confidence interval to show their precision.

NALC criticizes the Postal Service estimates for failing to provide confidence intervals or anything but a point estimate.<sup>64</sup> Tr. 8/2368. NALC contends that confidence intervals are a necessity considering the uncertainty regarding the change. *Id.* NALC states that the Postal Service is underestimating the volume loss that would be associated with its proposed changes, because when service diminishes, generally demand for a product decreases. *Id.* at 2366-68. Postal Service rebuttal witness Boatwright agrees that including confidence intervals along with point estimates is better statistical practice. Tr. 11/3252. However, witness Boatwright contends that additional, expensive research, would not meaningfully change the estimates already in hand. *Id.* at 3120.

The impact on volume and revenue estimated by witness Whiteman produces a loss of 1.24 billion pieces or a 0.7 percent decrease in volume, resulting in a projected loss of \$456 million in revenues and \$201 million in net income. The Postal Service

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<sup>63</sup> A point estimate is a single value given as the estimate of a population parameter of interest based on a sample. Point estimates can be contrasted with interval estimates, where an interval estimate specifies a range within which the population parameter is expected to fall.

<sup>64</sup> Confidence intervals are constructed at a confidence level selected by the researcher such as 95 percent. That means if the same population is sampled for a number of times and interval estimates are made for each sample, the resulting intervals would bracket the true population parameter 95 percent of the time. If a point estimate from a survey has a high error rate, the corresponding confidence interval will be wide, and the less confident we will be that the survey results actually describe the population.

contends the estimates alone are valid, but nonetheless provided confidence intervals for the projected volume loss in response to the Commission's request for them.<sup>65</sup> The largest decrease is in First-Class Mail: Single-Piece Letters & Cards which is estimated to decrease by 1.9 percent, 593.9 million pieces, and \$260 million in revenue. In addition, presort First-Class Mail would decrease by 0.7 percent, 350.1 million pieces, and \$120 million in revenue. Regular Standard Mail increases by 0.1 percent, 93 million pieces, and \$21 million, and Nonprofit Standard Mail would decrease by 2.7 percent, 360.3 million pieces, and \$49 million in revenue. Although, in a five-day delivery environment Express Mail will still be delivered, Express Mail is expected to decrease by 4.5 percent, 2.1 million pieces, and \$39 million in revenue. Priority Mail and Periodicals Nonprofit are both also expected to increase in a five-day delivery environment.

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<sup>65</sup> See Response of Postal Service Witness Whiteman to Question Posed at the Hearing on July 21, 2010, July 29, 2010.

**Postal Service Point Estimate for the Volume and Revenue  
Changes under a Five-Day Delivery Environment**

Mail Service	Volume Change		Revenue	Attributable	Net
	(%)	(Millions)	Change (Millions)	Cost Change (Millions)	Income Change (Millions)
	(1)	(2)	(3)	(4)	(5)
<b>First-Class Mail:</b>					
Single-Piece Ltrrs & Cards	-1.9%	(593.9)	(259.5)	(156.6)	(102.8)
Presort Letters & Cards	-0.7%	(350.1)	(119.6)	(41.0)	(78.6)
Flats & Parcels	-0.9%	(30.6)	(28.8)	(8.0)	(20.9)
<b>Total First-Class Mail</b>	<b>-1.2%</b>	<b>(974.6)</b>	<b>(407.9)</b>	<b>(205.6)</b>	<b>(202.3)</b>
<b>Standard Mail:</b>					
Regular	0.1%	93.0	20.9	13.6	7.3
Nonprofit	-2.7%	(360.3)	(49.3)	(55.0)	5.7
<b>Total Standard Mail</b>	<b>-0.3%</b>	<b>(267.3)</b>	<b>(28.4)</b>	<b>(41.4)</b>	<b>13.0</b>
<b>Periodicals:</b>					
Regular	-0.4%	(24.5)	(6.6)	(8.2)	1.6
Nonprofit	1.4%	23.6	4.8	8.2	(3.4)
<b>Total Periodicals</b>	<b>0.0%</b>	<b>(0.9)</b>	<b>(1.8)</b>	<b>0.1</b>	<b>(1.9)</b>
Express Mail	-4.5%	(2.1)	(39.4)	(24.7)	(14.8)
Priority Mail	0.4%	3.2	22.0	16.9	5.1
<b>Total</b>	<b>-0.7%</b>	<b>(1,241.7)</b>	<b>(455.6)</b>	<b>(254.7)</b>	<b>(200.9)</b>

Source: USPS-LR-N2010-1/NP2 (non-public) as corrected by the Commission

The confidence intervals for the Postal Service's point estimates show that there is a large range of uncertainty between the upper and lower bound estimates, showing a possible maximum revenue loss of \$576 million to a possible revenue *gain* of \$114 million.<sup>66</sup> This means that the Postal Service and the Commission cannot be very certain as to the exact magnitude of the revenue the Postal Service will lose if it moves to five-day delivery. This issue is inherent due to the uncertainty of predicting future mailer behavior, and an issue that the Postal Service made every effort to ameliorate

<sup>66</sup> PRC-LR-N2010-1/6.

through sound data collection. Any conclusions the Postal Service or the Commission reach based on the underlying data are subject to the same uncertainty.

D. Use of the Likelihood Factor to Reduce Participants' Estimates

Notwithstanding the underlying uncertainty of the data used to generate conclusions, the Commission also examines the way that data is adjusted and interpreted to draw conclusions. This issue is the use of a likelihood factor in an attempt to refine the underlying market research data.

The likelihood factor is described in section B of this chapter. In summary, it is a reduction that the Postal Service applies to the individual volume decline estimates based on how likely the respondent was to change their volume due to a move to five-day delivery.

NALC and APWU take issue with the Postal Service's use of the "likelihood factor" to reduce the point estimates made by responding businesses, since the factor only reduces the estimates and introduces downward bias. Tr. 8/2369-71, APWU Brief at 9. GCA offers similar criticism, labeling the expected value factor as a "deflation factor." GCA Brief at 25-26. NALC states that the Postal Service should have engaged in econometric analysis, rather than simply used survey data to estimate the volume response to five-day delivery. Tr. 8/2371-72. NALC also cites the George Mason University USO study and agrees that customer dissatisfaction resulting from fewer delivery days could accelerate diversion of mail to the Postal Service's competitors. NALC Brief at 26.

Postal Service witness Boatwright states that the "likelihood factor" is an industry standard tool in market research analysis. Tr. 11/3123-24. The Postal Service contends that the use of the scale as an "'expected value' function" employed to weigh preferences is common and accepted in market research. *Id.* at 3125-26. The Postal Service also claims that its market research took steps to avoid bias as much as

possible, such as segmenting the markets and reviewing the results individually. *Id.* at 3130. The Postal Service also states that background information as to the purpose of the proposed change was necessary to avoid individuals from supplying their own inferences as to the cause of the proposal. *Id.* at 3131. Finally, the Postal Service responds that further econometric analysis would not have any significant benefit to the research currently in hand. *Id.* at 3136-42. However, the Postal Service admits that some respondents in the market research study may overstate their volume reduction while some may understate their volume reduction on account of hypothetical five-day delivery. Tr. 5/1291.

According to an article in *Marketing Science Journal* cited by Postal Service witness Boatwright to support the use of the adjustment, the likelihood scale is used to predict consumer behavior when introducing a *new* product.<sup>67</sup> In fact, every journal article cited by witness Boatwright to support the use of the likelihood factor examines its use in purchase intention, for new, and less frequently, existing products.<sup>68</sup> The likelihood scale appears to be a widely accepted method for estimating demand for new products.<sup>69</sup> The Commission conducted an extensive search and found much support in the academic literature for use of an intention or likelihood scale in attempting to forecast profitability for new product development. The 11-point scale appears to have been developed by Professor F. Thomas Juster in 1966 to translate verbal intentions to

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<sup>67</sup> See William Infosino, *Forecasting New Product Sales from Likelihood of Purchase Ratings*, *Marketing Science Journal*, Fall 1986, at 372-384.

<sup>68</sup> See Vicki G. Morwitz, and David Schmittlein, *Using Segmentation to Improve Sales Forecasts Based on Purchase Intent: Which "Intenders" Actually Buy?*, *Journal of Marketing Research*, November 1992, at 391-405; Alvin J. Silk, and Glen L. Urban, *Pre-Test Market Evaluation of New Packaged Goods: A Model and Measurement Methodology*, *Journal of Marketing Research*, May 1978, at 171-191; Joseph C. Clawson, *How Useful Are 90-Day Purchase Probabilities?*, *Journal of Marketing*, October 1971, at 43-47.

<sup>69</sup> See Robert J. Thomas, *New Product Development Managing and Forecasting for Strategic Success*, 1993 at 196-211; see also Merle Crawford, and Anthony Di Bendetto, *New Products Management*, 2008 at 197.

probabilities.<sup>70</sup> However, published academic literature does not refer to such an intention or likelihood scale used in a product or service reduction or elimination scenario.<sup>71</sup>

Postal Service witness Boatwright contends that in the field of marketing, a changed product is considered a “new” product. Tr. 11/3120. Witness Boatwright also states that he uses the word “product” in a general sense, which includes “services.” *Id.* at 3283-84. Witness Boatwright does not discuss the use of marketing tools, metrics or strategies for projecting the impact of product or service reduction.

The Postal Service’s attempt to forecast consumer behavior from product/service reduction using a likelihood or intention scale does not appear documented in market research academic literature. The Postal Service’s use of the “likelihood” factor to deflate the customer volume forecasts likely results in an understatement of the revenue the Postal Service would lose from implementing five-day delivery.

NALC witness Crew states that there is no reason to assume, as the Postal Service does, that all customer estimates are too high. It is equally likely that customers may have underestimated their response. See Tr. 8/2369.

The Commission finds that there is not, in the record, any evidence demonstrating the use of a likelihood factor in the way the Postal Service utilizes it. Furthermore, there is no support for the contention that the participant’s estimates of their volume responses to five-day delivery were likely to be overstated. Therefore,

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<sup>70</sup> Juster, F. Thomas F. Juster, *Consumer Buying Intentions and Purchase Probability*, Occasional Paper 99, National Bureau of Economics Research, Columbia University Press, 1966.

<sup>71</sup> Cf. J.S. Armstrong and T. Overton *Brief vs. Comprehensive Descriptions in Measuring Intentions to Purchase*, *Journal of Marketing Research*, February 1971, at 114-117; AC. Bemmar, *Predicting Behavior from Intention-to-buy Measures: The Parametric Case*, *Journal of Marketing Research*, May 1995, at 176-191; M. Brennan and D. Esslemont, *The Accuracy of the Juster Scale for Predicting Purchase Rates of Branded Fast Moving Consumer Goods*, *Marketing Bulletin* 5, 1994 at 47-52.

reducing the estimates using an expected value function or “likelihood factor” is not appropriate.

A likelihood factor may have been appropriate if the Postal Service had constructed the survey in a different manner. If the Postal Service asked participants for the maximum volume response they might anticipate due to a five-day scenario, and then asked for the likelihood of participants reaching that maximum, reducing the estimate by the expected value would be appropriate. However, the Postal Service requested participants’ best estimates—estimates that may be biased up or down. Deflating that estimate by an expected value function is not appropriate.

The Commission estimates, therefore, that revenue will decline as a result of the Postal Service’s five-day plan by \$587 million. This figure is calculated by eliminating the downward reduction imposed by the likelihood factor. Instead, the figure takes the best estimate provided by the market research participant, and if the likelihood of that participant adjusting their volume is greater than zero, using that estimate. Postal Service witness Boatwright indicates that the results could have been converted into this kind of binomial distribution. Tr. 11/3265. Because the 587 million estimate of lost revenue is based on the same underlying research as the Postal Service’s estimate, it may also lack precision and have a similarly wide confidence interval.

## VIII. PEAK LOAD ISSUES

### A. Introduction and Summary

The Postal Service's discussion of day-of-the week productivity data and what it implies concerning the fixed nature of labor across days of the week, in both mail processing and delivery operations, has been a useful contribution to the ongoing inquiry into the volume variability of labor costs. It advances the inquiry into the cost consequences of changing the frequency of delivery by focusing on a pattern of recurring day-of-the-week fluctuations in volume and productivity. The analysis of the cost effects of changing delivery-day frequency made possible by this additional evidence is helpful, but not definitive. As witness Bradley explains,

While it is certainly true that the Postal Service operational experts expect to handle the move to five-day delivery without material changes in the number of routes in either city or rural delivery, it is also true that the shift to five-day delivery does not imply "business as usual".

Tr. 4/900-01.

[T]he Postal Service operations experts believe that they can gain productivity gains sufficient that they really don't anticipate much increase in street time. In my experience with even delivery managers over the years is they really view their street time as being pretty much fixed and believe that they can push more volume through that without generating a lot more street, not hours, but just street time cost. And that's kind of a short run view in the sense that we sort of take volume as a given on total and we just rearrange the days, and they believe that carriers can get the work done on heavy Mondays without much of an increase in cost. On the other hand, if we take the longer run view of it, as the Commission model or the Postal Service's CRA model does, that takes the view that over time, you know, you have to adjust your whole network up and down, change the number of routes. And that would say, if I don't get any productivity gains on those Mondays, so pushing more volume through doesn't get me any productivity gains, then I take that 40 percent from Saturday and add it, it's Monday or Tuesday it doesn't matter.

*Id.* at 968-69.

The level of productivity gains achieved from volume shifts depends on the degree to which labor costs respond to volume peaks. This, in turn, depends on the staffing strategy of managers, given the existence of labor constraints and preferential mail service requirements. If there were no legal or contractual constraints on the size or manner of deployment of the labor supply it would be fully fungible. Mail processing labor costs would vary in direct proportion to volume over the longer run, regardless of peaking volume patterns or preferential mail service commitments. Likewise, although to a lesser degree, carrier labor costs would vary with volume to a greater extent than current analysis suggests.

Peak load issues are also present in transportation. The degree to which transportation costs vary with volume depends on contractual obligations and time constraints related to processing windows.

This chapter discusses peak load analysis related to Postal Service costs and its relevance to estimating cost savings related to moving from six-day to five-day delivery. The Commission offers this discourse as a theoretical discussion and does not base its cost savings estimate on it.

#### B. Mail Processing

One of two major theories that witness Neri offers to explain why overall outgoing mail processing costs would not rise as fast as volume on Mondays is that outgoing operations, “[have] many peaks and valleys, and when volumes are low, inefficiencies occur.” Tr. 6/1573. This reflects the assumption made by Postal Service witnesses in prior dockets that staff levels must be high enough throughout an eight-hour tour to be able to process temporary peak volumes in an operation without delay in order to meet service commitments to the preferential mail classes (First-Class, Priority, and some Periodicals). It also reflects an assumption that service commitments do not allow staff levels to be reduced sufficiently to exactly match workload in the off-peak portions of an operation. In past cases, the Postal Service has explained, “[c]apacity is generally

planned to completely process all preferential mail on all but a few extremely high volume days.”<sup>72</sup>

This staffing to the daily peak results in overstaffing during low volume periods. The Postal Service is obligated under its collective bargaining agreements to provide 92.5 percent of its employees with five consecutive eight-hour shifts per week.<sup>73</sup> It may find this difficult to do without retaining excess staff, particularly on Saturdays. Examining the FY 2009 data reveals that the Saturday productivity “valley” persists even during the high-volume months of November and December. This implies that the staff levels on Saturday reflect staffing to the level needed to process peak weekday volumes (or more) without delay, and an inability on the plant manager’s part to deviate far enough from that level on a day-to-day basis to make full-time staff fit the “valley” of volume that is observed on Saturdays.

The Postal Service assumes that shifting Saturday’s outgoing processing volume to Mondays will smooth the peak arrival pattern on Monday’s outgoing (evening) tour. This, it believes, would put staff to work that would otherwise be idle during the off-peak portion of that tour. The Postal Service expects to smooth the peak workload within the evening tour by substantially increasing the outgoing processing workload early in the evening tour. USPS-T-4 at 11.

