

Before the
POSTAL REGULATORY COMMISSION
Washington, DC 20268-0001

)
Mail Processing Network Rationalization) Docket No. N2012-1
Service Changes, 2012)

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BRIEF OF THE NATIONAL POSTAL MAIL HANDLERS UNION

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INTRODUCTION

The United States Postal Service seeks an advisory opinion from the Postal Regulatory Commission (“Commission”) regarding the Postal Service’s proposed plan to close hundreds of mail processing facilities and make national changes to its operating processes. Under this proposal, the Postal Service would “eliminate the expectation of overnight service for significant portions of First-Class Mail and Periodicals, Package Services and Standard Mail” and, as an inevitable result of these service standard changes, increase delivery times for other mail, all for the asserted purpose of “allow[ing] for a significant consolidation of the Postal Service’s mail processing and transportation networks . . . with concomitant substantial costs savings.” Request, No. N2012-1 at 1-2.

The Commission is charged by Congress with giving its considered opinion on this Postal Service proposal, as the planned service standard changes will “generally affect service”—indeed, substantially degrade service—“on a nationwide . . . basis.” 39 U.S.C. § 3691(a). In so doing, the Commission is required by statute to consider whether the Postal Service’s plan shows due deference to the policies contained in Title 39, including the following specific service standard objectives stated in 39 U.S.C. § 3691:

(A) To enhance the value of postal services to both senders and recipients.

(B) To 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) To reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices.

...

The ultimate question before the Commission is whether the Postal Service's proposal is reasonably calculated to achieve these objectives, and, more pointedly, whether its proposal is a necessary and appropriate measure to preserve "reasonable rates." Based on the record evidence before the Commission, the NPMHU submits that the Postal Service has not done the proper analysis to support the conclusion that its proposal is indeed such a necessary and appropriate measure.

Over the past several years, the Postal Service already has significantly downsized its mail processing operations, substantially reducing its workforce (eliminating 55,862 processing positions between 2008 and 2010, see Resp. to PR/USPS-T8-3), and consolidating processing operations at approximately 113 facilities.¹ Direct Testimony of David E. Williams on Behalf of the United States Postal Service (USPS-T1) at 3. While these past consolidations have already put a strain on the Postal network, with some plants struggling to process the higher volumes,² the consolidations at issue in this proceeding go much further, as the plants under consideration for consolidation process approximately 35% of total Postal mail volume (compared with 7% of workload affected by the consolidations over the past four years).

See NPMHU/USPS-T1-6. As Postal witness David Williams conceded, the fat has

¹ For a discussion of the breadth of some area consolidations, see testimony of Kenny Hayes (NPMHU-T6) at 2; testimony of David Wilkin (NPMHU-T5) at 2-3.

² For examples of facilities that have struggled to handle increased volumes in the wake of consolidations, see, e.g., Testimony of Kenny Hayes (NPMHU-T6) at 2 and supporting references; see also Office of the Inspector General, Report No-AR-11-008, Timely Processing of Mail at the Richmond, VA Processing and Distribution Center (Sept. 13, 2011); Resp. of D. Williams to NPMHU/USPS-T1-6; NPMHU/USPS-T1-7.

already been trimmed; the current initiative strikes at the “muscle” of the Postal Service. Tr. at 313: 3-12. Yet rather than undertaking this effort with surgical precision, the Postal Service has made decisions based on broad and often unsupported “high level” estimates, as well as highly subjective conclusions.

The Postal Service asserts that the proposed action is necessary because “eliminating overnight service . . . could generate a net improvement to postal finances of approximately \$2.1 billion [a figure later revised downward to \$1.6 billion] on an annual basis,” which “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.” *Id.* at 4. See Supplemental Testimony of M. Bradley (summarizing savings of \$2.1 billion before \$500 million in contributions loss).

