

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

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2012

DOCKET No. N2012-1

REQUEST OF THE UNITED STATES POSTAL SERVICE
FOR AN ADVISORY OPINION
ON CHANGES IN THE NATURE OF POSTAL SERVICES
(December 5, 2011)

In accordance with 39 U.S.C. § 3661, the United States Postal Service hereby requests that the Postal Regulatory Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to applicable policies of title 39, United States Code.

The Planned Service Changes Are Carefully Conceived And Justified

The Postal Service proposes to implement changes in the nature of service in conjunction with its plan to amend 39 C.F.R. Part 121 to revise the current service standards for First-Class Mail, Periodicals, Package Services and Standard Mail. The most significant revisions would eliminate the expectation of overnight service for significant portions of First-Class Mail and Periodicals. In addition, the two-day delivery range would be modified to include 3-digit ZIP Code origin-destination pairs that are currently overnight, and the three-day delivery range also would be expanded. These revisions would allow for a significant consolidation of the Postal Service's mail processing and transportation networks. This would result in an infrastructure that better matches current and projected mail volumes, with concomitant substantial cost

savings. The proposed service changes are described in the accompanying Direct Testimony of David Williams On Behalf of the United States Postal Service (USPS-T-1). Mr. Williams is the Vice President of Network Operations for the Postal Service.

The circumstances which compel this advisory opinion request are explained in the accompanying testimony of Stephen Masse, Vice President, Finance and Planning, for the Postal Service.¹ Additional testimonies explain the modeling performed to study potential network changes as well as delivery, mail processing, maintenance and transportation operational changes that are being planned.² Testimony also is provided that discusses potential commercial mailer impacts and labor issues relating to potential cost savings.³ Detailed estimates of the operational cost savings that could be achieved if the changes were in effect are also provided.⁴ Based upon quantitative and

¹ See Direct Testimony of Stephen Masse On Behalf of the United States Postal Service (USPS-T-2).

² See Direct Testimony of Emily Rosenberg On Behalf of the United States Postal Service (USPS-T-3); Direct Testimony of Frank Neri On Behalf of the United States Postal Service (USPS-T-4); Direct Testimony of Dominic Bratta On Behalf of the United States Postal Service (USPS-T-5); and Direct Testimony of Cheryl Martin On Behalf of the United States Postal Service (USPS-T-6).

³ See Direct Testimony of Pritha Mehra On Behalf of the United States Postal Service (USPS-T-7) and Direct Testimony of Kevin Rachel on Behalf of the United States Postal Service (USPS-T-8).

⁴ See Direct Testimony of Marc Smith On Behalf of the United States Postal Service (USPS-T-9) and Direct Testimony of Michael Bradley On Behalf of the United States Postal Service (USPS-T-10).

qualitative market research,⁵ the Postal Service estimates the potential revenue loss that could result from implementing these service changes.⁶

The service changes described in this request potentially affect every sender and recipient of mail served directly by the United States Postal Service, and are likely to affect most of them. Accordingly, the Direct Testimony of Susan LaChance On Behalf of the United States Postal Service (USPS-T-13) summarizes the tools and techniques that the Postal Service has employed and will continue to employ for communicating effectively vital information to customers in a timely fashion. This will maximize their ability to adjust mailing practices and delivery expectations before and after the service changes are implemented.

In recent years, the Postal Service has experienced steady and precipitous declines in mail volume, driven largely by accelerated diversion of First-Class Mail and other communications to electronic media, and exacerbated by the current economic recession. Since 2006, total mail volume has fallen by about 45 billion pieces, or almost 21 percent. In First-Class Mail, volume has declined even more significantly. After a First-Class Mail peak in 2001 at 104 billion pieces, it has since fallen by about 30 billion pieces, or 29 percent. The decline in single-piece First-Class Mail has been even more precipitous, falling 52 percent over the same time period. These volume decreases have resulted in significant revenue declines and more significant contribution losses.

⁵ Direct Testimony of Rebecca Elmore-Yalch On Behalf of the United States Postal Service (USPS-T-11).

⁶ Direct Testimony of Greg Whiteman On Behalf of the United States Postal Service (USPS-T-12).

The Postal Service's cumulative financial losses during the last three fiscal years were approximately \$17.4 billion. Fiscal year 2010⁷ resulted in a loss of \$8.5 billion alone, despite another year of aggressive cost cutting.

Unfortunately, the Postal Service does not expect First-Class Mail volume to reverse its decline in the foreseeable future. While an economic recovery could slow its rate of decline, the growing use of the Internet and other forms of electronic communication will likely ensure that the class continues to lose volume each year. And, given that the Postal Service generally cannot increase First-Class Mail prices beyond the Consumer Price Index cap, price increases cannot remedy the contribution loss resulting from the First-Class Mail volume loss.