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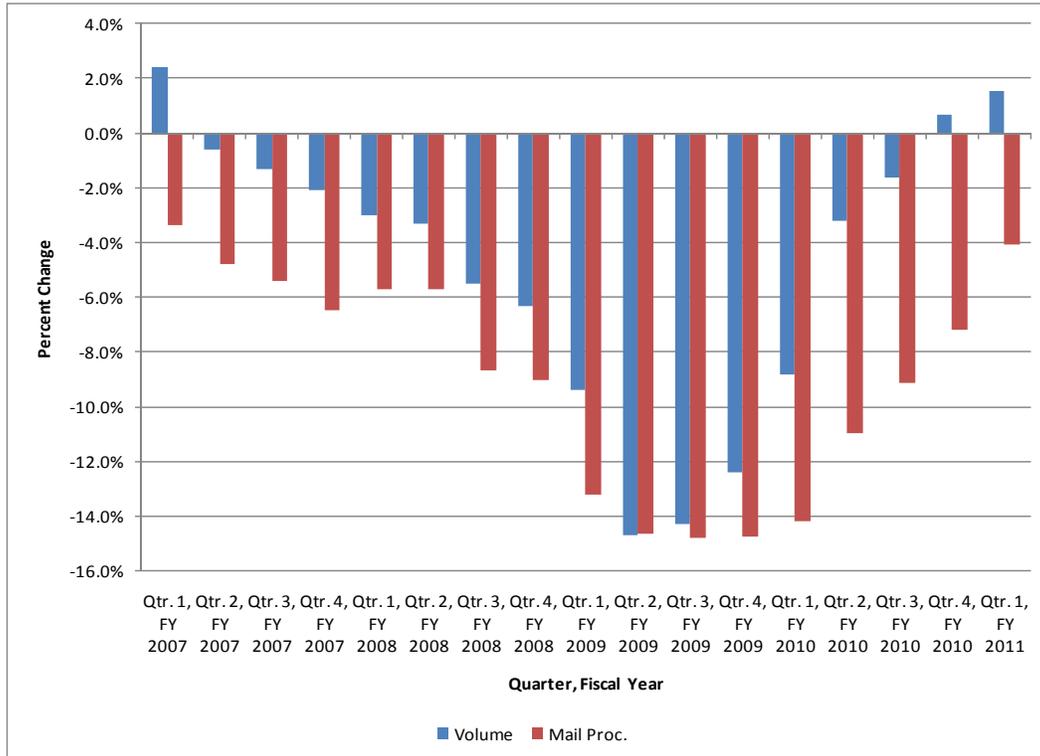
<sup>72</sup> Docket No. R2000-1, USPS-T-10 at 29.

<sup>73</sup> See, e.g., Collective Bargaining Agreement between United States Postal Service and the American Postal Workers Union—November 20, 2006 to November 20, 2010, 2010, Articles 7 and 8. A tentative agreement with the APWU has been reported that would provide for a new classification of employee called “non-career assistants” who would be paid more than the current casual employee, would be entitled to COLA, and health and leave benefits, but would work flexible hours. The limit on “non-career assistants” would be 20 percent of the mail processing staff. The tentative agreement is also reported to provide for a new employee classification of “non-traditional full-time assignment.” Those employees would work between 30 and 48 hour weeks and between 4- and 12-hour days. They would be scheduled with what news reports characterize as “limited flexibility” and “limited split shifts.” Traditional full-time employees, however, are grandfathered, so that the rate of transition to the new, somewhat more flexible employee classifications will apparently depend on the rate of attrition of the traditional full-time employees. If the tentative APWU agreement is ratified, it would appear to go part way toward improving the alignment of workhours with workload in a “full-up” five-day delivery environment.

The Commission is concerned that without further analysis, the Postal Service might solve one peak workload problem by creating another. If the additional workload increases the peak rather than fills the valleys of workload it could reduce overall productivities rather than raise them. Whether this would occur depends on the extent to which the level of outgoing processing staff is fixed, and over what periods it might be fixed (a tour, a week, a year, etc.).

For Monday to absorb the majority of workhours currently used on Saturday, as the Postal Service estimates, current mail processing would have to be significantly overstaffed, or staffing would have to be highly flexible from one day to the next, so that even if it is sized to handle no more than current Monday workloads, it could also handle the much higher Monday volumes by shifting staff from other days of the week. Figure VIII-1 shows that the Postal Service is able to reduce mail processing workhours in relation to volume declines. This indicates that overall staff levels are flexible but does not address the flexibility of daily staffing.

**Figure VIII-1**  
**Changes in Volume and Mail Processing Workhours by**  
**Quarter FY 2007 – Quarter 3, FY 2010**



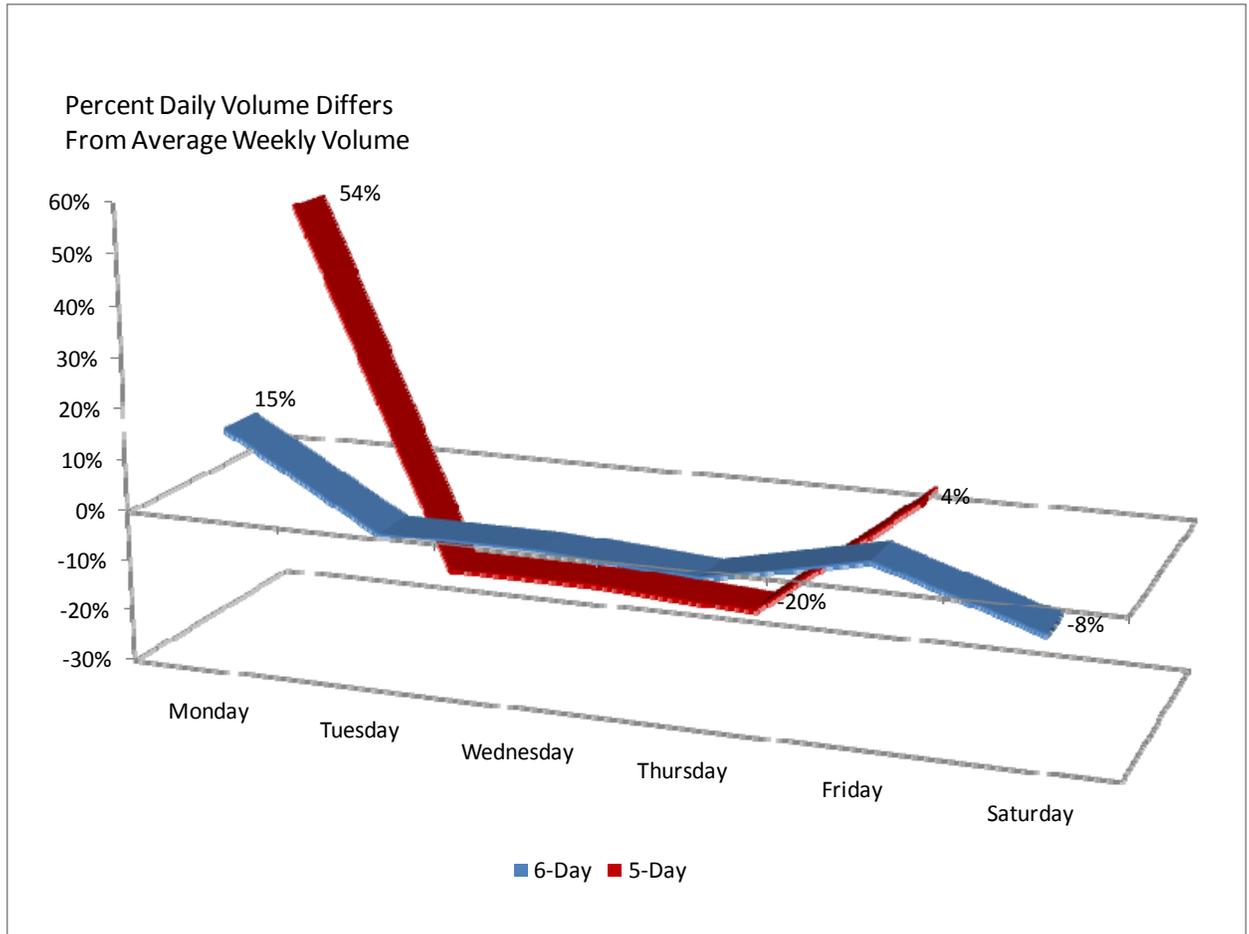
Source: USPS quarterly financial statement FY 2007; USPS Form 10-Q FY 2008 through FY 2010; USPS Form 10-K FY 2008 through FY 2010.

If current staff levels are not already well above those levels needed to process current Monday volumes without delay, or are not highly flexible so that they can accommodate the new Monday peak, shifting volumes to Mondays could exacerbate the Postal Service’s current within-week peak workload problem. This would decrease labor productivity on other days and might increase overall unit labor costs. It could also result in severe capacity constraints that impede operations and negatively impact service.

Figure VIII-2 compares the magnitude of the current peak load with the peak load that would be created by the proposed five-day delivery scenario. Currently, Monday outgoing mail processing volumes are 15 percent higher than the average, and

Saturday volumes are eight percent below the six-day weekly average. Under the most realistic five-day delivery scenario that the Postal Service has described, in which 75 percent of Saturday volume shifts to Mondays, and 25 percent shifts to Fridays, Monday volumes would be 54 percent greater than the new five-day weekly average, Friday volumes would be 4 percent greater, and Thursday volumes, the new valley, would be 20 percent below that average. The figure shows that the change to five-day delivery will significantly change the peak and valley pattern. Even if mail volumes continue to decline, the peak pattern, which is the difference between the highest and lowest volume day of the week, would be substantial.

**Figure VIII-2**  
**Comparison of Peak/Valley Mail Processing Pattern Six-Day vs. Five-Day**



**C. Delivery**

The same phenomenon applies to carrier costs because a significant portion of each carrier’s day is spent sorting mail. The portion of time spent delivering mail on the street is less sensitive to changes in volume, but the volume variable component of the street delivery function also exhibits substantial peaks.

In previous modeling of the costs of the carrier function, both the Postal Service and the Commission have assumed that the long-run response of carrier hours to volume is expressed primarily through the reconfiguration of routes to keep the

workload on each route on each delivery day as close to eight hours as possible. Analyzing the cost effect of volume changes in the longer-run (where the Postal Service has had a year or more to adjust routes to match workload), leads to estimates that carrier hours (in-office and street activity combined) increase approximately half as fast as volume.

In this docket, the Postal Service has estimated that there will be no long-run response of carrier hours to volumes because there will be no need to reconfigure routes. It asserts that peak Monday volumes under five-day delivery could be handled entirely through short-run techniques, such as increased use of overtime, part-time employees, and deferral of Standard Mail for delivery on other days. The Postal Service's claims that it will not need to add routes because, "the volume being delivered has not changed and because the same routes must be served Monday through Friday." USPS-T-6 at 12.

There are several possible reasons that large shifts in volume would not affect the optimal number or size of routes in the delivery system. One possible reason is that the technical or engineering characteristics of street delivery are such that it is unaffected by large increments of volume. This possible reason, however, is not difficult to rule out. The Postal Service concedes that the in-office time required to sort mail would vary by over 38 percent if volume were redistributed across days of the week (compared with a Commission longer-run estimate of 87 percent). As volume rises, the carrier has to spend more time sorting the mail. The increase in in-office time would reduce the size of a route that can be served in eight hours.

Volume also has an effect on street time. There are limits on how much mail can go in a carrier's satchel, and how much mail can be relayed at any one time. Volume is the reason why the typical carrier route requires multiple parking points and multiple relays, all of which increase street time. Volume directly affects how much time a carrier spends fingering mail on the street, sorting it mail into cluster boxes, or sorting mail into banks of apartment mailboxes. Volume affects how long it takes to load a

truck, particularly with parcels, and volume has a direct effect on the time it takes to deliver large parcels and accountables. For these reasons, the Postal Service would optimize its route configuration on extremely heavy volume days (such as those that are anticipated on future Mondays under five-day delivery) by dividing the routes among multiple carriers if enough fill-in carriers are available. Rebalancing routes among carriers on heavy volume days provides a means of bringing the workload of each carrier back to the eight-hour standard.

Another possible reason that large shifts in volume would not affect the optimal number or size of routes in the delivery system is that the carrier operation is chronically overstaffed, in the sense that there are more carriers than are required to maintain service at current levels. If the current level of permanent, full-time carrier staffing were far above that needed to maintain service at current levels, the large workload peak on future Mondays in a five-day delivery environment could be absorbed without reconfiguring routes. There would already be a surplus of routes and less than eight hours of work per route. This would remain true even on future Mondays.<sup>74</sup>

As with mail processing, however, if current staff levels are not already well above those levels needed to deliver current Monday volumes without delay, shifting volumes to Mondays would exacerbate the Postal Service's current within-week peak workload problem. Either more staff would be needed or labor productivity would decrease and unit labor costs would increase.

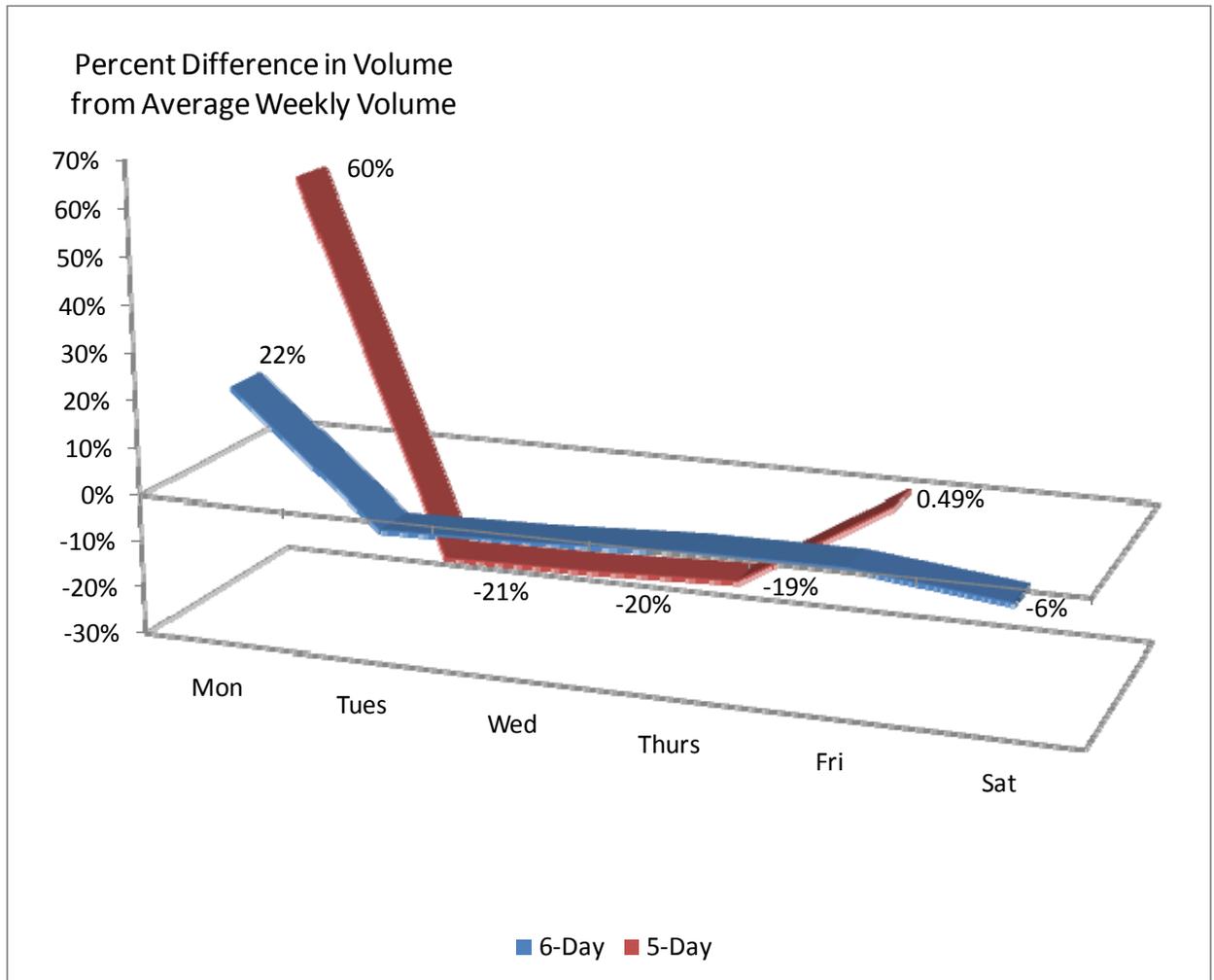
Figure VIII-3 shows an even more pronounced change in peak load pattern for city carrier labor than for mail processing under the five-day delivery scenario. In the current six-day delivery environment, Monday volumes are 22 percent higher than average and Saturday volumes are six percent lower. In the five-day environment, Monday volumes would be 60 percent higher than average, Friday would be 0.5 percent

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<sup>74</sup> The Postal Service indicates that it regularly adjusts routes in this situation.

higher, and the rest of the week would be approximately 20 percent lower than the average.

**Figure VIII-3**  
**Comparison of City Delivery Peak/Valley Pattern Six-Day vs. Five-Day**



**Note:** A recent increase in overtime for carriers could indicate routes are already at capacity and exceeding eight hours.

D. Transportation

Finally, peak load issues also arise in transportation. The Postal Service described this phenomenon as it applies to transportation costs:

A highway transportation network can be correctly sized and still have empty space. This can occur, for example, if daily volumes to be transported fluctuate by the day of the week or the day of the month. In general, it is cheaper to set the cubic capacity for the "heaviest day" and then have empty space on other days than it is to adjust the cubic capacity on a daily basis. In addition, daily volumes are not known with certainty, so to prevent service failures some empty space is incorporated in a right-sized network.

Tr. 4/893.

To corroborate this statement, the Commission reviewed purchased highway transportation data from the TRACS database. TRACS is a sampling system that is used to distribute purchased transportation costs to mail classes. It provides the full capacity of the truck involved in each trip included in the sample. The capacity is provided in cubic feet. Capacity utilization data are also collected for each truck in the sample. The percentages of empty space, unloaded mail, mail remaining on the truck, and space occupied by empty equipment are available from the database. The sum of empty space, unloaded mail, and mail remaining on the truck provides the full capacity of the truck.