It is undisputed that the Postal Service is in difficult financial straits, particularly due to the congressionally-required pre-funding of the retiree health plan. But the Postal Service has failed to present realistic support for the savings that it claims it can achieve through this substantial service degradation, and also appears to have radically underestimated the damage that the planned service standard changes will cause to Postal revenue and efficient operations. As a result, the public stands upon the precipice of a major change to a vital public service that provides a cost-effective and efficient means of communication and delivery to every American, but the Postal Service has failed to provide the Commission with the information necessary to know if

this change will help preserve that service, or instead will degrade it to the point that Americans can no longer rely upon it.

The NPMHU urges the Commission to issue an opinion finding that the Postal Service's proposal is ill-advised. The Commission should advise the Postal Service to undertake additional analysis before dismantling a time-tested network that would be prohibitively difficult and expensive to re-create. In particular, the Postal Service should be advised to recalculate its anticipated savings to correct indefensible estimates and miscalculations; to submit its proposed network to a simulation model to ensure that the network can operate as planned; to test, through a pilot project, whether the proposed expanded operating windows are feasible and what the associated maintenance effects will be; to develop a more defensible method of determining what, if any, productivity improvements can be achieved through expanding the operating window; to consider how its proposed network could facilitate or foreclose entry into burgeoning markets; and to investigate what savings could be achieved while maintaining overnight delivery for some substantial portion of First-Class Mail.

As the proceedings came to a close, the Postal Service announced a major revision to its proposal: a two-phased implementation under which the Postal Service asserts that it can achieve substantial savings while maintaining some overnight delivery for First-Class Mail. Phase II of this plan, completing the elimination of overnight delivery, would not be implemented until at least February 2014, depending on developments in the interim. At this time, the Commission has not been presented with sufficient information to determine whether Phase II is advisable, and therefore the Postal Service should be required to submit another request for advisory opinion to the

Commission within a reasonable period of time prior to implementation of what is essentially a new change that will affect service on a nationwide basis.

I. The Savings Asserted By the Postal Service Are Unsupported, and Are Based on Assumptions Unlikely to Be Realized

The Postal Service began this case in December 2011 with the assertion that it could save \$2.6 billion dollars per year by implementing the proposed changes in the processing and distribution network, and accompanying service standards, with an offsetting contribution loss of only a half billion dollars per year. Request of the United States Postal Service for an Advisory Opinion on Changes in the Nature of Postal Services (December 5, 2011).

Throughout the initial months of discovery, the Postal Service regularly responded to interrogatory requests by responding that the details of its plan would be determined through the AMP process. Interr. Resp. DBP/USPS-1-2; APWU/USPS-T3-15; PR/USPS-T6-11; APWU/USPS-T4-3; TI/USPS-T4-1, 4; NPPC/USPS-T1-4; APWU/USPS-T5-2; NPMHU/USPS-T6-5, 8, 16. The results of these AMP studies were announced on February 23, 2012. At that point, it became clear that the total savings associated with those consolidations—even by the Postal Service's own optimistic projections (*See infra* at pp. 14-18 for a discussion of ways in which the AMPs failed to fully account for costs)—totaled only about \$.95 billion. See D. Williams Response to Question from Commissioner Taub during March 20, 2012 Cross-Examination (filed on Mar. 30, 2012) & Attached Homework.Vol2.p422.xls. Yet the Postal Service filed supplemental testimony indicating that it still believed gross annual savings (before revenue loss) would run \$2.061 billion. See Supp. Testimony of M. Bradley (USPS-ST-

4) at 16.³ As shown below, those estimates are shot through with wishful thinking and flawed mathematics, and therefore dramatically overestimate the amount of savings that realistically can be achieved through the Postal Service's proposal.