Based on an analysis of fiscal year 2010 costs, the Postal Service has determined that a combination of service changes centered on eliminating overnight service for significant portions of First-Class Mail and Periodicals could generate a net improvement to postal finances of approximately \$2.1 billion on an annual basis. While this would not cure all of the Postal Service's long-term financial ills, this constitutes an opportunity for such a substantial improvement in financial stability that the Board of Governors of the United States Postal Service has directed postal management to pursue expeditious implementation of the service and operational changes to hasten the time when full savings from the initiative can be realized.

⁷ The Request and its supporting materials largely rely upon fiscal year 2010 and earlier data. Final audited financial results for FY2011 were not available soon enough for incorporation into the case.

The Postal Service Must Exercise The Operational Flexibility In Its Charter

The Postal Service is operated as a basic and fundamental service provided to the people by the Government of the United States. Its basic function is to bind the nation together through the personal, educational, literary and business correspondence of the people. The Postal Service is expected to provide prompt, reliable and efficient services in all areas and communities. 39 U.S.C. § 101(a). The Postal Service is charged with providing “a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining.” The Congressional intent is that both urban and rural communities receive regular and effective postal services. 39 U.S.C. § 101(b).

In selecting modes of transportation, the Postal Services is to give the “highest consideration to the prompt and economical delivery of all mail” and to employ “modern methods of transporting mail by containerization and programs designed to achieve overnight transportation of important letter mail to all parts of the nation....” 39 U.S.C. § 101(f). The Postal Service mandate includes the planning, development, promotion and provision of adequate and efficient postal services. 39 U.S.C. §§ 403(a) and 3661(a). And, as nearly as practicable, it shall serve the entire population of the United States. 39 U.S.C. § 403(a).

The Postal Service is responsible for maintaining an efficient nationwide system of mail collection, handling, sorting, transportation and delivery. 39 U.S.C. §§ 403(b)(1) and 404(a)(1). The Postal Service is also responsible for providing “types of mail service to meet the needs of different categories of mail and mail users....” 39 U.S.C.

§ 403(b)(2). Consistent with reasonable economies of postal operations, it is responsible for ensuring that its patrons have ready access to essential postal services. 39 U.S.C. § 403(b)(3). In providing services, the Postal Service shall avoid undue or unreasonable discrimination among users and not grant undue or unreasonable preferences to any users. 39 U.S.C. § 403(c).

In determining its policies, the Postal Service is directed to 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). It is authorized to adopt, amend and repeal such rules and regulations that are consistent with its statutory charter as may be necessary in the execution of its authorized functions. 39 U.S.C. § 401(2). To achieve these goals, the Postal Service is empowered to determine the methods and deploy the personnel necessary to conduct its operations. 39 U.S.C. § 1001(e). And it has been granted all other powers incidental, necessary and appropriate to the carrying on of its functions. 39 U.S.C. § 401(10).

Specifically, the Postal Service has the power to “provide for the collection, handling, transportation, delivery, forwarding, returning, and holding of mail....” 39 U.S.C. § 404(a)(1). The Postal Service also has the specific authority to “determine the need for post offices, postal and training facilities and equipment and to provide such offices, facilities, and equipment as it determines are needed....” 39 U.S.C. § 404(a)(3).

The market dominant product service standards of the Postal Service are published at 39 C.F.R. Parts 121 and 122. As indicated above, concurrently with this Request, the Postal Service is proposing to amend those service standards. The

principal intended effect is to limit overnight service for First-Class Mail and Periodicals significantly. Changes will occur for some First-Class Mail and Periodicals that, based on 3-digit ZIP Code or origin and destination, currently are subject to 2-day and 3-day service standards. Other changes of lesser magnitude also are being proposed to affect market dominant mail to and from domestic destinations not within the contiguous 48 states to conform those service standards to the operational constraints imposed by the limited availability of water surface transportation. Although no changes to the service standards for competitive products such as Express Mail and Priority Mail are being proposed, the significant network changes being planned could result in changes in expected delivery days between specific 3-digit ZIP Code origin/destination pairs.

The Postal Service is conducting a notice-and-comment rulemaking to revise 39 C.F.R. Part 121. An advance notice of proposed rulemaking was published on September 21, 2011 at 76 *Federal Register* 58433. Having carefully considered the more than 4200 comments submitted by the public in response to that notice, the Postal Service in a matter of days will formally publish its proposed service standard regulation changes for public comment.⁸

The Proposed Service Changes Conform To Applicable Objectives And Factors

Any changes to market dominant service standards not only must be consistent with the policies of title 39 discussed above, but also with the objectives and factors set forth, respectively, in subsections (b)(1) and (c) of 39 U.S.C. § 3691. Under subsection (b)(1), market dominant service standards must be designed to:

⁸ This Request will soon be accompanied by a copy of the text of that proposed *Federal Register* rulemaking notice. See library reference USPS-LR-N2012-1/7.