A unique test identifier for each selected sample is available. Based on this test identifier, the test day, including date, month, and year of each selected sample, can be determined. The weights used in calculating the distribution keys are applied for expanding the sample truck capacity, and truck utilization to the population. These weights are determined by dividing the population counts of route-trip-stop-days by the sample counts of route-trip-stop-days. The weights are available by contract type and strata breakdowns.

The day is determined based on the TESTID column of the sample data. The first two digits of the TESTID show the month, the second and fourth digits indicate the day, and the fifth digit represents the year of each sample (route-trip-stop-day) included in the survey. The same weights are used for all days within each contract stratum.

As shown in Table VIII-1, the percentage of empty space remains relatively constant across years and days of the week.

**Table VIII-1**  
**Percent of Empty Truck Capacity by Day of the Week**

<b>Weekday</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>
Sunday	48.9%	55.3%	54.6%
Monday	57.9%	60.0%	56.5%
Tuesday	54.7%	57.1%	56.5%
Wednesday	57.9%	55.8%	56.9%
Thursday	52.9%	57.7%	56.2%
Friday	58.0%	54.4%	56.4%
Saturday	53.1%	56.4%	56.5%

Source: PRC-LR-N2010-1/4

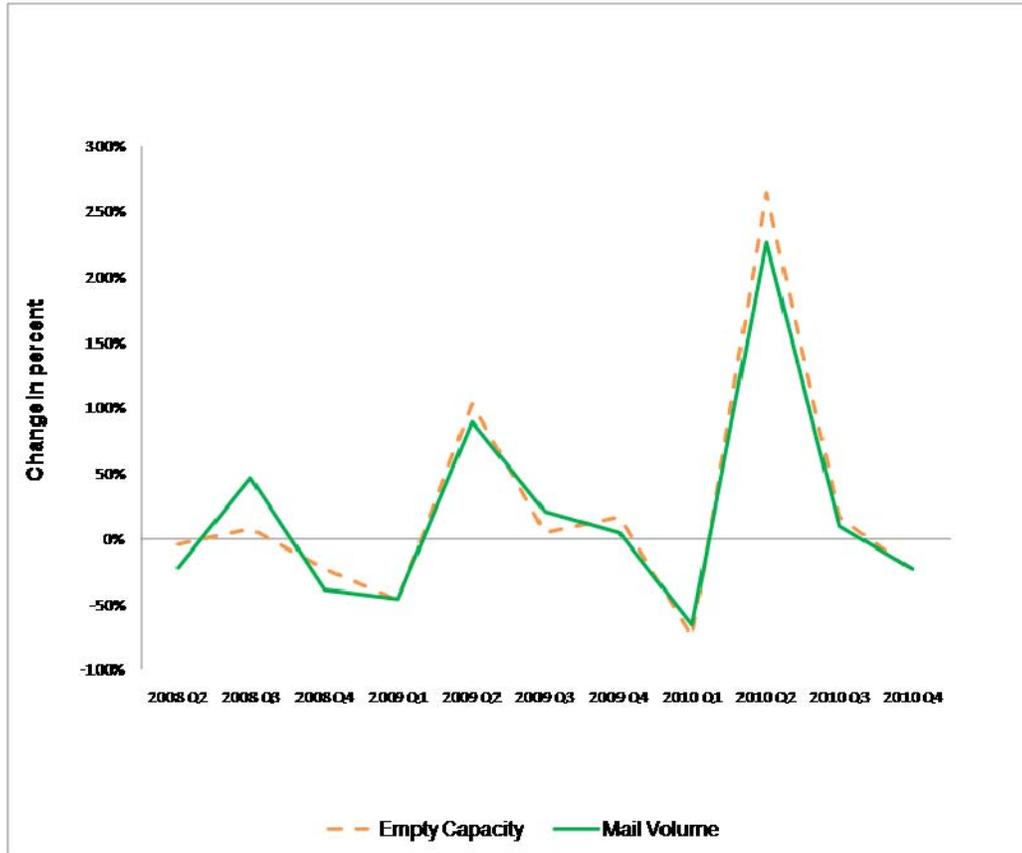
**Note:** Empty truck capacity excludes truck space taken up by empty equipment.

Figure VIII-4 shows the change in cubic feet of mail transported by truck on Monday, and the change in the empty capacity. It indicates that volume changes have very little impact on empty capacity. In other words, an increase in mail volume does not cause the percent of empty capacity to decline. Likewise, a decrease in mail volume does not cause empty capacity to increase. Postal Service witness Grossman explains why it may be difficult to match volume to empty capacity:

[S]ervice needs may constrain the Postal Service's ability to consolidate that final trip with another route's transportation. Therefore, the Postal Service is not always able to eliminate a given leg of transportation, notwithstanding low volume....[T]he Postal Service will maintain surface transportation, even though it may run at less than desired utilization levels.

Tr. 6/1491.

**Figure VIII-4**  
**Percent Change in Cubic Feet of Mail Transported by Truck on Monday**  
**and Empty Capacity**



Source: Calculated by the Commission based on data from TRACS sample survey.

**Note:** Empty truck capacity excludes truck space taken up by empty equipment.

**E. Conclusion**

The Commission finds that the Postal Service should carefully consider how it currently accommodates peak loads, and how it will handle peaks if Saturday delivery and outgoing mail processing are eliminated. Peak load issues impact costs, operations, and service. If volume is shifted to Monday and/or Friday without a clear understanding of how staffing will adapt, the result may be capacity issues that impede operations and delay service.

Whether adjusting staff levels to fit within-week peak volume patterns should be viewed as a longer-run phenomenon or a short-run phenomenon is a question that is tied closely to the typical processing plant manager's management incentives and staffing strategy. Without further analysis, the Postal Service might solve one peak workload problem by creating another. The issue deserves more investigation with the aid of quantitative tools. The Commission recommends that the Postal Service undertake a quantitative analysis of peak load issues whether or not its current plan is implemented.

## IX. PROJECTED IMPACT ON SERVICE AND SPECIFIC POPULATIONS

### A. Introduction and Summary

This chapter examines the projected impact on service of the Postal Service's proposal. Section B examines the overall impact on service likely to result from changes in delivery and mail processing. The section also identifies the alternatives suggested by the Postal Service and its plan to communicate information about five-day delivery to its customers. Section C discusses the qualitative market research that the Postal Service conducted to better understand how customers view five-day delivery. Section D outlines participants views of the overall service changes and the market research. Section E presents the Commission's analysis of the service impacts, and the market research. Section F discusses the specific impacts the proposal may have on groups of mailers and presents Commission recommendations for mitigating these impacts.

### B. Overall Impact on Service

The Postal Service's proposal impacts virtually every stakeholder in the postal system. Delivery of more than 25 percent of First-Class Mail and Priority Mail in the system would be delayed if the Postal Service's proposal is implemented. Most of that mail would be delayed by two calendar days. The Postal Service proposes to eliminate regular street delivery on Saturday. The Postal Service also is altering many facets of its Saturday business model, including collection and mail processing.

#### 1. Service Changes

With the exception of Express Mail, the Postal Service proposes to end Saturday delivery of all street addressed mail. USPS-T-3 at 4-5. The Postal Service also plans to change the processing of mail accepted on Saturday. *Id.* at 7-8. Retail customers' mail, with the exception of Express Mail accepted on Saturday, will not be processed until the following Monday. *Id.* at 8. Blue collection boxes will not be emptied on

Saturdays, except in instances where local managers determine the need for capacity reasons. *Id.* at 10. The Postal Service does not anticipate adjusting its weekday collection schedules, including times on Fridays, if it eliminates Saturday collections. Tr. 2/337. Outgoing mail from retail facilities, with the exception of Express Mail, will not be picked up and dispatched on Saturdays. USPS-T-4 at 9-10.

The Postal Service contends that all of the service changes at issue do not alter or affect currently applicable service standard day ranges or rules to determine origin-destination pairs. Postal Service Brief at 43. It states that the only impact the proposed changes have on service standards for certain pieces of mail are the actual measurements of the “start the clock” event and “stop the clock” events.<sup>75</sup> *Id.*

Originating business mail requiring acceptance at a post office on a Saturday will have a start the clock time of Monday. USPS-T-3 at 8. The Postal Service plans to leave it to the discretion of local post office managers to review and adjust the drop ship appointments as necessary. *Id.* at 15. The Postal Service anticipates physically holding mail at locked local retail post offices until the next business day. Tr. 2/122-23.

a. Delivery Reduction

The Postal Service contends that Saturday will become a non-delivery day, much like Sunday in its current operating environment. Rather than reducing the service standard for any given mailpiece, it would simply “stop the clock” while the piece waits for acceptance, processing, or delivery on a Saturday. In response to Commission questions seeking the delay in calendar days for any given mailpiece, the Postal Service estimates the percent of mail, by product, that would experience a delivery

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<sup>75</sup> “Start the clock” is shorthand for the documented entry of mail by a specific time that triggers when mail starts to toll the time limit for the service standard. The “clock” is stopped on Sundays and holidays, days when delivery does not occur.

delay in a five-day delivery environment.<sup>76</sup> The tables that follow quantify these delays.<sup>77</sup>

**Table IX-1**  
**Percent of First-Class Mail That Will Experience a Delivery Delay in a Five-Day Delivery Week**

Service Standard	1-Day Lag	2-Day Lag	3-Day Lag	4-Day Lag	Total
1-Day	8.7%	16.9%	--	--	25.5%
2-Days	--	25.7%	--	--	25.7%
3-Days	--	26.3%	--	--	26.3%
4-Days	--	28.1%	--	--	28.1%
5-Days	--	20.4%	--	8.7%	29.1%
Total	3.7%	22.1%	--	--	25.8%

**Table IX-2**  
**Percent of Priority Mail That Will Experience a Delivery Delay in a Five-Day Delivery Week**

Service Standard	1-Day Lag	2-Day Lag	Total
1 Day	8.1%	17.1%	25.2%
2 Days	--	25.3%	25.3%
3 Days	--	26.7%	26.7%
Total	1.5%	23.9%	25.4%

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<sup>76</sup> The Postal Service was not able to estimate the change in service for Standard Mail or Periodicals. Those classes are not tracked in the "WebODIN system" that the Postal Service used to create its response to the Commission request for impact on service standard by class. Tr. 6/1587-1592. The Postal Service did not indicate whether these calculated delays include or exclude remittance mail and post office box delivery.

<sup>77</sup> Table data compiled from Responses of the United States Postal Service to Questions 3-4 of Chairman's Information Request No. 7, July 13, 2010. See Tr. 6/1587-92.

**Table IX-3**  
**Percent of Package Services That Will Experience a Delivery**  
**Delay in a Five-Day Delivery Week**

Service Standard	1-Day Lag	2-Day Lag	3-Day Lag	4-Day Lag	Total
2-Days	--	28.3%	--	--	28.3%
3-Days	--	29.4%	--	--	29.4%
4-Days	--	29.2%	--	--	29.2%
5-Days	--	16.1%	--	10.2%	26.2%
6-Days	--	--	10.2%	--	10.2%
7-Days	--	10.2%	--	--	10.2%
8-Days	--	--	--	--	--
9-Days	--	28.3%	--	--	28.3%
Total	--	23.8%	1.0%	1.4%	26.1%

b. Mail Processing Reduction

Mail processing in a five-day delivery environment could change significantly, with the elimination of all Saturday outgoing mail processing, with the exception of Express Mail. USPS-T-4 at 8. The Postal Service plans to monitor capacity for collecting and processing outgoing mail on Mondays to determine how operations must be adjusted to handle the extra volumes. *Id.* at 12-13; USPS-T-3 at 18. The Postal Service anticipates an increase in collection volumes on Mondays in a five-day delivery environment, but believes the increase can be handled by early morning trips to outgoing processing plants on Mondays. USPS-T-4 at 11. The Postal Service plans to evaluate and develop strategies to deal with the increased processing required to handle the additional volumes likely to accumulate during three-day holiday weekends. *Id.* at 14. However, the Postal Service anticipates having adequate mail processing and transportation capacity to handle the increase from shifted volumes.

The Postal Service proposes to realign its transportation networks to support the five-day delivery environment. USPS-T-5 at 5. Overall, the Postal Service estimates

that the five-day environment would result in the elimination of transportation from Saturday evening into Sunday morning. *Id.*

c. Service Alternatives

The Postal Service suggests that two existing products may provide adequate alternatives to those who currently rely on Saturday street delivery. It identifies renting a post office box or using Express Mail as potential substitutes. See USPS-T-1 at 4.

d. Postal Service Proposal to Communicate Changes to Public

The Postal Service acknowledges that the changes in service would require extensive communication with every sender and recipient of mail to allow them to adjust to the change. USPS-T-11 at 1-2. The Postal Service anticipates utilizing Customer Advisory Councils, Postal Customer Councils, community groups, the Mailers' Technical Advisory Committee, the National Postal Forum, the Business Service Network, various websites, media outlets, and other customer outreach. *Id.* at 2-7. The Postal Service plans to update all of its labeled acceptance times, and place signs in lobbies to ensure that customers are not misled as to when mail will be accepted or processed. USPS-T-3 at 15.

2. Changes in Levels of Services

The Postal Service plans to maintain existing levels of post office box delivery on Saturday, with the possibility for increased retail hours based on demand. USPS-T-3 at 3, 14. The Postal Service also proposes to maintain Saturday hours at post offices that currently have Saturday service, and to accept customer mail at retail windows in those offices. *Id.* at 4. General delivery at post offices, for mail that was available for

pickup on the day before, will be available Saturday, but no “new” mail will be available on Saturday that was not available the day before.<sup>78</sup>

The Postal Service also states that Express Mail will be delivered on Saturdays. At present, the Postal Service has no plans to implement an additional fee for Saturday Express Mail delivery. Tr. 7/1629. It also will maintain Saturday collection of Express Mail. USPS-T-9 at 15-16. However, delivery and collection of Express Mail are only available to certain areas; many rural areas do not receive Express Mail service.

As a result of discussions with mailers and market research, the Postal Service revised its original plan and does not propose to close Business Mail Entry Units (BMEUs). USPS-T-9 at 15-16. Large mailers dropping destinating drop-shipped mail will have a start the clock event when the mail is accepted by the Postal Service, provided that it is entered before the critical entry time. USPS-T-3 at 8. Mail that is in transit between processing plants would continue to be transported and arrive at destinating plants for processing under the Postal Service’s proposal. USPS-T-4 at 10. Remittance mail will continue to be processed and transported over the weekend. USPS-LR-N2010-1/1 at 9. The retail functions of post offices would remain mostly intact under the Postal Service’s proposal, including retail counters, APCs and lobby drop boxes, and other transactions. USPS-T-3 at 7. Customers could still pickup mail through caller service programs and by showing an attempted delivery form. *Id.* The Postal Service recently indicated its intent to close some stations and branches in Docket No. N2009-1. It has not formally responded to the Commission’s advisory opinion in that docket, but there are indications that it may close a number of post offices, stations, and branches, and, in some cases, substitute Contract Postal Units (CPUs), that do not contain P.O. Boxes.

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<sup>78</sup> Response of United States Postal Service Witness Granholm to Question Posed During Oral Cross-Examination on July 22, 2010, July 29, 2010.

### 3. Postal Service Comments on Impact of the Proposed Changes in Service

The Postal Service contends that the proposed changes will not result in “negative service impacts.” USPS-T-3 at 15. Based on its analysis of workload and productivity on “Tuesdays after Monday Holidays,” the Postal Service contends that it can absorb the anticipated workload peaks without service deterioration utilizing tactics such as deferring non-committed mail, scheduling flexible employees, and using overtime. *Id.* at 16. The Postal Service acknowledges that the resulting productivity would probably be related to how the Saturday mail volume would be distributed across other days of the week. Tr. 4/966-67. It predicts that Saturday mail will be shifted to Monday, and to a lesser extent, Friday, in a five-day delivery environment. USPS-T-3 at 15-16.

The Postal Service anticipates adjusting its performance measurement system to factor in an additional non-delivery day for every product but Express Mail. USPS-T-10 at 5; *see also* Tr. 6/1373. Generally, the “start the clock” event for mail products tendered Saturday would be Monday in a five-day delivery environment. USPS-T-10 at 9-10. Bulk mail, however, will still be accepted on Saturdays and Sundays at BMEUs. *Id.* Other specific exceptions apply for certain drop shipped mail. *Id.*

#### C. Description of Qualitative Market Research

The Postal Service conducted two types of market research in preparation of its plan to eliminate Saturday delivery: qualitative research and quantitative research. The qualitative research consists of focus groups of consumers and small businesses and in depth telephone interviews with National and Premier Accounts.<sup>79</sup> The purpose of the qualitative market research is to gauge customer reaction to the Postal Service’s

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<sup>79</sup> National, Premier, and Preferred accounts refer to volume-based groups of commercial mailers, from largest to smallest from the Commercial Business Customer Information System. The Postal Service notes that these designations are no longer used after a recent restructuring of the sales organization. See Tr. 5/1245.

proposal, and it is discussed further in this section. Quantitative market research, consisting of telephone and internet surveys, was used to develop a volume forecast for five-day delivery. The quantitative market research is discussed in greater detail in chapter VII.