A. Over \$1 Billion in Anticipated Labor Savings Is Derived From Productivity Enhancements That Are Unlikely to Materialize

The majority of the Postal Service's anticipated labor savings—approximately \$1.142 billion⁴--rise out of anticipated "productivity" enhancements, which will allegedly allow the Postal Service to dramatically decrease its labor force. Dr. Bradley applies accepted PRC methodology for costing to arrive at his savings estimates, yet his calculations and projections amount to little more than castles in the air, because they are all based on the totally unsupported estimates of productivity enhancements

³ The Postal Service's explanation for why the savings estimates put forward by Drs. Bradley and Smith, which are based on national estimates and averages, are more reliable than the specific calculations from the AMPs is that the AMPs do not account for productivity increases in operations or at sites not affected by the consolidations, and because the AMPs do not account for other savings such as premium pay reductions or reductions in service-wide benefits. See D. Williams Response to Question from Commissioner Taub during March 20, 2012 Cross-Examination at 2, 4. However, while only 35% of the mail volume would be moved by the consolidations, *see id.* at 3, looking at the losing and gaining facilities together, a much larger percentage of mail volume is involved. According to witness Kathryn Kobe, only twenty-three processing facilities were not impacted as either a gaining or losing facility in the AMP process. See APWU-RT-1 at 22 & App. Table B. Putting aside relatively small figures such as premium pay savings, it is extremely unlikely that the gap between the \$2.1 billion figure from Dr. Bradley and the \$950 million figure from the AMP studies can be explained by productivity gains at these twenty-three facilities.

⁴ The amount of savings attributable to productivity enhancements is readily calculated through the use of Library Reference 92 "Mail Processing Labor Cost Savings.Revised." Setting to 0% the "Productivity Induced Cost Savings" in all spreadsheets (column J in the Night Differential sheet; column K in Labor Cost Savings sheet; and column C in Productivity gains), then refreshing the calculations, shows the total Mail Processing Labor Cost Savings not attributable to Mr. Neri's estimated productivity enhancements. Without the productivity enhancements, the annual labor savings are only \$208,586,000.

provided by witness Frank Neri, the Postal Service Manager of Processing Operations in Network Operations.

Mr. Neri provided Dr. Bradley with his estimates for how much productivity can be increased—and therefore workforce reduced—for each of thirty-one operations, if the operating window is expanded significantly. Mr. Neri admits that there are no calculations to support his estimates; rather, they are based on his “professional judgment.” The underlying theory behind his estimates is that smoothing work out over a longer operating window will allow the Postal Service to substantially decrease the number of individuals required to work the mail.⁵ The only calculations Mr. Neri performed—comparing average mail throughput across a machine’s runtime with the staffing for a set eight-hour shift—resulted in a conclusion that there was 27% “idle time” in the processing system. See Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS-T-4) at 18. Tellingly, Mr. Neri himself believed that it was unlikely that the Postal Service could cut staffing approximately 27% across operations, and therefore used his best judgment to guess at a more appropriate percentage for each operation. Tr. 2044:1 – 2045:15.

Mr. Neri’s estimates are troubling to begin with, as they lack any supporting calculations that can be tested. This unease with Mr. Neri’s conclusions is compounded by the fact that those conclusions rest on false assumptions. In concluding that there was idle time, Mr. Neri assumed an inflexible eight-hour shift, with all workers in a shift starting at the same time. Interr. Resp. APWU/USPS-T4-22. However, it is undisputed

⁵ “[T]he waiting for the mail is a situation where operations start and stop. I can’t send an employee home and then ask him to come back again in a half hour or come back again in an hour. That’s the type of environment where we’re losing productivity opportunities today.” Tr. 2673:13-18.

that the Postal Service has the ability to use PSEs and send them home without penalty. Tr. 2677-22-2678:6. And, as testified to by William Weed, a Commission-sponsored witness and former Postal manager, proper workforce scheduling is a matter of finding the right balance, and it is typical to stagger start times within a shift to account for the "peak load" problem caused by the need to process much mail within a short time frame. Tr. 4293:11-4294:12