- (A) enhance the value of postal services to both senders and recipients;
- (B) preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining;
- (C) reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices; and
- (D) provide a system of objective external performance measurements for each market dominant product as a basis for measurement of Postal Service performance.

Furthermore, subsection 3691(c) states that, in establishing or revising its market dominant product service standards, the Postal Service shall take into account:

- (1) the actual level of service that Postal Service customers receive under previous and current service standards;
- (2) the degree of customer satisfaction with Postal Service performance in the acceptance, processing and delivery of mail;
- (3) the needs of Postal Service customers, including those with physical impairments;
- (4) mail volume and revenues projected for future years;
- (5) the projected growth in the number of addresses the Postal Service will be required to serve in future years;
- (6) the current and projected future cost of serving Postal Service customers;
- (7) the effect of changes in technology, demographics, and population distribution on the efficient and reliable operation of the postal delivery system; and
- (8) the policies of Title 39 generally and such other factors as the Postal Service determines appropriate.

Notwithstanding the proposed service changes described by witness David Williams (USPS-T-1), and the related changes in mail processing⁹ and transportation,¹⁰ the Postal Service will continue to be effective in binding the nation together through its correspondence, as prescribed by section 101(a). The Postal Service is satisfied that, even if the availability of overnight First-Class Mail service were eliminated altogether, it would continue to meet its obligation to provide expeditious delivery of important letter mail. Express Mail and Priority Mail will continue to rely on modern methods of containerization and systems designed to achieve expeditious, overnight transportation and delivery of such mail to all parts of the nation where it is economical to do so (39 U.S.C. §§ 101(e), 101(f) and 403(b)).

The proposed changes do not diminish service in rural communities and small towns to any degree greater than in urban and suburban areas. Service will continue to be adequate within the meaning of section 403(a), and access will continue to be effective and regular, within the meaning of sections 101(b) and 3691(b)(1)(B).¹¹ Consistent with sections 403(a) and 3661(a), the resulting service will be provided more efficiently, for the reasons explained by witnesses Neri (USPS-T-4), Bratta (USPS-T-5), and Martin (USPS-T-6). And, although some mail volume will be lost as a result of the service changes,¹² expeditious rationalization of the mail processing network is

⁹ Described by witness Frank Neri (USPS-T-4).

¹⁰ Described by witness Cheryl Martin (USPS-T-6).

¹¹ Section 101(b) requires **a** maximum degree of regular and effective of service, not **the** maximum degree.

¹² See the market research performed by witness Rebecca Elmore-Yalch (USPS-T-11) and the volume and revenue impact analysis presented by witness Greg Whiteman

consistent with the mandate in section 302 of the Postal Accountability and Enhancement Act.¹³ In view of its extraordinary state of fiscal instability, the Postal Service's pursuit of network rationalization is consistent with its duty under section 403(b)(3) to establish facilities of such character and in such locations that customers throughout the nation, consistent with reasonable economies, have ready access to essential services.

Moreover, as will be reflected in library reference USPS-LR-N2012-1/7, the proposed service standard business rules reflect consideration of service performance achieved under the current service standards over the past few years, the degree of customer satisfaction with that performance, and the needs of postal customers, within the meaning of section 3691.¹⁴ The testimony of witness David Williams (USPS-T-1) explains how the current mail processing network reflects cumulative expansion that mirrored growth of the American population and its increased utilization of mail over past decades. The testimony of Postal Service witness Stephen Masse (USPS-T-2) reflects consideration of volume, cost and revenue projections, and the stark fiscal reality that is, to a significant degree, a consequence of recent and projected trends. The testimonies of witnesses Frank Neri (USPS-T-4), Dominic Bratta (USPS-T-5) and Cheryl Martin (USPS-T-6) provide substantial evidence regarding the impact of advances in mail processing and transportation on the efficient and reliable operation of the postal delivery system, and how future operating changes associated with the

(USPS-T-12).

¹³ Pub. L. 109-435, Title III, § 302, Dec. 20, 2006, 120 Stat. 3219.

¹⁴ The proposed rulemaking will provide a forum for further direct expression of the customer needs, including any with impairments.

proposed service changes will permit the Postal Service to continue serving the American population as it expands and migrates in the decades ahead through a more flexible operational network.

Adjustment of service standards in the context of a severe need to reduce operating costs for an important but rapidly declining product line is consistent with best business practices; it will, moreover, preserve reasonable rates in the long run, consistent with section 3691(b)(1)(C).

In the context of a precipitous and apparently largely irreversible decline in First-Class Mail volume, and the financial consequences to the Postal Service, the proposed adjustments to First-Class Mail service standards maintain the relative value of that service, to both senders and recipients, within the meaning of section 3691(b)(1)(A). The measurement systems required by section 3691(b)(1)(D) and (b)(2) are already in place and would only need adjustment to account for changes in service standards applicable to specific origin-destination ZIP Code pairs.