The Postal Service contends that the focus group research demonstrates that customers will accept five-day delivery with an understanding that the shift is necessary to the long-term stability of the Postal Service. USPS-T-9 at 3-4.

The Postal Service conducted eighteen focus groups in September 2009, in the following four metropolitan areas: Chicago, Seattle, New York and Atlanta. There were ten groups of consumers and eight groups of small business owners and managers. Household participants were primarily responsible for handling the receipt, sorting and other tasks related to their household's mail. Within each group there was a mix of participants by age, gender and employment status. Business focus groups consisted of those businesses with fewer than 100 employees located in the same four metropolitan areas. Each business participant handled that business' mailing and shipping needs. USPS-T-8 at 3-10.

Customers were asked to balance loss of Saturday delivery against a hypothetical 10 percent rate increase because that increase "loosely approximates the value that five-day delivery means to the Postal Service." Tr. 5/1078, 1104-05. When presented with the alternative of a 10 percent price increase or a reduction to five-day delivery, the Postal Service reports that virtually all respondents chose five-day delivery. USPS-T-9 at 5-6. The Postal Service claims that those who opposed five-day delivery in the focus groups did so out of an "immediate emotional reaction" as opposed to "reasoned consideration." *Id.* at 6.

Consumers also were asked questions about: (1) their current mailing and shipping habits; (2) general attitudes towards the Postal Service; (3) strategies for dealing with the Postal Service's financial problems; (4) determining reactions to five-

day delivery; and, (5) their reactions to strategies to mitigate the impact of eliminating Saturday delivery and communications about five-day delivery. *Id.* at 6, 10.

In the focus groups customers expressed concerns that the Postal Service may not have the ability to handle increased volume shifting to Monday in a five-day delivery environment. *Id.* at 7. Customers also expressed concerns regarding the ability to meet service standards, the security of mail accumulating in collection boxes, and the amount of mail accumulating in the collection boxes. *Id.*

The Postal Service reports that business mailers generally were receptive to the proposed five-day concept when the Postal Service's rationale for the proposal was explained. *Id.* at 8. Moreover, these responses were conditioned on expectations that if service were reduced that the Postal Service would seek price increases less frequently. *Id.* Most business mailers stated that if the proposed changes were implemented, it would affect their operations, but not stop them from using the Postal Service. *Id.* at 8-9. Remittance mailers and newspaper publishers utilizing the Postal Service for Saturday processing and delivery expressed the most concerns about the possible impact. *Id.*

After completing the focus groups, 30 in-depth telephone interviews were conducted with selected individuals, from 18 National and 12 Premier Accounts, who were identified as having the primary responsibility for that company's mailing or shipping needs. USPS-T-8 at 10.

The Postal Service states that commercial mailers operate with a sophisticated understanding of Postal Service operations, and understand that elapsed time to delivery may increase while the service standard remains unchanged. Tr. 6/1379. The Postal Service further contends that individuals mainly use single-piece and package services, and "[c]onsumers and small businesses also use the internet and competitive package service carriers which will facilitate their adaption to five-day delivery." USPS-T-9 at 4. The Postal Service concludes that most focus group respondents could

forego Saturday home delivery so long as their local post offices remained open. *Id.* at 4-5.

Overall the Postal Service states that its qualitative market research demonstrates that customers are willing to accept five-day delivery with the understanding that it “is necessary to long term stability for the Postal Service.” Tr. 5/1196. Conversely the Postal Service states that based on the qualitative market research customers are not willing to accept a large rate “increase because it would not (by itself) ensure long-term stability.” *Id.*

#### D. Participant Views

##### 1. Impact of Service Changes

NNA contends that the Postal Service’s plan weakens the Universal Service Obligation (USO) and the Postal Service’s franchise. Tr. 10/2901-02. NNA contends that the Postal Service has a special obligation to serve rural America, as demonstrated by the framers of the Constitution making post roads and post offices a priority for all Americans, no matter where they live. Tr. 9/2739. NNA states that the long history of Congress granting newspapers preferred rates is evidence that Congress considers newspaper delivery to be an important element of universal service. NNA Brief at 14.

The Postal Service responds that NNA’s assertions are not substantiated or made with specificity. Postal Service Brief at 103-109. Valpak responds that NNA is mistaken in its belief that six-day delivery is part of the USO. Valpak Reply Brief at 17. Instead, Valpak notes the Commission finding that the USO requires a minimum of five-day delivery. *Id.*

The Public Representative suggests that the “Postal Service’s plan poses no real threat to the ‘operation of a basic and fundamental service provided to the people...’ as required by” 39 U.S.C. 101(a). PR Brief at 4. The Postal Service’s plan, however, according to the Public Representative, does not conform with its requirement to “bind

the Nation together through the personal, educational, literary, and business correspondence of the people,” due to flaws in the plan that disproportionately impact rural residents and voters. *Id.*

NALC witness Riley contends that the Postal Service’s proposal is not necessary and is not consistent with good management practices. Tr. 8/2306. NALC states that the Postal Service maintains a competitive “last mile” delivery advantage that may be compromised by a move to five-day delivery. Tr. 10/2831-32. NALC states that the Postal Service is eliminating the best and highest volume day for customers to receive packages at home and interact with a letter carrier, diminishing the value of the service. *Id.* at 2833. NALC also suggests the possibility that retailers target promotional materials to be in the house by Saturday. Further, NALC states that eliminating Saturday delivery eliminates the societal benefit of having a letter carrier on the streets for one day per week. *Id.* at 2835-37; *see also* Tr. 2/155-56.

The Postal Service responds that NALC’s basis for such concerns is outdated, and has no bearing on the general mailing industry. Postal Service Brief at 80-81. The incidental societal benefits derived from carriers’ presence on the street has no bearing on whether the plan to eliminate Saturday delivery conforms with the policies of title 39, the Postal Service states. *Id.* at 84.

One intervenor suggests that the Postal Service could increase access without significantly impacting cost savings by continuing collection (and some mail processing) of mail deposited in collection boxes on Saturday. He suggests that the Commission should require that the Postal Service abandon its plan because it does not conform with the policies of title 39, or alternatively return to the Commission with a plan that gives greater recognition to the public’s need for Saturday collections and mail processing. Carlson Brief at 2. He states that evaluating what is adequate postal service is difficult because the needs of categories of mail users and individuals differ. *Id.* at 4. Another intervenor suggests that the Commission, in its nonbinding advisory

opinion, require the Postal Service to maintain, as part of its plan for five-day delivery, Saturday mail processing. Popkin Brief at 1-2.

The Postal Service responds that, based on its market research, customers do not believe “that Saturday collection and processing of mail is that important.” Postal Service Reply Brief at 76. The Postal Service states that as a result of information garnered from its market research, it changed portions of its plan substantially, *i.e.*, collection of Express Mail and acceptance and processing of bulk mail. *Id.* at 77.

NALC states that reducing delivery frequency would signal to customers that their needs and preferences no longer matter to the Postal Service. Tr. 8/2310. NALC also contends that eliminating Saturday delivery eliminates a valuable service for postal customers. *Id.* at 2309-10. NALC witness Crew contends that there is “no question ending Saturday delivery will cause a drop in mail volume.” *Id.* at 2367. He notes that generally as quality of mail service falls, including reducing delivery frequency, demand for mail service would also fall. *Id.*

NNA states that newspapers have been a growth area for the Postal Service in the past, as publishers abandon private delivery for Postal Service delivery, but it expects this trend to reverse if the Postal Service eliminates Saturday delivery. Tr. 10/2898-99. NNA also warns that if newspapers develop a private carrier force, the Postal Service may also lose some of its total market coverage advertising products as newspapers look to fill these new distribution channels with volume. *Id.* at 2900. NNA notes some customers’ reliance on rural carriers for Saturday service. Tr. 9/2742. NNA also foresees that if Saturday delivery is eliminated, newspaper publishers will put pressure on Congress to relax the mailbox monopoly to allow delivery of newspapers to mailboxes on Saturdays. Tr. 10/2901.

The Postal Service does not believe that a shift to five-day delivery should in any way impact the mailbox monopoly. Tr. 2/149-51.

## 2. Qualitative Market Research

APWU criticizes the Postal Service's qualitative market research. It argues that the Postal Service should have informed participants that it was legally prohibited from increasing rates above the rate of inflation. APWU Brief at 5. GCA also criticizes questions including a hypothetical 10 percent rate increase, noting that such an increase is larger than any increase since 2006. GCA Brief at 22-23. NALC claims focus group participants also should have been informed of the Postal Service's obligation to prefund retiree health benefits, and other financial requirements that impact the Postal Service's bottom line. NALC Brief at 35.

APWU presents a number of distinct criticisms of the Postal Service's market research. It claims the research improperly; began with the assumption that Saturday would be the day of delivery to eliminate; presented consumers with a "false choice" of an unusually high 10 percent rate increase or delivery day elimination; did not geographically or demographically represent postal consumers; did not examine the impact on all products; did not provide relevant information about the potential impact on rural areas; and omitted key businesses such as newspapers from its analysis. APWU Brief at 5-8. Similarly GCA criticizes the exclusion of Alaska and Hawaii from the market research. GCA Brief at 32-33.

The Postal Service responds that there were two different kinds, and two different purposes, of the market research. Postal Service Reply Brief at 95. The Postal Service contends that its consideration of mailers' needs was accomplished in the qualitative research. *Id.* at 95-96. The quantitative research, the Postal Service contends, was only commissioned to estimate the impact on volume for the shift to five-day delivery. *Id.*

## E. Commission Analysis

### 1. Impact on Delivery

Based on Commission and Postal Service analysis, the Commission recognizes that more than 25 percent of First-Class Mail and Priority Mail would experience a delay if the Postal Service's five-day plan is implemented. Of that mail, the majority would experience a two calendar day delay to delivery. Greater calendar day delays would be experienced by parcels. No information is available to determine the extent to which providing outgoing mail processing on Saturdays would reduce these delays.

As discussed in chapter IV, the Commission's analysis suggests that the Postal Service's productivity estimates may be overstated, which may cause the service reduction to be greater.<sup>80</sup> This specific aspect of service has been subject to a recurring provision in appropriations legislation that provides that "six day delivery...shall continue at the 1983 level." USO Report at 20. Before the Postal Service may implement its proposal, Congress must end the requirement for six-day delivery.

The potential substitutes for regular Saturday delivery suggested by the Postal Service, Express Mail and Post Office Box service, are inadequate alternatives.

Express Mail may not be a substitute for normal Saturday delivery due to its significant expense and its limited availability in rural areas. Express Mail is 30 times more expensive than a First-Class Mail letter.<sup>81</sup> Further, most often the sender, rather than the recipient, will be the one to decide whether sending an item via Express Mail is justified to obtain timely delivery. Weekend Express Mail delivery is only available for

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<sup>80</sup> Potential peak load problems identified in chapter VIII could also impact service performance.

<sup>81</sup> Express Mail, unlike First-Class Mail, is a zoned product. The cheapest Express Mail rate available to a retail customer shipping a one-half pound package to zone 1 or zone 2 is \$13.25. See 75 FR 73864 (November 29, 2010). However, for a comparable un-zoned version of Express Mail, the Flat Rate Envelope, the retail cost is \$18.30, more than 41 times more expensive than a First-Class letter. *Id.*

addresses sufficiently close to open facilities so that Postal Service employees will be available to make deliveries.

A post office box is also an imperfect substitute for Saturday delivery. Mail must be sent to one specific address, either to a post office box address or a street address; a customer could not choose to have street delivery Monday through Friday and post office box delivery on Saturday. Furthermore, rural areas may not have convenient access to post office boxes.

## 2. Impact on Access

The Commission finds that the Postal Service's plan also has a significant impact on access to postal services.

Access encompasses locations where postal services are made available, including post offices, stations, branches; contract units or retail locations; kiosks and automated mail centers; collection boxes; private retail locations offering stamps on consignment; and rural carrier services. Access to postal services is also provided through the Postal Service's website, *www.usps.com*, and the national telephone number 1-800-ASK-USPS. The Postal Service notes that "Post Offices and other retail locations will continue to sell products and services on Saturday." USPS-T-1 at 4.

Notwithstanding the current variety of access points, the plan reduces "ready access to essential postal services." The access component of the USO includes access to rural carriers, who provide almost all services available at brick and mortar offices to rural areas; and access to letter carriers who accept mail for posting. See USO Report at 19. Under the Postal Service's proposed plan, neither rural carriers nor letter carriers would be available to collect Saturday outgoing mail from customer mailboxes at the time of delivery, or transact other postal business. Furthermore, no collection from street boxes would take place on Saturdays, further reducing access to the mailstream.

Customers in rural, remote and non-contiguous areas could be particularly affected by the Postal Service's plan. Those customers without a post office in the vicinity who rely on a rural carrier to provide the services typically found in a post office would have significantly reduced service compared to urban customers.

The Postal Service plans to maintain mail collection at post offices. Customers would be able to mail items at retail windows or blue collection boxes on Saturdays; however, that mail would be held until Monday for processing. A number of post offices in rural areas are not open on Saturday or operate on a limited-hour basis, and the Postal Service has not indicated if it will maintain existing post office hours. Furthermore, the Postal Service is also proceeding with plans to close post offices, stations, and branches and reduce the number of blue collection boxes available.

### 3. Adequacy of Market Research

The Commission finds that the Postal Service's qualitative research provides useful information on customer attitudes, but that the Postal Service extrapolates that information to reach unduly broad conclusions about how its plan will impact its customers nationwide. The primary flaw in the qualitative market research the Postal Service used to gauge consumer reaction to the proposed changes is that it did not adequately take into account the concerns of rural, remote, or non-contiguous areas. Specifically, the market research only took into account suburban rural areas, and did not consider areas with attributes that make the mail move more slowly.

The qualitative research also measured consumer reaction to the Postal Service's proposal against an improbable 10 percent rate increase, which may have biased the responses. Respondents were not informed of the general context of current law requiring price caps nor that an increase of this magnitude was only possible as a result of an extraordinary circumstance. The absence of this crucial information may have biased the responses.

## F. Impact of Service Reductions on Specific Groups and Areas

During the course of this proceeding several categories of users have been identified that will be particularly affected by the Postal Service's proposal. This section examines the impact of the Postal Service's proposal on those users. If the Postal Service moves forward with five-day delivery, it should create a plan to address the following issues that incorporates Commission recommendations.

### 1. Newspapers

NNA states that the Postal Service has not adequately addressed the impact the loss of Saturday delivery would have on newspapers across America. Tr. 10/2892. NNA contends that the elimination of Saturday delivery would impact newspapers of all sizes, not just the smallest papers. *Id.* at 2893. NNA claims that Saturday publications cannot be eliminated without serious ramifications for the publishers. *Id.* at 2894-95. NNA offers the examples of local sports scores in small communities in places like Texas, local government news, and community news in communities across the country. *Id.* at 2895-96. NNA queried its members, and found that 29 percent would likely create a new delivery force if Saturday delivery were eliminated. *Id.* at 2896.

The impact of elimination of Saturday delivery will have a greater impact on newspapers than the Postal Service estimates, NNA claims. *Id.* at 2897. NNA uses the example of delays encountered in newspaper delivery, in the current delivery environment, on weeks when there is a Monday holiday. *Id.* NNA states that the Postal Service has not considered alternative days to Saturday for reducing a day of service. *Id.* at 2903. NNA suggests an alternative lighter volume day, like Tuesday, would be a viable alternative. *Id.*

The Postal Service admits that when its five-day team came together, it was 99.9 percent certain that Saturday would be the day to eliminate. Tr. 2/177. The Postal Service found no compelling reason to seriously analyze an alternative to Saturday, *id.* at 70, stating that any other day (except Monday) would create inefficiencies by having

two “start” and “stop” mail processing events each week. *Id.* at 100. The Postal Service states that it recognizes that the elimination of Saturday delivery may be incompatible with the operational preferences of newspaper customers, and would require them to change operating plans or give consideration to alternative delivery. Postal Service Brief at 40.

NNA notes anecdotal testimony from numerous publishers that the proposed change to five-day delivery would negatively impact their businesses and their communities. NNA Brief at 15-17. NNA also requests that if the Postal Service implements its plan, that it should expand access to the mailbox on Saturday.

The Postal Service states that NNA does not substantiate its claims that rural residents would experience a major negative impact from the Postal Service’s plan. Postal Service Brief at 103, 112-113. The Postal Service disagrees with NNA that “quality postal service” should necessarily equate to “six day per week service.” *Id.* at 104.

## 2. Rural and Non-contiguous Areas

The Public Representative presents evidence that an established rural organization, the National Grange, supports the continuation of Saturday delivery. Tr. 10/3008-09

The Public Representative’s witness notes that rural communities are increasingly utilizing electronic communications, but many rural communities are not currently able to replace mail delivery with such alternatives. *Id.* at 3009. The Public Representative’s witness notes the low penetration of broadband internet in rural areas. *Id.* at 3009-10. The Public Representative contends that rural residents, who are disproportionately self employed or work for someone who is self employed, rely on the predictability of six-day delivery. *Id.* at 3010. Rural residents are on average older than the general population, according to the Public Representative, and also rely on the

Postal Service for delivery of prescription medications and medical devices/equipment. *Id.* at 3011-12.