Mr. Neri's testimony, if taken at face value, suggests that there are postal employees just standing around, pulling eight-hour shifts but only working a portion of that shift, approximately 27% of the time. That simply is not the case, as testified to by several NPMHU witnesses. See Direct Testimony of Michael Hora on Behalf of the National Postal Mail Handlers Union (NPMHU-T1) at 3-4; Direct Testimony of Christopher Bentley on Behalf of the National Postal Mail Handlers Union (NPMHU-T3) at 7; Direct Testimony of David Wilkin on Behalf of the National Postal Mail Handlers Union (NPMHU-T5) at 4; Direct Testimony of Kenny Hayes on Behalf of the National Postal Mail Handlers Union (NPMHU-T6) at 3. In Mr. Weed's view, "the data presented [by Mr. Neri] does not identify the amount of idle time that may or may not exist in current processing operations," "has no factual support," and is "[a]t best ...hypothetical." Test. of W. Weed (PRCWIT-T-1) at 22, 26. Mr. Weed further testified that the amount of idle time could have been more reliably identified with standard "Work Sampling" techniques, which the Postal Service opted not to use in this case. See *id.* at 22-23, 28. Mr. Weed's own analysis led him to the conclusion that "there is little difference between the volumes processed and mail processing hours scheduled." *Id.* at 25.

As an intuitive matter, changing the operating window does not affect the volume of mail – it just affects when the mail is processed, and therefore when the employees that receive, move, and process the mail must work. A Postal Service PowerPoint presentation attached to the testimony of witness Paul Hogrogian puts this point in sharp focus. See Testimony of P. Hogrogian (NPMHU-T2) at pp. 4-5 & Att. 1 at pp. 22-23, 26-28. This PowerPoint presentation, which outlines the Postal Services' plan for two facilities in Long Island that are minimally affected by consolidation, show that the managers in charge of this facility expect little overall change in their staffing. The main effect of expanding the operating window is to increase maintenance staffing on Tour 1, and to shift clerks from Tour 1 to Tours 2 and 3. *Id.*

Considering the revised estimated savings in light of the estimated savings in the AMP studies reveals how wildly inflated the Postal Service's productivity savings are. As Postal witness Neri testified, the AMP studies incorporate productivity improvements into the staffing planned for the post-consolidation gaining facility. Tr. 2003:16-2004:11. Therefore, the \$950 million in AMP savings already includes the Postal Service's hoped-for productivity improvements for those approximately 133 facilities affected by the consolidations. Yet incredibly, according to witness Bradley's revised estimated savings, the Postal Service anticipates additional productivity savings in excess of \$1 billion in the mere twenty-three processing facilities not affected by the consolidations. See footnote 3, *supra*.

Moreover, because the Postal Service used FY 2010 labor costs as its baseline, its assumed productivity increases are further inflated in that they were applied to labor costs that already have been eliminated through the past two years of attrition.

(Needless to say, employees that already have left the Postal Service through attrition or otherwise cannot be made more productive.) To be more specific, the career employee labor pool decreased by 6.4% in 2010, and by an additional 4.9% in 2011, meaning that the estimated productivity savings are inflated by at least 11% (or \$110 million) due solely to regular attrition. See Rachel Resp. to GCA/USPS-T8-3(c).

B. Transportation Savings Are Overstated By Approximately \$100 Million.

One of the next largest areas of anticipated savings for the Postal Service is in transportation, which is surprising on its face given that substantial volumes of mail would be travelling greater distances in the proposed network. The explanation for that surprise is that the Postal Service committed basic errors in calculation, which led to a dramatic—approximately \$100 million--overestimate of ground transportation savings. Given that the Postal Service itself is estimating an *increase* in air transportation costs of approximately \$124.9 million, this means that, rather than savings, the Postal Service is more likely to experience *a net increase in transportation costs in the range of \$41 million under its plan*. Specifically:

i. Plant-to-Plant savings accounts for \$100,194,999 of the anticipated transportation savings. See Supp. Testimony of M. Bradley (USPS-T10) at 15. Dr. Bradley arrived at this number by applying a 12.8% percentage reduction in Plant-to-Plant transportation supplied by Ms. Martin to the national cost of Plant-to-Plant transportation. However, in calculating the anticipated reduction in Plant-to-Plant transportation, Ms. Martin calculated the reduction in number of *trips*, rather than number of *operating miles*, despite the fact that trips may vary greatly in length, and there is a wide variation in the cost of trips. See Supp. Testimony of C. Martin (USPS-T6) at 3; Tr. 2576:24-2577:10; L/R 77. Ms. Martin made no effort to compare the per-

mile cost of the trips eliminated with the national average to determine if the eliminated trips were representative, or skewed towards more (or less) expensive routes. Tr. 2579:24-2580:3.

If one simply adds up the cost of the trips eliminated (which readily can be done by sorting the spreadsheets contained in Library Reference 77 by “candidates for elimination,” then summing the annual cost for those trips targeted for elimination), the savings achieved is only \$66,894,659.⁶ This is \$ 33.3 million less than the Postal Service’s estimates.⁷

ii. Plant-to-Post office savings account for \$ 22,989,962 of the anticipated transportation savings. This assertion is counter-intuitive at the most basic level, as a necessary result of the consolidations is that millions of pieces of mail formerly

⁶ Ms. Martin testified that, although she had not performed this calculation, she believed the actual costs would be more accurate than the estimate. Tr. 2588:23-2589:4.

⁷ Dr. Bradley’s testimony that he believed the actual total costs of trips eliminated would not be a reliable figure makes little sense. He testified that he did not use the actual numbers because the costs of some trips were surprisingly low or high. Tr. 2631. However, that fact argues against using a national average cost – it may well be that the trips targeted for elimination were ones that were unusual, either because of a particularly high per-mile cost, or a low annual cost (indicating that the trip is now rarely used). For these reasons, the actual cost would be a far better predictor of the actual savings of eliminating these trips. As Dr. Bradley conceded, one explanation for the gap between his estimated savings and the actual cost of eliminated routes would be if the trips selected for elimination have a bias for lower costs trips. Tr. 2637:16-23. As he suggested, the cost per trip for the eliminated trips can readily be calculated using Library Reference 77. Tr. 2637:23-2. Performing this calculation shows that the average per mile cost of the eliminated trips is only \$1.20/mile, as compared with the \$2.05/mile national average used by Dr. Bradley. Dr. Bradley’s other concern—that, “as you get smaller, your cost per trip or your cost per mile goes up,” and therefore “the costs won’t really quite go down as quickly as the capacity would,” Tr. 2632:1-9—suggests that the actual savings will be *even less* than the sum of the costs of the eliminated routes.

processed locally⁸ will now need to be trucked to a distant facility for processing, then back again for delivery. Indeed, consistent with this intuitive reasoning, the Postal Service reports that the 115 consolidations that occurred between 2009 and 2011 resulted in an *increase* of 7.77 million operating miles. See Attachment to APWU/USPS-T6-1.

An examination of the mathematics behind the Postal Service's assertion reveals two critical errors that vastly inflate the savings estimate. Dr. Bradley applied a 3.18% reduction to *national* Plant-to-Post office costs, based on Ms. Martin's calculations. Tr. 2623:9-21. However, Ms. Martin derived that 3.18% figure by looking *only at those facilities being consolidated*—meaning that the 3.18% figure should only be applied to the Plant-to-Post office costs for the facilities being consolidated. Tr. 2582:4-2583:3. Second, Ms. Martin took her figures from the AMP studies for these facilities, but, as Ms. Martin testified, the AMP studies “for the most part” only include “those routes that are impacted”—not all the routes for that particular facility. Tr. 2582:1-3; 2584:16-22; 2585:12-17; 2586: 1-10. (For the Corpus Christi AMP, for example, less than half the existing routes were included. *Id.*)⁹ Therefore, the 3.18% figure is only a reduction in

⁸ The Postal Service has stated that 34.6% of First-Class Mail is currently intra-SCF. Tr. 2126. As one example, the Southeastern Pennsylvania facility (to be consolidated into Philadelphia, 122 miles away), currently has FHP volume of 3,522,708 per day. See USPS-LR-73 (AMP study). This suggests that this one facility originates about a half million pieces of intra-SCF First-Class Mail each day.