Network Rationalization And Associated Service Changes Must Be Pursued

Responsible management of the national postal system involves the pursuit of various service objectives in an efficient and economical manner. Developments in electronic communications technology and their widespread application are radically altering the Postal Service's role in the communications and delivery service markets. In leaps and bounds, many individuals, businesses, government agencies, merchants, publishers, banks, and charitable organizations are increasing their reliance on such technology to conduct transactions instantaneously and transmit messages that, only a

few years ago, would have existed in the form of hard-copy mail deposited with and delivered by the Postal Service. As a result, the steady increases in mail volume and revenue that historically funded the operations of the postal system in recent decades have been replaced by precipitous declines, impacts intensified by the ongoing economic recession. Even when the recession eases, there is no basis for expecting any reversal of the underlying non-cyclical trends.

Nevertheless, the number of postal delivery addresses grows each year, steepening the sharp decline in average number of mail pieces per delivery stop. Changes in the mail mix have increased the proportion of pieces that contribute less revenue to cover postal costs. Despite aggressive cost-cutting, Postal Service costs continue to exceed revenues significantly and the Postal Service is perilously close to its statutory borrowing limit. All measures that can significantly reduce the financial instability of the Postal Service must be considered.

The plan to rationalize the mail processing network would permit the Postal Service to bind the nation together through a more streamlined and efficient network. While the planned service changes may not affect all customers in equal measure, achievement of such a goal is not inherently possible. However, the service changes planned here are not improperly discriminatory and would establish no undue or unreasonable preferences. The service changes resulting from rationalization of the network are consistent with the policies set forth in title 39 above.

Moreover, the proposed changes to market dominant service standards (the subject of the parallel rulemaking) would revise 39 CFR Part 121. The principal effect

would be to eliminate the expectation of overnight service for significant portions of First-Class Mail and Periodicals. These and the remaining proposed market dominant product service standard changes are consistent with the objectives and factors set for in 39 U.S.C. § 3691.

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 basis, it is required by section 3661(b) to request that the Postal Regulatory Commission issue an advisory opinion on the service change, and to submit that request within a reasonable time prior to the effective date of the proposed service change. If implemented, the changes within the scope of the instant Request could affect every sender and recipient of mail in the United States. There should be no doubt that the service changes described in this Request and supporting testimonies and library references will be “nationwide” within the meaning of section 3661(b).

As implemented by 39 C.F.R. § 3001.72, section 3661(b) requires the Postal Service to file its advisory opinion request not less than 90 days before the scheduled implementation of the planned service changes. Assuming no disabling legislative enactment, the Postal Service would be authorized to implement the service changes within the scope of this Request no earlier than March 5, 2012.¹⁵ In any event, the Postal Service will not implement any service standard changes within the scope of its Request before the completion of the aforementioned rulemaking affecting 39 C.F.R.

¹⁵ Given the magnitude of this opportunity and the current financial condition of the Postal Service, the Postal Service proposes that the Commission convene a Prehearing Conference at the earliest reasonable opportunity to consider all possible ways to expedite and streamline this proceeding as set forth in 39 C.F.R. § 3001.24(a), including those set forth in 39 C.F.R. § 3001.24(d).

Part 121. Assuming a 60-day comment period and an additional 30 days to consider and address all comments before determining whether to publish notice of a final rule change in the *Federal Register*, the rulemaking can not realistically conclude until some time in the first half of March 2012. No service changes associated with this Request will be implemented earlier than some time in the first half of April 2012. Accordingly, the filing of this request today satisfies the section 3661(b) requirement that it be filed “a reasonable time prior to the effective date” of the proposed changes.

The statutory scheme governing operation of the Postal Service permits the agency to make rational adaptations to market and fiscal realities, while still fulfilling its public service obligations. That scheme does not require that long-standing products, service features, and operational practices be maintained primarily for the purpose of preserving a tangible link to an iconic past, or to perpetuate a nostalgic image of the agency or its employees. It would be troubling for the future of the Postal Service if stakeholders responsible for its stewardship allowed their vision to be so clouded that, through omission or commission, they undermined or prevented significant adaptations that could help to preserve the long-term viability and relevance of the postal system. The needs of postal customers are changing. The circumstances affecting the Postal Service are dire. If the Postal Service is to remain viable and relevant, it must be permitted to implement operational and service changes consonant with such changing needs and dire circumstances.

Therefore, in accordance with 39 C.F.R. § 3001.71 *et seq.*, based upon the testimonies and associated supporting materials filed in this docket, the Postal Service requests that the Commission issue expeditiously an advisory opinion concluding that

the proposed Mail Processing Network Rationalization Service Changes conform to the policies in title 39, United States Code.

Respectfully submitted,

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