NNA contends that the Postal Service does not address the impact of eliminating Saturday delivery on rural communities. Tr. 10/2897. NNA objects to Postal Service witness Pulcrano's conclusion that rural Americans choose to live with less access to services. *Id.*, see Tr. 2/202. NNA states that the elimination of Saturday delivery would have a detrimental effect on the quality of life in rural America, making it a less attractive place to live. Tr. 9/2738. Further, NNA states that alternatives to the Postal Service for private delivery of packages tend to be more expensive and not widely available in rural areas. *Id.* at 2741. Rural residents, NNA claims, are more dependent on the Postal Service for ancillary services, like money orders, than their urban counterparts. *Id.* at 2742. Similarly, independent business owners in rural areas would be harmed by the Postal Service's proposed changes. *Id.* at 2742-43.

APWU contends that the Postal Service has not evaluated the impact of its proposed changes on a geographically diverse sample of the United States, and until it has done so, it cannot state that it will continue to fulfill the obligations of title 39. APWU Brief at 4. APWU notes that the Postal Service's quantitative market research did not involve interviews with any person from Alaska, Hawaii, or North Dakota. APWU also states that only one person was interviewed from each of South Dakota, Wyoming, and New Mexico. *Id.* at 5-6. Similarly, APWU contends that the focus groups did not provide an adequate representation from rural areas of the Nation. *Id.* at 6. APWU contends that the Postal Service has not established that its proposed changes comport with the policies of title 39. APWU Reply Brief at 9. APWU claims that the Postal Service's reliance on market research that is limited in scope is misplaced, as the very customers that may experience a disparate impact were excluded from the market research intended to determine if disparate impact would result. *Id.* at 9-10.

The Postal Service responds that the quantitative research that excluded sparsely populated areas was only for the purposes of estimating volume change on

account of five-day delivery, not for gauging customer reactions (which was accomplished with the qualitative research). Postal Service Reply Brief at 95-96.

The Postal Service responds that the Public Representative supplies no quantitative evidence to bolster the contention that rural communities are dependent on Saturday mail deliveries, but rather, relies exclusively on anecdotal testimony. Postal Service Brief at 94-96. Further, the Postal Service contends that the Public Representative does not articulate how rural businesses or residents would be harmed with any specificity. *Id.* at 97.

The Public Representative answers that the Postal Service should have taken into account the limited alternatives available in rural communities, an issue at the heart of its testimony. PR Reply Brief at 2. The Public Representative states that the data in the record demonstrate that there is a digital divide and that this issue is relevant to the adequacy of delivery service in rural America. *Id.*

### 3. Vote by Mail Programs

The Public Representative witness Brown expresses concern regarding the effect the elimination of Saturday street delivery would have on states that utilize vote by mail. Tr. 9/2604. The Public Representative notes the attractive features of vote by mail, its utilization in Oregon, and trends in other states. *Id.* at 2605-10. Witness Brown describes the Oregon vote by mail program and history. In 1998 Oregon completed its transition from election ballots to vote by mail. *Id.* at 2605-06. Witness Brown states that vote by mail has been successful because voter turnout over the past three Presidential elections has shown a six percentage point increase versus previous presidential elections that were conducted at polling places. *Id.* at 2606. Witness Brown indicates that in Oregon vote by mail costs about \$0.76 less per voter than voting at polling places, improves staffing and vote counting efficiencies, reduces voter intimidation, is secure due to a number of security measures that have been put in place to verify voters' ballots, and increases voter turnout. *Id.* at 2606-07.

The Public Representative notes that losing the sixth day of delivery could jeopardize the timing involved in voting routines in Oregon. *Id.* at 2611. Witness Brown testifies that in Oregon, delays hinder vote by mail even in a six-day delivery environment. *Id.* at 2689-91. Further delays from eliminating the sixth day of delivery could disenfranchise some voters. *Id.* at 2612.

The Postal Service responds that in Oregon, the service performance metrics used by the Postal Service demonstrate that a very high percentage of test mailpieces, greater than 99 percent, take less than five calendar days to deliver. Tr. 11/3323. Nationally, the Postal Service notes, 99.8 percent of Single Piece First-Class Mail with an overnight standard was delivered within the standard plus three days, and that 99.4 percent of First-Class Mail with a two-day service standard was delivered within the standard plus two days. *Id.*

The Postal Service also states that it is committed to working with local election officials to use alternative solutions such as a facing identification mark combined with a post office box to ensure ballots are separated and available for pickup after the first pass processing. Tr. 2/130. The Postal Service contends that voter disenfranchisement is unlikely to occur at a significant level due to the reduction of one day of service. Postal Service Brief at 86. Further, the Postal Service states that last minute voters appear to utilize drop boxes rather than return ballots through the mail, thereby minimizing the impact of the elimination of Saturday delivery on voting. *Id.* at 87.

The Postal Service has confirmed that it is committed to continuing its practice “that anything that looks like a gift, we will try to deliver it and ensure that we got it into the home timely by Christmas.” Tr. 2/216-17. The Postal Service appears to have a similar commitment to jurisdictions that have chosen to use vote by mail programs to assure that election materials are delivered in a timely fashion.

#### 4. Mail Order Pharmacies

NALC states that the elimination of Saturday delivery would harm vulnerable members of society, like elderly or rural residents who rely on the Postal Service for delivery of their medications. Tr. 10/2833. Mail order medications represent a growing part of the mailstream. Postal customers are generally more likely to be available to receive home delivery of these essential packages on Saturdays.

The Public Representative notes that mail order prescription drugs are used extensively in rural areas. Tr. 10/3011, 3041, USPS/PR-T2-19. NNA also notes that prescription drugs are often delivered on Saturday when customers are home to sign for the packages. Tr. 9/2741.

The Postal Service contends that such concerns are exaggerated, since many consumers receive regular updates or reminders prior to the conclusion of 90-day prescription cycles and when reorders are due. Tr. 2/139-40. The Postal Service claims that in an emergency, there are other means to get a prescription – one option would be Express Mail. *Id.* Express Mail, however, would add substantial additional costs.

#### 5. Other Customers Who May Be Impacted

Mailers of live animals, insects, or other extremely perishable materials, may encounter difficulty ensuring mail arrives intact under the Postal Service's proposed plan. Tr. 10/3012.

Small businesses that use the Postal Service to send and receive packages may encounter difficulty under the Postal Service's proposal. Commission analysis demonstrates that Saturday is the heaviest volume day for parcels. Figure IX-1, below, shows that as a percentage of average weekly parcel volume, Saturday has 21.2 percent of the weekly parcel volume.

**Figure IX-1****FY 2009 Average Parcels Delivered by Day of the Week**

FY2009 Total Parcels Delivered by Day of the Week		
Monday	89,595,013	17.5%
Tuesday	74,448,212	14.5%
Wednesday	82,848,268	16.2%
Thursday	75,655,738	14.8%
Friday	81,843,161	16.0%
Saturday	108,495,793	21.2%
Total Parcels Delivered	512,886,185	

Source: Tr. 4/814; see also "ChiR.3.Q.10.DOIS.Attach.xls.", May 14, 2010.

The volume of parcels delivered on Saturday, compared to other delivery days, demonstrates that the Postal Service's proposal may have a significant impact on parcel delivery. The high ratio of parcels delivered on Saturday is all the more significant because many business routes do not currently receive delivery service on Saturday.

#### 6. Commission Recommendations for Impact on Specific Customers

The Commission is aware that the categories of mailers discussed in this subsection represent a relatively small portion of the total volume of mail, but a relatively large geographic area. Should the Postal Service determine to proceed with its service reduction plan, adjustments should be made to preserve service in these portions of the Nation as described below.

The Postal Service plays an important role in providing access and participation by delivering voter registration and vote-by-mail ballots and election related material. Similar to the Postal Service's commitment to deliver parcels on Saturdays in the December lead-up to Christmas, the Commission recommends the Postal Service should cooperate with state officials to provide an appropriate level of notice and service and ensure ballots arrive on time to be counted on election day.

Newspapers that currently use the Postal Service for Saturday delivery are particularly affected by the Postal Service's proposed plan. Currently a limited exception for newspapers utilizing the Postal Service to deliver during the week exists

for those papers to access curbside boxes on Sunday and holidays, if the copies are removed from the box before the next scheduled day of mail delivery. See DMM D508.3.2.10. If the Postal Service is allowed to proceed with eliminating Saturday delivery, the Commission recommends that the Postal Service should extend this exception to Saturday to better accommodate those newspapers that may wish to continue delivering papers on Saturday. Expanding the exemption to Saturdays should provide an alternative for some publishers that wish to continue using the Postal Service.

Rural and remote communities, including those in the non-contiguous states and territories, have unique mail requirements and arrangements with the Postal Service. The Postal Service made no attempt to develop information on the unique postal needs of these areas.

The Commission is aware of the ongoing development of broadband products and services, and the specific development of broadband services in rural areas. The Commission, in its USO Report, acknowledges that there is a substitution effect for high-volume household users, who are increasingly using electronic alternatives. See, *e.g.*, USO Report at 170. The Commission also notes the currently limited availability of technology in some communities, most often rural and sparsely populated ones. Access and adoption rates of internet services will increasingly affect the role of the Postal Service.

The Commission finds there are two distinct groups in rural, remote, and non-contiguous areas that would be disproportionately affected by five-day delivery. Some of those areas, due to remoteness or other factors, do not currently receive six-day per week delivery. The Postal Service has committed to continuing to offer service at its present level to those communities. The Commission recommends that the Postal Service's plan ensure that those communities that do not currently receive six-day per week delivery do not see their services diminished by the changes proposed in the Postal Service's plan. The time to delivery for these areas should not be extended.

Some people in rural, remote, and non-contiguous areas depend on rural carriers to provide both access and delivery on Saturdays, where no post office is open within a reasonable distance. The Postal Service plan has a greater impact on rural, remote, and non-contiguous areas than an urban and suburban areas because persons in these areas are likely to lose Saturday access as well as Saturday delivery.

Other rural, remote, and non-contiguous areas rely on the Postal Service as a medium of communication and delivery currently receive six-day per week delivery, but experience greater days to delivery due to their remote nature. Five-day delivery may exacerbate the calendar day delay for delivery to these areas. The Commission recommends that the Postal Service, before implementing five-day delivery, create a plan that provides an acceptable level of service to rural, remote or non-contiguous areas that may be particularly affected. Such a plan should mitigate any disparity in service caused by five-day delivery.

X. CERTIFICATION

It is the opinion of each of the undersigned Commissioners, pursuant to 39 U.S.C. 3661(c) that this opinion conforms to the policies established under title 39, United States Code.

\_\_\_\_\_  
Ruth Y. Goldway, Chairman

\_\_\_\_\_  
Mark Acton, Vice Chairman

\_\_\_\_\_  
Dan G. Blair, Commissioner

\_\_\_\_\_  
Tony L. Hammond, Commissioner

\_\_\_\_\_  
Nanci E. Langley, Commissioner

## **SEPARATE VIEWS OF CHAIRMAN GOLDWAY**

While the Commission as a whole certifies the preceding advisory opinion, and its extensive analysis of the potential cost savings and impact on citizens of service cutbacks, we did not agree on the broader policy concerns arising from the Postal Service Proposal.

In this separate opinion, I explain that eliminating Saturday mail delivery does not conform to the Nation's postal policy.

When the Postal Service sought this advisory opinion, it was aware that for three decades Congress has annually adopted the requirement that the Postal Service maintain its current delivery frequency and levels of service. The Postal Service is thus asking Congress to alter longstanding national policy.

The recent Postal Accountability and Enhancement Act of 2006 (PAEA) is a reflection of national postal policy as well. The PAEA established procedures to ensure reliable, affordable and efficient postal service to the Nation. The centerpiece of this law is a cap on market-dominant products that limits any price increases to the rate of inflation.

The 2006 reform not only restricted price increases, however - it also required the Postal Service in consultation with the Commission to develop service standards, to measure service performance for every market-dominant product, and to regularly report on service performance results.

The price cap, the service standards and the performance measurement that ensure service quality are inextricably linked. Moreover, those features operate in parallel with the Congressional requirement to maintain and protect the service levels in place in 1983. Congress intended to protect mailers from both excessive rate increases and service degradation. The PAEA clearly requires the Postal Service to fulfill its

service obligations through gains in productivity and operating efficiencies rather than through price hikes or service reductions.

The language of the PAEA carried forward national postal policy from the 1971 Postal Reorganization Act (PRA), establishing a Universal Service Obligation under which the Postal Service must provide fair rates and bind the Nation together. National postal policy as expressed in sections 101 and 403 of title 39 requires equitable postal service for all areas of the nation.<sup>1</sup>

The Commission's advisory opinion describes how the Postal Service's plan will produce a significant and disparate reduction in levels of service throughout the nation, and that the impact of that reduction in service will be particularly felt in remote and rural areas.

With this proposal, the Postal Service is challenging established national postal policy in two main ways. First, it is asking to significantly reduce service from 1983 levels yet maintain the rates set for six-day service. In its testimony, the Postal Service acknowledges that a reduction in service could be characterized as a hidden cost. It would amount to a de facto price increase. The American public will pay the same amount tomorrow yet receive a level of service quality that falls well below today's service levels.

While it may be acceptable for a private company to charge whatever the market will bear, the Postal Service is a government monopoly operating in the public interest under national policies. It should not reduce service unless it adjusts prices accordingly.

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<sup>1</sup> “[The Postal Service] shall provide prompt, reliable and efficient services to patrons in all areas and shall render postal services in all communities.” 39 U.S.C. 101(a). “The Postal Service shall provide a maximum degree of effective and regular postal services to rural areas, communities and small towns where post offices are not self-sustaining.” 39 U.S.C. 101(b). “In determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” 39 U.S.C. 101(e). “The Postal Service shall serve as nearly as practicable the entire population of the United States.” 39 U.S.C. 403(a).

Second, the Postal Service's proposal unfairly discriminates against users of the mail in remote and rural areas and in the non-contiguous states of the Union. As the record of the Commission's opinion shows, some 25 percent of mail will be delayed by two or more days, which is more burdensome to any population that has greater reliance on the mail. Transportation circumstances in remote and rural areas, as we heard in the South Dakota field hearing, can extend mail delays.

More importantly, remote and rural areas rely on a wide variety of postal services provided by rural carriers and highway contract route carriers, in locations where a post office can be quite distant. By removing Saturday delivery, that aspect of service is left unfilled. I believe this rural divide is much greater than is intended in national postal policy.

The nation's postal policies are set forth in current law. The Postal Service proposal is in direct contradiction. Should Congress decide to allow the Postal Service to reduce levels of service set by current law, and to provide still lower levels of service to some of the nation, it should make adjustments to the PAEA and the annual appropriations language that will direct the Commission regarding future regulation.

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Ruth Y. Goldway, Chairman

## SEPARATE VIEWS OF COMMISSIONER BLAIR

I offer these supplemental views to the Advisory Opinion regarding the Postal Service's proposal to eliminate Saturday mail delivery. In my view, the proposal represents a dramatic step toward realignment of the Postal Service's universal footprint so that postal operations and expenses are in line with revenues.

The proposal to eliminate Saturday delivery is offered in the context of the Postal Service's efforts to address its ongoing financial crisis. In FY 2010, it registered a record deficit of \$8.5 billion. This followed on the heels of cumulative deficits since 2007 of \$11.3 billion. The Postal Service's ten year outlook projects a deficit of \$238 billion unless structural changes are made in the way it operates.

In the Postal Service's filing, the five-day proposal was described as a structural change that could reasonably be expected to provide \$3.1 billion in net relief on a multi-year basis. The Commission analysis projected a net savings of almost \$1.7 billion. We heard from the Postal Service that most focus groups respondents, when given the choice between a ten percent rate increase and five day delivery, chose a reduction in service over a price increase. In support of the proposal, Postal Service witness Sam Pulcrano described the changes as "necessary, if not inevitable." In fact, the Commission noted in its 2008 Report on Universal Service and the Postal Monopoly that five-day delivery would be the minimum frequency of delivery for a postal operator obliged to provide universal service.

Since beginning work on this case in March 2010, the Commission had the opportunity to hear from numerous interest groups, and almost 22,000 individuals weighed in on the issue. What I do not see in our Advisory Opinion record is the voice and sentiment of our Nation's younger generations. My personal experience has shown that our "younger generation" relies much more on laptops, Blackberries, cell phones, iPads, and electronic technology than the mail to communicate.

One piece of mail that multiple generations seem concerned about receiving on Saturday is their Netflix DVD. During the course of our seven field hearings, the Commission had the benefit of hearing from a representative of Netflix. The Company describes itself as, "...the largest growing first-class mailer in the country." At the same time, the Netflix witness noted that their average customer was increasingly using the option to stream movies over the Internet. Netflix noted that, "...this rapid shift to Internet streaming of content is emblematic of how new technology has changed the way Americans communicate and transact business and of the challenges facing the Postal Service." The change in the Netflix business model is representative of what is happening everywhere.

Use of technology is changing the way we send and receive communications. The Postal Service's most profitable product, First-Class Mail, has been steadily declining since 2000 due to changes in communication and electronic diversion. Even the federal government is eschewing the mail in favor of the Internet, and direct deposit or use of debit cards in lieu of checks. That is today's reality.