⁹ Moreover, the facilities completing the AMP studies may have included the elimination of routes that still need to be run. As just one example, the Tucson P&DC AMP listed the contract serving the Tucson City stations as an eliminated route. When questioned about it, Ms. Martin was unable to explain how the stations in the city of Tucson would be serviced with the elimination of this route, or where the cost of that service was accounted for. Tr. 1201:10-1202:4. It does not appear that Ms. Martin did an independent verification of the routes listed in each AMP, or even how that would be done absent some sort of simulation or modeling program that tested whether the

miles for affected routes at affected facilities—a very small subset of the national costs used by Dr. Bradley. Given the magnitude of the errors, it is likely that Dr. Bradley’s figure is overstated by at least \$10 million.¹⁰

iii. Conversion of current PVS routes to cheaper HCR contract routes is estimated to save \$60,270,766 million annually. However, as Ms. Martin readily admitted, this conversion could be done regardless of the proposed consolidations and service standard changes. Tr. 2572: 15-19; 1165:16-22.; 1166:19-25. Therefore, it is improper to include this anticipated \$60.3 million in cost savings in the savings attributable to the proposed consolidations and service standard changes.

necessary routes were being maintained. Ms. Martin testified that she did not use a transportation modeling tool, because, although such tools exist, they were not available to her at the Postal Service. Tr. 1223:12-1224:2.

¹⁰ The Postal Service’s theory behind how it can save on transportation costs, while substantially increasing the annual operating miles, depends on the notion that the Postal Service currently has an abundance of extra space in its trucks and will be able to better utilize trucks, given relaxed service standards. The only evidence in support of the Postal Service’s asserted under-utilization was the Plant to Plant Trips spreadsheet in Exhibit Library Reference 11 sponsored by Postal witness Martin, which represented average utilization over a 14-day period in October 2011. See Resp. to PR/USPS-T6-4. Ms. Martin testified that the utilization numbers contained in this spreadsheet represented how full the truck is at the final stop. Tr. 1183:10-15; Tr. 1187:10-19. But, as Ms. Martin conceded, a truck that was 60% full at the time of the final delivery might have been 100% full as of its penultimate delivery (and thus not able to take more mail from earlier stops). Moreover, a certain amount of excess capacity is necessary, so that trucks can accommodate fluctuating mail volume. The Postal Service itself sets a target average utilization rate of 70%, in apparent recognition of the fact that fluctuations in mail volume require a fair amount of planned excess capacity. See Resp. to PR/USPS-T6-4. Using Library Reference 11, and looking solely at the average truck utilization at the final stop during a two week period during an off-peak time of year, there were already 252 trips that were—on average—90% or more full, and 735 trips that were 70% or more full (with an additional 76 trips for which no utilization data could be provided). Based on this data, it would not appear that any mail volume could be added to these routes. An additional 409 routes had between 50% and 70% utilization, suggesting that these routes could handle some additional volume, but likely not the significant increases planned by the Postal Service for many consolidated processing facilities.

* * * *

Cumulatively, the \$33.3 million overestimated savings in plant-to-plant trips, the approximately \$10 million overestimated savings in plant-to-post trips, and the improper inclusion of \$60.3 million in savings that could be realized in any event, overstates the Postal Service's anticipated ground transportation savings estimates by over \$100 million. In conjunction with a \$124.9 million estimated *increase* in air transportation costs under the current proposal, the \$58.6 million in anticipated overall savings evaporates completely, and the likely result of implementation of that proposal is an overall *increase* in transportation costs of approximately \$41 million.