Despite technological advances in communications, the hearing record details how some customers are dependent on Saturday delivery and that ending Saturday delivery might unduly impact community newspapers, customers who receive pharmaceuticals by mail, or those in remote areas. In seeking the authority from Congress to reduce delivery days, the Postal Service should present to Congress a plan to address the issues raised by those customers who are Saturday dependent. Further, more information would be useful in evaluating the Postal Service's plan concerning the long-term impact of eliminating Saturday delivery on those weekends preceding a Monday holiday.

The Commission's analysis explores the impact of five day delivery on the timeliness of service. The Advisory Opinion highlights that 25 percent of First-Class

Mail would be delayed as a result of eliminating Saturday delivery. The flipside is that an overwhelming majority, 75 percent, of First-Class Mail would not see a delay.

If the Postal Service is going to continue as a viable and financially self-sustaining institution, it must have the flexibility to reduce costs and align its products and service with customer demand. In proposing to reduce days of delivery, the Postal Service must balance service against solvency. A reduction in days of delivery will produce a significant cost savings, but the Postal Service must show Congress that these reductions help, not hurt, its future financial viability to sustain the needs of the Nation.

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Dan G. Blair, Commissioner

## **SEPARATE VIEWS OF COMMISSIONER HAMMOND**

Congress properly establishes national postal policy, including setting the requirements of the Postal Service's universal service obligation.

In the Postal Accountability and Enhancement Act of 2006 Congress included a price cap on market dominant products, designed to cause the Postal Service to focus on making its operations more efficient and cost effective. I believe the price cap has been successful in encouraging efficiency, yet the Postal Service has been losing billions of dollars a year, and is in danger of being unable to meet its obligations by the end of this fiscal year.

The Postal Service therefore is searching for additional ways to reduce its costs. In addition to trying to make its operations more efficient, it has identified eliminating Saturday delivery as a means to achieve substantial annual savings. Obviously, no postal customers want less service, but our analysis shows that even after the Postal Service's somewhat optimistic estimates are corrected, eliminating Saturday delivery would provide substantial financial benefit.

The other most frequently mentioned way to reduce the Postal Service's costs is to close thousands of small post offices around the country. Although no current record has been developed on this, my belief is that closing thousands of post offices would cause more harm to the communities and businesses that rely on those post offices, generate more negative reaction from customers, and save less money than eliminating Saturday delivery.

When considering the future viability of the U. S. Postal Service, it may be important to recognize the least unpleasant of distasteful alternatives.

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Tony L. Hammond, Commissioner

## **SEPARATE VIEWS OF COMMISSIONER LANGLEY**

I concur with the Advisory Opinion that the Postal Service's proposal overstates estimated savings, understates the impact on service, and overlooks the impact of cutting Saturday delivery and processing on rural, remote, and non-contiguous populations. The Commission's findings raise substantial concerns that must be reviewed if the Postal Service eliminates Saturday delivery and processing.

The lack of information—and a plan to mitigate issues related to access and availability of service in rural, remote, and non-contiguous areas—are serious flaws in the Postal Service's proposal. The Postal Service would benefit from a fuller understanding of how its proposal will affect these areas, many of which are the most vulnerable to the elimination of a delivery day and most dependent on the universality of postal services.

The market research designed to measure public opinion on five-day delivery conducted on behalf of the Postal Service did not adequately consider residential and business customers in rural, remote, and non-contiguous populations from any area more rural than suburban Atlanta, Georgia or Seattle, Washington in its focus groups. The Commission heard from witnesses how the proposal to eliminate Saturday delivery will impact these locales differently than urban areas in the lower 48 States. Yet, the manner in which the Postal Service directed its focus groups ensures that differences among rural or non-contiguous areas will not be considered. Without a quantitative and qualitative analysis of the potentially disproportionate impact on these areas, the Postal Service's responsibilities under title 39 U.S.C. § 101(b) to "... provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns..." raise concerns."

The Commission found that under a five-day scenario, delivery of more than 25 percent of First-Class Mail and Priority Mail will be delayed. Most of that mail would

be delayed by two days, which will likely to disproportionately impact non-contiguous states and territories that already experience lags in delivery due to greater distances, differing transportation modes, and general remoteness.

In a previous order establishing reporting requirements for measuring the level of service, the Commission requires the Postal Service to evaluate final delivery service performance in remote areas of the Alaska, Caribbean, and Honolulu Districts. This report will evaluate the unique aspects of providing service to the less populous, more remote areas of these Districts, and compare how the service differs from the Districts as a whole. The Postal Service's first report to the Commission will be submitted with the FY 2011 Annual Compliance Report.

The Postal Service, despite citing alternative retail channels, such as Automated Postal Centers (APC), its website, and rural letter carriers, did not consider whether these alternate channels are readily available throughout the nation. As an example, a Postal Service witness stated there are 2,500 to 3,000 retail facilities that are currently closed on Saturdays and that most of these closed facilities are single postmaster offices in rural areas. Under a five-day scenario, there will be no rural carriers working on Saturdays. Also, APCs are generally sited in retail postal facilities that support high usage, not single postmaster offices. There will be a disparate impact on rural areas where customers rely on rural letter carriers for access and delivery. Additionally, the lack of access to and adoption rate of broadband and other technologies in rural areas differs from urban populations, which impacts these populations disproportionately.

Moreover, at the same time that the Postal Service is proposing to eliminate Saturday service, it is realigning its processing and distribution facilities throughout the country; continuing to adjust city carrier routes; and preparing to review over 2,000 retail facilities for closure. How will these realignment efforts operate in a five-day scenario; will these combined actions impact senders and recipients of mail disproportionately

and without discrimination; and what is the Postal Service's strategy to coordinate these different efforts?

Further, I believe that cutting Saturday delivery and processing diminishes the Postal Service's competitive advantage in the package delivery sector. In FY 2010, its Parcel Select volume increased by 18.5 percent and Parcel Return Service volume increased 44.4 percent. By leveraging its first- and last-mile network, the Postal Service successfully partners with private parcel carriers. The Commission found that currently, 21.2 percent of parcels are delivered on Saturday and that the elimination of Saturday delivery and processing would delay Package Services even more than First-Class Mail. Why forfeit the significant competitive advantage of six-day a week delivery in a 24/7 environment?

These are among a few of the unanswered questions related to the Postal Service's proposal to eliminate a day of delivery. While I understand that the public is afforded a broad choice on how to communicate with one another, making the U.S. Mail attractive and accessible should be the primary concern of an organization that provides a public service to its customers. The policies of title 39 and the universal service obligation require no less.

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Nanci E. Langley, Commissioner

## PARTICIPANTS AND COUNSEL

American Business Media (ABM)  
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Alliance of Nonprofit Mailers (ANM)  
Anthony W. Conway  
David M. Levy

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Associated Mail and Parcel Association (AMPA)\*  
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Association for Postal Commerce (PostCom)  
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National Association of Letter Carriers (NALC)  
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National Newspaper Association (NNA)  
Tonda F. Rush

National Postal Mail Handlers Union (NPMHU)  
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Pharmaceutical Care Management Association (PCMA)\*

Barbara Levy

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James Pierce Myers

Michael F. Scanlon

David B. Popkin (Popkin)\*

David B. Popkin

United States Postal Service (Postal Service)

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R. Andrew German

Kenneth N. Hollies

Jacob D. Howley

Eric P. Koetting

James M. Mecone

Brian M. Reimer

Michael T. Tidwell

Public Representative

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Kenneth E. Moeller

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Donna Hanbery

Thomas W. McLaughlin

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Valassis Direct Mail, Inc. (Valassis)

Vincent Giuliano  
Thomas W. McLaughlin

Valpak Dealers' Association, Inc., Valpak Direct Marketing Systems, Inc. (Valpak)  
John Haldi  
John S. Miles  
Jeremiah L. Morgan  
William J. Olson

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\* Limited Participant

## **Field Hearing Participants**

Las Vegas, Nevada Field Hearing, May 10, 2010  
Las Vegas City Hall Council Chambers

### Panel One Witnesses

Tom Underkoffler  
Director of Corporate Logistics, Medco Health Solutions

Doug Bowen  
Administrator, Central Graphics for Southwest Gas Corporation

Arnie Goldstein  
President, Postal Solutions, Inc.

### Panel Two Witnesses

Yul Melonson  
Las Vegas District Manager, United States Postal Service

Omar Gonzales  
Western Regional Coordinator, American Postal Workers Union

Rich Griffin  
Letter Carrier, Vice President Nevada State Association of Letter Carriers

### Audience Speakers

Mike Lindeman  
Arlene Smith  
Crystal Colvin  
Jerry Bevins  
Lorraine Hidges  
Tracy Griffin  
Homer Schmucker

Sacramento, California Field Hearing, May 12, 2010  
Sacramento City Hall Council Chambers

Panel One Witnesses

Sharif M. Sleiman  
Director, Global Procurement, eBay, Inc.

Grady Hesters  
CEO, Audio Editions

Joe Ridout  
Consumer Services Manager, Consumer Action

Panel Two Witnesses

Bill Hodson  
Sacramento District Manager, United States Postal Service

Jill Lavine  
Registrar of Voters, City of Sacramento

John Beaumont  
California State President, National Association of Letter Carriers

Audience Speakers

Jeanne Anne Landi  
Betty Williams  
John Metzger  
Dan Rackley  
Nikola Maccafeori  
Roger L. Blackwell  
Gilbert H. Wilkerson  
John Howell  
Ronald Jones  
Jeff Chester  
Robert A. Martinez  
Walt Butler  
Chuck Locke

Dallas, Texas Field Hearing, May 17, 2010  
Dallas City Hall Council Chambers

Panel One Witnesses

Phil Major  
Editor, Wise County Messenger

Roy Robinson  
Publisher and Vice President, Graham Newspapers

Bruce Sherbert  
Election Administrator, Dallas County

Suzanne Henderson  
County Clerk, Tarrant County

Panel Two Witnesses

Ellis Burgoyne  
Southwest Area Vice President, United States Postal Service

Shelley Hyde  
CEO, NDSI Direct Solutions

Carol Kliewer  
Director of Distributions and Logistics Order Fulfillment, Harland Clarke

Carol Bald  
Postal Operations Manager, Strategic Fulfillment Group

## Audience Speakers

Harley Hitchcock  
Keith Judkins  
Roe Fox  
Mark Hendrickson  
Laurie Lawson  
Lucinda Staff  
Ed Warren  
Micky Morris  
Shawn Boyd  
Andy Alvarado  
Dana Warren  
Billy Williams

Memphis, Tennessee Field Hearing, May 19, 2010  
Memphis City Hall Council Chambers

Panel One Witnesses

Linda Welch  
Southeast Area Vice President, United States Postal Service

Cheryl Chapman  
Envelope Paper Products Manager, International Paper Company

Joseph Adams  
Publisher, The Lebanon Democrat

William Graham, Jr.  
Member, National Star Route Contractor Association

Panel Two Witnesses

Shri Green  
National Association of Postmasters Area Vice President for Cotton Belt Area

Mike Morris  
Assistant Clerk Director, American Postal Workers Union

Earlice Taylor  
Member, Glenview Development Corporation

Hazel Burks  
Member, Bluebird Estates Neighborhood Association

Lynn Strickland  
Member, Colonial Acres Neighborhood Association

## Audience Speakers

Chuck Tice  
Warren Cole  
Thomas Keys  
Cora Haywood

Chicago, Illinois Field Hearing, June 21, 2010  
Chicago City Hall

Congressman Danny K. Davis  
7th District of Illinois

Panel One Witnesses

John Seebeck  
Direct Marketing Business Director, Crate & Barrel

Ken Czarnecki  
Senior Vice President, Caremark Mail Pharmacies

Gloria Tyson  
Chicago District Manager, United States Postal Service

Panel Two Witnesses

Michael Winn  
R.R. Donnelley

Lucien "Bud" Wood  
Owner and President, Murray McMurray Hatchery

Steve Colella  
Vice President, Calmark, Inc.

Panel Three Witnesses

Cameron Bellamy  
President, Grayhair Software, Inc.

Chris Huckle  
Publisher, Cadillac News

Jim Kitzmiller  
Executive Director, Associated Mail and Parcel Centers

Audience Speakers

Mack Julion, Sr.  
Ken Christy  
Steve Bahnsen  
Kenny Labbe  
Laurie Poindexter  
Rob Whitehead

Rapid City, South Dakota Field Hearing, June 23, 2010  
The Journey Museum, Rapid City

Panel One Witnesses

Mark Schreiner  
Owner, Print Market

Mury Salls  
Senior Vice President, DST Mailing Services, President Major Mailers Association

Panel Two Witnesses

Clem Felchle  
Dakotas District Manager, United States Postal Service

Robert Tolman  
South Dakota Legislative Chair, National Association of Postal Supervisors

Gary Evensen  
Rural Carrier, United States Postal Service

Written Statements from Unavailable Witnesses

Ivan Sorbel  
Executive Director of Pine Ridge Area Chamber of Commerce

Renee Reed  
Postmaster, Meadow South Dakota

## Audience Speakers

Robert Sass  
Scott Engel  
Linda Morris  
James Wobig  
Patricia Pummel  
Doug Kasten  
Brad Duffy  
Brent Fjerestad  
Chris Baumgartner  
Mark Anderson

Buffalo, New York Field Hearing, June 28, 2010  
Buffalo City Hall Council Chambers

Panel One Witnesses

Neil Sexton  
President, Northern Safety Company

Bill McComb  
Vice President of Postal Operations, Netflix

J.B. Brown  
Manager, Rich Products Corp.

Kathleen Burns  
District Manager, Western New York, United States Postal Service

Panel Two Witnesses

Terry Suozzi  
Owner, Trinity Marketing

Richard Salanger  
Owner, Salanger Trucking

Joe Belluci  
Director of Sales and Marketing, Printing Industries Alliance

Michael J. Hogan  
Vice President, Information Packaging Corp.

Panel Three Witnesses

Tim Sullivan  
Postmaster, Fredonia New York

David Wilkin  
President, Local 309

Christopher Klink  
Legislative Chair, Sal Pace Memorial Branch 27

Panel Three Witnesses (continued)

Terry Miner  
Rural Letter Carrier, United States Postal Service

Audience Speakers

Russell Ward  
Robert McLenna  
Frank Resetarits  
Paul Dyson  
Christine Lubelski  
Daniel Toth  
Elissa Brown

## **Witnesses and Biographies**

### **Postal Service**

#### **Witness Samuel Pulcrano (USPS-T-1)**

Samuel M. Pulcrano is the Vice President of Sustainability for the United States Postal Service. He has held this position since its inception in May of 2008. Witness Pulcrano is responsible for unifying the Postal Service's sustainability efforts across the Postal Service, including functions of energy, fuel, and environmental activities into a comprehensive strategic plan. Witness Pulcrano joined the Postal Service in 1975.

#### **Witness Joseph Corbett (USPS-T-2)**

Joseph Corbett is the Executive Vice President and Chief Financial Officer (CFO) of the United States Postal Service. He is responsible for managing Postal Service finances and reporting to and advising senior management and the Board of Governors on the Postal Service's financial condition and options. Witness Corbett joined the Postal Service as CFO in February of 2009. Witness Corbett has over 25 years experience in finance, treasury, and accounting sectors.

#### **Witness Dean J. Granholm (USPS-T-3)**

Dean J. Granholm is the Vice President of Delivery and Post Office Operations for the Postal Service. He has held this position since October of 2009. In this position, witness Granholm is responsible for developing and coordinating policy and strategies for all delivery and customer services operations. Witness Granholm joined the Postal Service in 1982.

#### **Witness Frank Neri (USPS-T-4)**

Frank Neri is the Manager of Processing Operations in the Network Operations group at the United States Postal Service. In this position, witness Neri is responsible for the development and administration of policy and program oversight for mail processing operations at certain processing and distribution centers. Specifically, the Network Operations group works on issues related to mail processing, equipment deployment, labor negotiations, facilities, transport and delivery. Witness Neri joined the Postal Service in 1984.

Witness Luke T. Grossmann (USPS-T-5)

Luke T. Grossmann is the Manager of Network Analytics and is currently on assignment to the Logistics group at the United States Postal Service. Witness Grossmann's office is responsible for network design, planning, and modeling. He joined the Postal Service in 2005.

Witness Michael D. Bradley (USPS-T-6)

Michael D. Bradley is a Professor of Economics at George Washington University. He is widely published in economic theory and econometrics, and postal economics is one of his major areas of research. Dr. Bradley has a Ph.D. in economics from the University of North Carolina.

Witness Jeffrey Colvin (USPS-T-7)

Jeff Colvin is the manager of Cost Attribution in the Finance Department at the United States Postal Service. Witness Colvin has held that position since 1997. Witness Colvin joined the Postal Service in 1988 as an economist in Cost Attribution.

Witness Rebecca P. Elmore-Yalch (USPS-T-8)

Rebecca P. Elmore-Yalch is a Senior Vice President at Opinion Research Corporation (ORC). Witness Elmore-Yalch's primary responsibilities include management and oversight of the Public Services vertical, including local, regional, state, federal government, and quasi-governmental agencies. Witness Elmore-Yalch has been with ORC since 2007 and has more than 25 years of marketing research and strategic planning expertise.

Witness Gregory M. Whiteman (USPS-T-9)

Gregory M. Whiteman is the manager of Market Search for the United States Postal Service. Witness Whiteman became manager of Industry Management at the Postal Service in 1997.

Witness Thomas G. Day (USPS-T-10)

Thomas G. Day is the Senior Vice President of Intelligent Mail and Address Quality for the United States Postal Service, a position he has held since 2007. Witness Day is responsible for Intelligent Mail planning and standards, Intelligent Mail implementation, and address management. Witness Day joined the Postal Service in 1984, and has held numerous executive level positions.

Witness Stephen M. Kearney (USPS-T-11)

Stephen M. Kearney is the Senior Vice President of Customer Relations at the United States Postal Service. He has held that position since July of 2008. Witness Kearney is a member of the Executive Committee, reporting directly to the Postmaster General, and leads efforts of Consumer Affairs, Corporate Communications, Customer and Industry Marketing, and Pricing. Witness Kearney joined the Postal Service in 1980.

Witness Peter Boatwright (USPS-RT-1)

Peter Boatwright is an Associate Professor of Marketing in the Tepper School of Business at Carnegie Mellon University. He has been a faculty member since 1997. Dr. Boatwright holds a Ph.D. from the University of Chicago's Booth School of Business. Witness Boatwright is widely published in the fields of product development, consumer response models, and Bayesian econometric modeling.

Witness Alan Moore (USPS-RT-2)

Alan S. Moore is the Manager of Labor Relations, Policy and Programs, for the United States Postal Service. His office is responsible for negotiating and administering collective bargaining agreements with the National Association of Letter Carriers, AFL-CIO. Witness Moore is also responsible for national oversight of postal labor relations policies and programs. He joined the Postal Service in 1978.

Witness Melissa Starr (USPS-RT-3)

Melissa Star is a Senior Project Executive in IBM's Global Services Division in the Business Analytics and Optimization practice. Witness Starr is responsible for directing IBM's projects in the area of postal transit-time performance measurement, and has worked in that role for more than 15 years.

Witness Samuel Pulcrano (USPS-RT-4)

(See USPS-T-1)

## **National Association of Letter Carriers**

Witness Fredric V. Rolando (NALC-T-1)

Fredric V. Rolando is the President of the National Association of Letter Carriers, AFL-CIO, serving as the collective bargaining representative of approximately 200,000 city letter carriers. He has held that position since 2009. Witness Rolando joined the Postal Service in 1978 as a letter carrier.

Witness William H. Young (NALC-T-2)

William H. Young is the former President of the National Association of Letter Carriers, AFL-CIO, having served from 2002 to 2009.

Witness Stephen DeMatteo (NALC-T-3)

Stephen DeMatteo is a Research Analyst for the National Association of Letter Carriers, a position he has held since June of 2008. Witness DeMatteo holds a Bachelor of Science degree from Georgetown University.

Witness Michael A. Crew (NALC-T-4)

Michael A. Crew is the Director of the Center for Research in Regulated Industries and a Professor of Regulatory Economics at Rutgers University. He has taught economics at Rutgers University since 1977, and previously taught at several other universities. Dr. Crew holds a Ph.D. in economics from the University of Bradford, earned in 1972. Witness Crew has made postal economics and regulatory economics principal research fields. Witness Crew has also conducted consulting in economics costing and regulatory economics for numerous government agencies and organizations, including the Postal Service.

Witness Michael J. Riley (NALC-T-5)

Michael J. Riley is a professor in the Business and Executive Programs of the Graduate School of Management and Technology at the University of Maryland University College. Witness Riley was the Chief Financial Officer (CFO) and Senior Vice President at the United States Postal Service from 1993 to 1998.

## **National Newspaper Association**

Witness Max Heath (NNA-T-1)

Max Heath is the postal committee chairman of the National Newspaper Association, and has been so for 27 years. Witness Heath is a postal consultant for NNA and its members. He previously served as Vice President and Executive Director of Landmark Community Newspapers, Inc. for 21 years.

Witness Al Cross (NNA-T-2)

Al Cross is director of the Institute for Rural Journalism and Community issues based at the University of Kentucky. Witness Cross is also an assistant professor at the University of Kentucky's School of Journalism and Telecommunications. He has held these positions since August of 2004. He has also served as a weekly newspaper editor and manager, and writer.

## **Public Representatives**

### Witness Kate Brown (PR-T-1)

Kate Brown is the elected Oregon Secretary of State, and has held the position since election in 2008. Witness Brown oversees state elections, and the Audits, Archives, and Corporation divisions. She previously spent 17 years as a member of the Oregon Legislature. Witness Brown holds a J.D. from the Northwestern School of Law at Lewis and Clark College.

### Witness Edward Luttrell (PR-T-2)

Edward Luttrell is the President, National Grange of the Order of the Patrons of Husbandry, the nation's oldest general farm and rural public interest organization. The Grange represents nearly 200,000 individual Grange members.

## Field Hearing Testimony

The Commission held field hearings at seven locations throughout the country to garner feedback from a cross-section of the mailing community and postal stakeholders outside of the Washington D.C. area.<sup>1</sup> The hearings were held: May 10, 2010 in Las Vegas, Nevada at the Las Vegas City Hall; May 12, 2010 in Sacramento, California at the Sacramento City Hall; May 17, 2010 in Dallas, Texas at the Dallas City Hall; May 19, 2010 in Memphis, Tennessee at the Memphis City Hall; June 21, 2010 in Chicago, Illinois at the Chicago City Hall; June 23, 2010 in Rapid City, South Dakota at the Journey Museum; and June 28, 2010 in Buffalo, New York, at the Buffalo City Hall. The Commission also heard remarks from Senator Murkowski of Alaska and Senator Akaka of Hawaii.<sup>2</sup>

The Commissioners found the field hearings helpful in eliciting testimony from local Postal Service customers who may directly feel the impact of the Postal Service's plan to eliminate Saturday street delivery and other related service changes. The insight the participants provided aided the Commission in its development of the perspective on the record by bringing into focus the concerns of local stakeholders.<sup>3</sup>

All of the field hearings followed a similar format where panels of witnesses appeared before the Commission and proffered testimony. Each panel of witnesses was questioned by the Commissioners after all members of the panel had given initial testimony. Each of the hearings concluded with a comment period open to the audience. The hearing locations and panelists represent a geographically diverse

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<sup>1</sup> Transcripts memorializing each field hearing appear on the Commission's website at [www.prc.gov](http://www.prc.gov).

<sup>2</sup> See Tr. 10/2813 and Senator Daniel Akaka, Prepared Remarks: The Impact of Eliminating Saturday Delivery Service on the People of Hawai'i, October 4, 2010.

<sup>3</sup> The Commission would like to thank the many local officials at each hearing location for facilitating and making possible these informative events.

viewpoint, from the small business or family farm mailers in rural America to Fortune 500 companies in large cities. The panelists and public speakers appearing at each field hearing are identified in Appendix B.

1. Las Vegas, Nevada, May 10, 2010

Tom Underkoffler, Director of Corporate Logistics at Medco Health Solutions, a mail fulfillment pharmaceutical organization, testified that the Postal Service delivers 90 percent of Medco's prescriptions. He emphasizes that Medco's clients depend upon the timely delivery of prescriptions six days per week, and that elimination of Saturday delivery would negatively impact 50 percent of Medco's customers. Mr. Underkoffler notes that unless the Postal Service increases efficiency or service coupled with the plan to reduce delivery days, the customer will inevitably experience delays. He also notes that the spirit in which delivery standards were developed and adopted never included the consideration of loss of a delivery day. Commissioner Acton asked Mr. Underkoffler how many of Medco's prescriptions were delivered on Saturday. Mr. Underkoffler responded that less than 50 percent of the prescriptions are delivered on Saturday, but that Saturday is the best day for delivery of parcels since the customer is home.

Doug Bowen, the Administrator of Central Graphics for Southwest Gas Corporation also testified. Mr. Bowen stated that although he did not anticipate a major change to Southwest Gas Corporation's business process, the full impact of loss of Saturday delivery could not be measured before it occurs. Mr. Bowen also noted that the majority of customers still prefer to receive bills and send remittances through the mail. He also added that the day of the week eliminated would not make much of a difference to his company.

Arnie Goldstein from Postal Solutions, Inc., a commercial mail receiving agency (CMRA), testified that the savings from five-day delivery appear necessary, but that

companies like his should be included in the delivery plans to preclude unfair competition. He explains that if the Postal Service can offer box delivery six days a week, but his company can only offer five-day delivery, that leaves the Postal Service with an unfair competitive advantage. Mr. Goldstein states that additional costs for delivery to a CMRA are not prohibitive because a CMRA can consolidate up to 900 addresses into a single carrier stop. Mr. Goldstein added that he would like to see the Postal Service increase its revenue-generating efforts, such as expanding the authorized shipper program. Mr. Goldstein sees resale of Postal Service products as a growing market.

Yul Melonson, District Manager of Las Vegas at the Postal Service, described the conditions in the Las Vegas area. Mr. Melonson noted the five-year declines of volume and revenue were 25 percent and 17 percent, respectively. Mr. Melonson noted that over the same period, delivery points increased by 13 percent. He described the alternative access available to postal consumers such as “express” locations in grocery stores and automated postal centers.

Omar Gonzales, the Western Regional Coordinator for APWU testified that the Postal Service’s loss estimates were overstated. Mr. Gonzales stated that customers would lack a viable option for mail collection due to the elimination of Saturday mail pickup from street addresses. Mr. Gonzales noted that the removal of blue collection boxes exacerbates the problem. Customers would be deprived of the two main options for depositing mail into the mailstream.

Rich Griffin, a letter carrier and Vice President of the Nevada State Association of Letter Carriers, testified that the nature of business in Las Vegas requires at least a six-day delivery schedule to serve it. Mr. Griffin expresses concern that “service” is being lost within the Postal Service. He notes that Postmaster General Potter stated that if the overpayment of retiree benefits were returned, the loss of Saturday delivery

would not occur. Mr. Griffin also emphasizes that Saturdays are the days when carriers are able to meet and interact with their customers.

Several concerned citizens and Postal Service employees or retirees attended the hearing and offered their opinions on the Postal Service's plan to end Saturday delivery. Those citizens, employees, and retirees all spoke to the perils of the Postal Service eliminating Saturday mail delivery.

2. Sacramento, California, May 12, 2010

Sharif Sleiman, Director of Global Procurement for eBay Inc. (eBay), testified that the Postal Service delivers 80 percent of eBay's volume, and that one quarter of the Postal Service's parcel volume is due to eBay. Mr. Sleiman stated that if forced to choose between an exigent rate increase or five-day delivery, he would opt for five-day delivery. Mr. Sleiman acknowledged that he was in discussions with UPS and FedEx to accommodate Saturday delivery should the Postal Service vacate the market. Mr. Sleiman also encouraged the Commission to work with the Postal Service on exploring new lines of business.

Grady Hesters, Chief Executive of Audio Partners Inc., testified that his print catalogue business is not in favor of five-day delivery, but could support it if it meant that there would not be an exigent rate increase. Mr. Hesters stated that mail is the lifeline for his company, and that 50-80 percent of his revenue can be matched back to the print catalog. He testified that his catalog projects two to three percent annual increases when budgeting for postal rate changes.

Joe Ridout, the Consumer Service Manager for the nonprofit Consumer Action, testified that there are consumer issues surrounding the possible end of Saturday delivery. Mr. Ridout testified that in many cases, online commerce directly depends on strong universal postal service. He also stated that reducing service could harm citizens who rely on the Postal Service for delivery of election mail in places like

Oregon, or inconvenience consumers by delaying payments due to the increase in delivery time. Finally, Mr. Ridout expressed that the Postal Service is worthy of appropriation from Congress if there is sufficient need to maintain Saturday delivery.

Bill Hodson, the Sacramento District Manager for the Postal Service, testified that volume decline in his region over the past five years is around 17 percent, while delivery points have grown 8 percent. However, Mr. Hodson did indicate that there was a three percent increase in gross revenue, although there was a four percent decrease in revenue per delivery point over the same period. Mr. Hodson encouraged stakeholders to focus on the fact that the Postal Service's plan is to eliminate one day of delivery, not the entire delivery service.

Jill Lavine, Registrar of Voters for the City of Sacramento, testified that in Sacramento 43 percent of voters receive their ballots by mail. Ms. Lavine emphasized that if a day had to be eliminated, Saturday would be the best day as far as election mail is concerned. However, Ms. Lavine reported that even with Saturday delivery, Arizona reported delayed ballot delivery and incurred significant expenses to use expedited delivery. As chair of a task force working with the Postal Service to overcome challenges and improve processing of election mail, Ms. Lavine suggested facing identification marks for ballots that would allow Saturday delivery, but said that suggestion was rejected by the Postal Service.

John Beaumont, the California State President of NALC testified that cutting 17 percent of the delivery service for an uncertain level of savings does not make sense and will speed diversion to electronic alternatives. Mr. Beaumont stated that the Postal Service's plan is more likely to cost it millions of customers than to provide it with long-term financial health. Mr. Beaumont expressed concern that elimination of Saturday delivery would cause great disruption since it is the heaviest day for packages and targeted shipments like fruits and vegetables.

Several concerned citizens, business owners, and Postal Service employees and contractors offered their views on the Postal Service's plan at the conclusion of the hearing. The majority of those individuals expressed concern about the Postal Service's proposed service changes, and encouraged the Commission to take a critical eye to the proposal.

3. Dallas, Texas, May 17, 2010

Phil Major, owner of the Wise County Messenger newspaper, emphasized the importance of Saturday delivery to give news of Friday night youth sports scores in his community. He indicated that he was disappointed to hear of the Postal Service's plan to curtail Saturday delivery because there exists unique material on weekends that could not be replicated during the week. Mr. Major stated that his newspaper had two editions: one published on Wednesday and one on Saturday.

Roy Robinson of Graham Newspapers and Chairman of the Board of the Texas Press Association, testified that without the Postal Service offering Saturday delivery, he would establish his own carrier to deliver newspapers. Mr. Robinson indicated that once such a carrier service was established, he would probably abandon using the Postal Service altogether for delivery because it would be economical to use that alternative delivery service on other days. Chairman Goldway questioned Mr. Robinson concerning the postal products that the Texas Press Association uses.

Bruce Sherbert, the Dallas County Election Administrator, expressed his concern about mail ballots and voter registrations arriving in a timely fashion should the Postal Service move forward with its plan to curtail Saturday delivery. Specifically, Mr. Sherbert raised concerns about outside county voters having their votes counted if Saturday delivery is eliminated. Mr. Sherbert indicated, however, that if the Postal Service were to adopt workarounds, such as Saturday delivery of election mail, his organization could cope with five-day delivery.

Suzanne Henderson, County Clerk for Tarrant County and representative of the National Association of County Recorders stated that she could adjust workflow and have no negative impact if post office box delivery and Saturday post office hours continue as planned. Ms. Henderson did state, however, that voter education would be required, and that Texas municipal elections are currently held on Saturday.

Ellis Burgoyne, Postal Service Southwest Area Vice President, testified that the Dallas area volume decreased 10 percent over five years ending in 2010. He also testified that the Southwest Area is the largest land area with the fewest pieces per delivery point in the Postal Service's network. Chairman Goldway questioned Mr. Burgoyne concerning the use of alternative access in the southwest, including blue collection boxes and contract postal units.

Shelley Hyde, the Chief Executive Officer of NDSI Direct Solutions, testified that she supports the Postal Service's proposal to eliminate Saturday delivery because she wants to minimize postal rate increases over inflation without compromising universal service. However, Ms. Hyde stated that using words like "business days" to mask the change in service does not help customers.

Carol Kliewer, Director of Distributions and Logistics Order Fulfillment at Harland Clarke, testified that the elimination of Saturday delivery is a step toward creating a viable Postal Service, and that she does not oppose elimination of Saturday delivery. Ms. Kliewer, however, stated that cost reduction efforts, including the move from six-day to five-day delivery, would obviate the need for a rate increase. She clarified that she would not support a combination of a substantial rate increase and a reduction from six-day to five-day delivery. Mr. Kliewer agreed that a reduction in service is the equivalent of a rate increase.

Carol Bald, the Postal Operations Manager at Strategic Fulfillment Group, stated that the Postal Service needs dramatic changes to stay in business, and those changes should not include raising prices. Ms. Bald supports reducing delivery days from six to

five, but said that the Postal Service should look elsewhere to eliminate costs to avoid further reductions in delivery days. Ms. Bald testified that businesses will adjust to five-day delivery by adjusting marketing schedules. She allowed that some time sensitive publications may be opposed to the elimination.

Several citizen participants, including Postal Service employees, retirees, contractors, a social worker, and business owners who attended the hearing voiced their opinions on the Postal Service's plan to end Saturday delivery. Most of those citizen participants expressed skepticism about the Postal Service's plan.

4. Memphis, Tennessee, May 19, 2010

Linda Welch, the Postal Service Southeast Area Vice President testified about the notice and communication the Postal Service plans to give customers, channeled through local postal officials.