C. Projections Regarding Future Maintenance Costs Are Unrealistic.

The Postal Service's savings estimates do not plan for any increases in utility costs at the many processing facilities that will be gaining mail volume in the consolidations. See Tr. 981:4-8. This is so despite the fact that staffing and equipment usage will increase dramatically at many facilities. Machines that are running twenty hours per day, rather than six, would presumably use three times as much electricity. Likewise, buildings with twice as many bodies and machines running three times as long will need substantially more cooling.

D. The Postal Service's Savings Do Not Include the Costs Associated With Scores of Mail Transfer Hubs Necessary in the New Network.

The proposed new distribution network appears to rely heavily on a system of mail transfer hubs to minimize operating miles through consolidation of mail volume. See Tr. 2598:5-9 (estimating fifty to sixty hubs in the Western region alone). Yet the Postal Service witnesses repeatedly disclaimed knowledge of the specifics of the hub plan

(see, e.g., Tr. 1151:4-7 (witness Martin testifying that the hub concept was not embodied in her testimony)), stating that “[d]etails associated with the hub proposals . . . has not yet been undertaken,” and that the calculation used to determine the number of work hours at a hub “is ordinarily undertaken during implementation.” NPMHU/USPS-5, at Tr. 2565.¹¹ Indeed, Postal witness Marc Smith admitted that his cost savings do “not include the funds necessary to reconcile hub and BMEU conflicts,” and that he had not had any discussions with anyone at the Postal Service about how he would even go about making those estimates. M. Smith Supp. Testimony at 7:21-23; Tr. 2616:3-14.

David Williams testified that the costs of hubs “are accounted for in AMP studies in the workhour and transportation proposals.” Resp. to Question Posed During May 8, 2012 Oral Cross-Examination at p.7. (This may be one contributing factor to the gap between the AMP-estimated savings and those savings estimated by Dr. Bradley.) However, even in the AMP studies, hub functions appear to be under-budgeted, where they are budgeted at all. See Testimony of M. Hora (NPMHU-T1) at 4 (noting that review of AMPs shows no consistent approach to budgeting for staffing of hubs); Testimony of J. Haggarty (NPMHU-T4) at 2 (discussing unexplained disparities in staffing for planned hubs in Michigan, which appear to lack any “rhyme or reason”).

¹¹ Postal witnesses suggest that their savings calculations need not include hub costs, because hubs will only be implemented where it will result in costs savings. *E.g.*, Resp. to Question Posed During May 8, 2012 Oral Cross-Examination at p.7. However, the Postal Service’s savings do include the savings that will arise from this hub concept – as the savings estimates incorporate the transportation routes eliminated through the establishment of hubs (which are reflected in the AMPs that Cheryl Martin relied upon in calculating her revised estimates of transportation savings). To consider the savings that hubs will generate, but not the costs associated with them, skews the Postal Service’s savings estimates.

Mail transfer and consolidation hubs already have been implemented in many areas. See Tr. 1151:17-19. Accordingly, NPMHU local officers have considerable experience with the staffing of such hubs. Witness Haggarty, the President of the NPMHU Local in Michigan, testified that the recently established hub in Flint, Michigan was originally staffed with only fifteen Mail Handlers; when that proved insufficient, the Postal Service increased staffing to nineteen Mail Handlers. As Haggarty asked, “if nineteen full-time Mail Handlers are required to consolidate and transfer 979,439 pieces per day [at the Flint hub], how can the Postal Service consolidate and transfer 400,684 pieces [per day at the planned Gaylord hub] with zero Mail Handlers?” *Id.* at 3. Similarly, Christopher Bentley, the Vice President of the NPMHU Local covering Missouri and Kansas, testified regarding the Saturday cross-dock transfer operations that have occurred in Springfield, Missouri since Saturday processing was moved to Kansas City. In that location, the Postal Service currently is using twenty to twenty-four Mail Handlers to consolidate the comparatively light volume on Saturday, yet has not budgeted for a single Mail Handler to perform the daily cross dock operations that will occur in Springfield after the full consolidation. See NPMHU-T3 at 5.