Cheryl Chapman, Manager of Envelope Paper Products at International Paper Company questioned whether the Postal Service is right to charge more for less service when it maintains a monopoly. She encouraged the Postal Service to seek a balanced solution where all stakeholders may share the burden. She stated that she was adamantly opposed to the move from six-day to five-day delivery, and expressed skepticism about the Postal Service's projected savings since the utility and value of the mail will decrease in reduced delivery environment.

Joseph Adams, Publisher of the Lebanon Democrat, testified that if the Postal Service moves away from Saturday delivery, he would move his newspapers and saturation mail out of the mailstream.

William Graham Jr., a member of The National Star Route Mail Contractors Association, expressed his concern of the impact the Postal Service's proposal may have on delivery service contractors. Mr. Graham stated that he believes service would be adequate with five-day delivery, and customers will adapt over time. Mr. Graham

raised the issue of the disparate effect rural customers may experience under the Postal Service's plan.

Shri Green, the Area Vice President for the Cotton Belt Area of National Association of Postal Supervisors, stated that a move from six to five-day delivery would diminish the value of the mail. First, Ms. Green testified, Congressional fixes are needed to address the retiree health care benefits and overpayment to the CSRS fund. Ms. Green also predicted that the savings realized from eliminating a day of delivery would not be as great as estimated. Similarly, Mike Morris, Assistant Clerk Director for APWU in Birmingham, AL, testified that Congressional action is needed to fix funding and overpayment issues. He testified that without the Postal Service delivering Saturday, private couriers would fill the void. He also raised the possibility that eliminating a delivery day would diminish the value of the mail.

Karlice Taylor, member of the Glenview Development Corporation testified that a reduction in service of one day would be acceptable if it means that privatization is not being considered. Similarly, Lynn Strickland, member of the Colonial Acres Neighborhood Association, testified that elimination of Saturday delivery would not have an adverse impact on her personally.

Hazel Burks, member of the Bluebird Estates Neighborhood Association testified that reducing a day of service is only an acceptable way to reduce costs if it is done without a bailout and without having to lay off postal employees.

Citizen participants who attended the hearing expressed their concerns regarding the elimination of Saturday delivery, and the value of Saturday mail service in general.

#### 5. Chicago, Illinois, June 21, 2010

Congressman Danny Davis (IL) appeared at the Chicago field hearing and offered encouragement and advice to the Commission concerning the advisory opinion. Congressman Davis opined that the "notion of five-day delivery [is] in the hearts and

minds of the people.” The Commission appreciates Congressman Davis’s interest and encouragement.

John Seeback, Director of Direct Marketing Business at Crate&Barrel testified that any change in service directly impacts Crate&Barrel’s customers and ability to grow its business. Mr. Seeback stated that Crate&Barrel does not favor the elimination of Saturday delivery, but would prefer such a reduction in service compared to an exigent rate increase.

Ken Czarnecki, Senior Vice President at CVS Caremark, testified that the elimination of Saturday delivery would keep vital medications from patients’ hands. He also stated that the plan would impede the growth of the mail order industry as a whole. Mr. Czarnecki testified that 20 percent of packages arrive on Saturday, and that having a consistent reliable Postal Service six days per week is critical for patients’ health. Mr. Czarnecki expounded that if the Postal Service moves forward with this proposal, patients would not enjoy the same level of savings that mail order pharmacies currently provide because pharmacies would require private courier use. Such private courier use would cost CVS Caremark \$50 million per annum. Mr. Czarnecki stated that the healthcare system as a whole would be burdened by the cost of expedited delivery or patient noncompliance with medications.

Gloria Tyson, the Chicago District Manager for the Postal Service, testified that her district saw a two percent volume increase during the last five years coupled with a three percent increase in the number of delivery points. Ms. Tyson characterized conversations she had with customers concerning five-day delivery as discussing how to make the best of a bad situation. Ms. Tyson indicated that local area managers would be the responsible officials informing customers of the change. She responded to questioning that she had not been consulted concerning input on the Postal Service’s plan.

Michael Winn of R.R. Donnelley testified that the Postal Service's plan may mean curtailing processing operations and seriously compromising service to customers. Mr. Winn stated that in any new delivery environment, the Postal Service must maintain its current mail processing schedule, or there would be upheaval in printing dates that could have a ripple effect from largest to smallest mailers. If processing were reduced to five-days per week, Mr. Winn stated, matching R.R. Donnelley's seven day per week operation to the limited schedule would involve cancelled drops and inconvenience for mailers. Mr. Winn emphasized that the Postal Service had not been responsive to R.R. Donnelley concerning the mail processing implications of the plan.

Lucien "Bud" Wood, owner of Murray McMurray Hatchery, testified on the impact the Postal Service's plan could have on his small business. Mr. Wood stated that significant restrictions currently exist on how live poultry must be shipped, and that it would be devastating to lose more service. Mr. Wood stated that he could only support a move to five-day delivery if he has a shipping window Saturday through Tuesday and guaranteed 72 hour delivery.

Steve Colella, Vice President of Calmark, Inc., testified that Calmark could adjust to five-day delivery when it happens, but that stable rates were of greater concern. Mr. Colella expressed concern, however, that eliminating Saturday delivery will harm the Postal Service and its customers, and only accelerate the rate of electronic diversion. Mr. Colella testified that the reduction to five-day delivery is not something Calmark wants to happen or believes is necessary.

Cameron Bellamy, President of GrayHair Software, Inc., stated that the Postal Service's proposal is deficient. He questioned the Postal Service's ability to combine 30 percent of its mail delivery volume from Monday with 17 percent of its delivery volume from Saturday. He emphasized that elapsed time, *i.e.*, calendar days, is the only measure that make sense for service standards. Mr. Bellamy stated that

customers require consistency even more than they require frequency, but that combining too much volume on Mondays will erode consistent service.

Chris Huckle, publisher of Cadillac News, testified that he is dismayed that the element most likely to force a change in his business plan comes from a distribution vendor, not a change in the market or his readers. Mr. Huckle stated that there would be two logical consequences to the end of Saturday delivery—that he would be forced to set up private delivery service and most likely use that private delivery service, and abandon U.S. Mail altogether. He stated that the Postal Service appears to be taking the path of least resistance by cutting service rather than looking more closely at cost controls. Mr. Huckle also questioned whether the mailbox monopoly would be relaxed to allow newspapers to deliver on Saturdays.

Jim Kitzmiller, Executive Director of Associated Mail Parcel Centers, testified on behalf of 3,500 CMRA's. Mr. Kitzmiller stated that CMRAs could be used to ameliorate the adverse impact of the loss of Saturday delivery because they combine hundreds of addresses into one stop. He emphasized that CMRAs would also need delivery on Saturdays—like post office boxes—to avoid the Postal Service from having a competitive advantage.

Several concerned citizens and Postal Service employees who attended the hearing voiced opposition to the Postal Service's plan to cut Saturday delivery.

6. Rapid City, South Dakota, June 23, 2010

Mark Shreiner, owner of Print Mark-et in Rapid City, South Dakota, testified that the proposed change from six-day to five-day delivery will require planning on the part of customers, but is not a substantial change. However, Mr. Shreiner stated that he frequently experiences delays when mail leaves the local area, and he expects that those delays would increase under a five-day delivery operation. As a result, he said,

the transition to five-day delivery will create a push against the current service standards.

Mury Salls, Senior Vice President for DST Mailing Services and President of the Major Mailers Association (MMA), testified that the planned reduction in service from six-day to five-day will lessen the value of the Postal Service and accelerate electronic diversion. Mr. Salls stated that the elimination of Saturday delivery will have cost consequences for mailers, and instead of the reduction the Postal Service should make more of an effort to explore cost savings and revenue generation. Mr. Salls conceded, however, that MMA members would opt for the elimination of Saturday delivery over a price increase.

Clem Felchle, the Dakotas District Manager at the Postal Service, testified that the district experienced a 20 percent decrease in volume and a seven percent increase in delivery points over the five years ending in quarter one of FY 2010. Mr. Felche testified that approximately a thousand customers receive delivery three times per week, and about four receive mail just once per week. He stated that customers living in rural areas adapt to the lower level of service available.

Robert Tolman, the South Dakota Legislative Chair for the National Association of Postal Supervisors, urged the Commission to consider five-day delivery as a last resort to deal with the financial difficulties facing the service. He offered an example of service degradation that all First-Class Mail entered on Wednesday with a three-day delivery standard would not be delivered until the following Monday. He stated that he believes the degradation in service will erode the value of the mail and create less utility in the postal system as a whole. Mr. Tolman emphasized that cutting a day of delivery would be felt directly by the public as opposed to other cost saving initiatives like processing consolidations. Mr. Tolman stated that 20 to 25 percent of volume nationwide would be affected by the change. Mr. Tolman emphasized that he does not

believe five-day delivery is consistent with the Postal Service's obligation to provide prompt, reliable, and efficient postal services to all areas and all communities.

Gary Evensen, a rural carrier in Rapid City, South Dakota, stated that rural postal customers rely on Saturday delivery as a day a person is present at home to sign for necessary goods. He emphasized that some rural residents would have to drive 30-50 miles to conduct business at a post office on a Saturday, and some post offices are only served by a rural carrier. Mr. Evensen encouraged the Postal Service not to close one day a week, but rather to find other ways to reduce expenditures and increase service.

Concerned members of the community, including the head of a local chamber of commerce, Postal Service employees and retirees, mailers, and other concerned citizens voiced their concerns about the Postal Service's plan at the conclusion of the hearing.

7. Buffalo, New York, June 28, 2010

Neil Sexton, President of Northern Safety Co., Inc., testified that the elimination of Saturday delivery and collection would have little effect on his business-to-business multichannel marketing business. Mr. Sexton urged the Commission to endorse the elimination of Saturday delivery as a part of a comprehensive effort to reduce and control costs.

Bill McComb, Vice President of Postal Operations at Netflix, stated that the Netflix business model depends upon high quality service from the Postal Service. However, Mr. McComb conceded that a well-functioning Postal Service over the long haul that meets changing consumer demand is more important than maintaining delivery frequency. He stressed however, that by itself six-day to five-day delivery does not sit well, but that the Postal Service must make such changes as part of an overall plan for solvency.

J.B. Brown, Manager at Rich Products Corporation, testified that his business would not encounter difficulty in a five-day environment. He stated, however, that smaller operations (restaurants) that use his business for frozen foods still depend on the mail to conduct business.

Kathleen Burns, the District Manager for Western New York at the Postal Service, stated that her district experienced a 23 percent decline in volume and a two percent increase in delivery points over the five years ending at the start of FY 2010. Ms. Burns testified that she believes five-day delivery is “inevitable.”

Terry Suozzi, Owner of Trinity Marketing, testified that Trinity Marketing supports anything the Postal Service can do to remain viable in the future, including moving to five-day delivery. Mr. Suozzi commented, however, that the gap between Friday and Monday may appear long in the eyes of mailers. He emphasized that the goal, however, is a viable Postal Service and five-day delivery must be looked at along with 8-10 other issues to ensure a viable Postal Service.

Richard Salanger, owner of Salanger Trucking, testified that the current Postal Service plan, with delivery to post offices and post office boxes, is well constructed. He stated that he has heard concerns from other trucking contractors that there will be significant workload increases after holidays. Mr. Salanger stated that if the Postal Service is going to move from six-day to five-day delivery, that 2011 is the time to do it.

Joe Belluci, Director of Sales and Marketing for the Printing Industries Alliance, testified that he has concerns about the proposal, but would support it if it allowed for Saturday drop of commercial bulk mailings and also included resizing operations to meet demand. Mr. Belluci elaborated, stating that a move to five-day delivery should be coupled with trimming the Postal Service’s workforce and postage decreases. However, Mr. Belluci stated that the Commission must also carefully consider the loss of volume resulting from the reduction in service, the effect on service standards, the effect on publishing deadlines, and the effect on financial services companies.

Mr. Belluci stated that the issue comes down to parties making a sacrifice for the good of the postal industry.

Michael Hogan, Vice President of Information Packaging Corp., emphasized that if a move to five-day delivery occurs, it should occur as part of a much broader attempt to change the Postal Service's business model. Mr. Hogan testified that a pilot program, or at least a more in depth survey, should be completed to determine if there should be a move to five-day delivery.

Tim Sullivan, Postmaster of Fredonia, New York, testified that he understands how senior management could conclude that operational and service changes are necessary components of a larger plan for long-term viability and stability of the Postal Service. He also stated that customers seem to understand the difficult choices and challenges that face the Postal Service, but thinks that information and education could go a long way to assist customers in overcoming obstacles.

David Wilkin, local union president, stated that five-day delivery will lead to the demise of the Postal Service, and that customers will turn to other means of delivery for the sixth day. Similarly, Christopher Klink, legislative chair of a local union branch, offered his view that the financial situation has been precipitated by unreasonable Congressional mandates. Mr. Klink stated that until Congress acts on the issues of retiree health benefits prefunding and the overpayment to the government for retirement benefits, it is premature to make a move to five-day delivery.

Terry Miner, rural carrier for the Postal Service, stated that the community he serves is predominately Mennonite/Amish and that those communities rely completely on the Postal Service for communication needs. Mr. Miner alluded to the job losses that could occur in a five-day environment, and stated that in this economy such job losses are not tolerable. Mr. Miner offered that customers seem to be willing to pay more for First-Class Mail, and that perhaps the Postal Service should consider a rate increase as an option.

Several local Postal Service employees and retirees in attendance voiced opposition to the Postal Service's plan.

### Congressional Testimony

U.S. Senators Lisa Murkowski (AK), Mark Begich (AK), Daniel K. Inouye (HI), and Daniel K. Akaka (HI), requested that the Commission hold field hearings in Alaska and Hawaii. Unfortunately, the Commission was unable to travel to those areas to receive testimony about the unique concerns of residents and businesses in non-contiguous areas regarding the Postal Service's proposed changes. Senator Murkowski of Alaska and Senator Akaka of Hawaii gave testimony concerning the unique concerns of Alaska and Hawaii.

Senator Murkowski attended the Commission's rebuttal hearing on September 16, 2010. Senator Murkowski described the geographical challenges Alaskans are forced to face, and how the Postal Service plays a role in solving those challenges. Tr. 10/2814-15.

Senator Murkowski stated that, as a simple matter, all classes of mail take longer to be delivered. *Id.* at 2815. The Senator explained that getting mail from Seattle to Alaska requires a longer flight than mail traveling from Washington, D.C. to Dallas, Texas. *Id.* Similarly, Senator Murkowski described the isolation of rural communities in Alaska due to the immense distances between urban areas. *Id.* at 2817.

As a result of this isolation in rural communities, Senator Murkowski testified that the loss of Saturday delivery is more than the loss of conveniences for Alaskans. The Senator explained that the Postal Service provides necessities and a lifeline to these communities. *Id.* at 2818.

Senator Murkowski disputed that the Postal Service's alternatives of post office box rental or Express Mail would adequately provide service in the wake of loss of Saturday delivery. *Id.* at 2819-2820. The Senator noted that the supply of post office boxes would not be adequate to service more than a small fraction of street addresses currently served by Saturday delivery. *Id.* at 2821. She added that in most cases post

office box rental would entail an added expense for a population under financial pressure. *Id.* at 2820-2821.

Overall, Senator Murkowski expressed concern that the elimination of Saturday delivery would lead to disintegration of the Postal Service and growth for its private competitors. *Id.* at 2823.

Senator Akaka of Hawaii submitted written remarks for the Commission's consideration.<sup>1</sup> Senator Akaka described the challenges residents of Hawaii face in mail delivery due to a combination of logistical, physical, and financial barriers. *Id.* at 1. In spite of these challenges, Senator Akaka explained that the Postal Service is integral to daily life for residents of Hawaii. *Id.* As examples, the Senator cited prescription drug delivery and vote-by mail as types of mail particularly sensitive to the Postal Service's proposed changes. *Id.*

Senator Akaka describes the cost effective service the Postal Service provides to residents of Hawaii on Saturday, and the significantly more expensive option of Express Mail that would be the only alternative if the Postal Service eliminated Saturday delivery because the Postal Service's competitors do not offer Saturday delivery within the state. *Id.* at 2. Senator Akaka also notes the significant loss of jobs the Postal Service's proposal could entail. *Id.*

Senator Akaka described the Postal Service's proposed alternatives to Saturday delivery, rental of a post office box, or Express Mail, as infeasible in Hawaii. *Id.* Senator Akaka described post office boxes as scarce and an added expense, while Express Mail is expensive and subject to cease if it loses money. *Id.*

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<sup>1</sup> Senator Daniel K. Akaka, Prepared Remarks: The Impact of Eliminating Saturday Delivery Service on the People of Hawai'i, October 4, 2010.

Senator Akaka encouraged the Commission to gather more information for a sound, independent analysis of the savings the Postal Service could achieve. *Id.* He asked that the Commission consider the impact on universal service, and questions if, at some point, reducing the days of delivery may violate the Postal Service's obligation to provide universal service. *Id.* Senator Akaka notes that a trade-off of 17 percent of delivery service for a projected 5 percent savings could further reduce customer demand for postal services. *Id.*