E. The Postal Service’s Saving Estimates Do Not Include Transition Costs, Which Will Amount to Hundreds of Millions of Dollars, and Some of Which May Extend for Years.

The Postal Service has represented that its savings estimates are “full up” savings, meaning after its plan has been fully implemented. As a result, the Postal Service has not even attempted to estimate the costs it will incur to implement this plan. NPMHU/USPS-T1-5.

The AMP process provides a minimum figure, as the total of the “one-time” costs estimated for these specific consolidations is approximately \$185 million. See D. Williams Response to Question from Commissioner Taub during March 20, 2012 Cross-Examination (filed on Mar. 30, 2012) & Attached Homework.Vol2.p422.xls. However, even taking the AMP cost estimates at face value, they are clearly under-inclusive, as they do not purport to include any of the service-wide costs, such as realigning the processing at other facilities (such as movement of equipment to accommodate the new operating windows) or any retirement incentive options to accelerate attrition. These are not small figures, as the last retirement incentive cost the Postal Service \$352 million. See Resp. to NPMHU/USPS-T8-8.

In addition, the AMP studies themselves likely significantly under-state the transition costs. The testimony of Michael Hora (NPMHU-T1) details several examples where the AMP failed to adequately budget for relocation costs of moving employees from the losing to gaining facilities, and provided supporting calculations indicating that the Postal Service had under-budgeted for employee relocations by about \$42 million. See NPMHU-T1 at 5; M. Hora Resp. to USPS/NPMHU-T1-4 & Att. 1. Moreover, while the Postal Service asserted that the AMP studies include transitional workhour costs such as out-of-schedule premium for employees on temporary detail and “saved grade” costs (see Resp. to APWU/USPS-T1-26), the AMP form does not even appear to have space to estimate such transitional workhour expenses.

Moreover, a large number of the consolidated facilities will need to remain open for the time being for BMEU, retail and mail transfer hub purposes. According to Postal witness Marc Smith, the Postal Service’s savings estimates assume that eighty facilities

will be closed completely and sold, resulting in annual savings to the Postal Service of approximately \$652 million. Supp. Testimony of M. Smith (USPS-ST-3) at 7, 12. But the Postal Service has not provided any estimates of how long this will take, or what costs will be incurred in maintaining the property until sale and preparing the property for sale. In response to APWU/USPS-T5-6(b), the Postal Service acknowledged that, of seventeen facilities previously consolidated, the Postal Service has been able to sell only one (Lima, Ohio). Tr. 2559. The Postal Service already has at least five processing buildings on the market, including one that has been listed for nearly three years.¹² See Resp. to NPMHU/USPS-T5-1 (incorporating USPS L/R 75); Resp. to APWU/USPS-T5-6. Given that many of the facilities to be closed are located in distressed areas, it seems highly unlikely that the Postal Service will be able to sell these large buildings quickly, if at all. And, Postal Witness Bratta has testified that “the Postal Service has made no decision concerning future plans for the facilities” that the Postal Service will vacate based on the AMP decisions announced February 23, 2012, thereby raising a fair question about whether the Postal Service intends to place these facilities on the market, or whether that was simply a theoretical assumption used by the economists to estimate savings. NPMHU/USPS-T5-6; Tr. 2560.

II. The Postal Service Also Has Underestimated the Losses That May Result From the Service Standard Changes

While substantially overstating the potential savings from its plan, the Postal Service also has substantially underestimated the potential costs.

In this regard, the Postal Service initially presented evidence to the Commission that, according to market research commissioned by the Postal Service, it anticipated

¹² Oxnard, CA; Sioux City, IA; West Jersey; Nashua Annex; and Richmond Annex.

contribution losses of approximately \$ 500 million per year. However, during discovery, additional market research—not previously revealed by the Postal Service—was uncovered. This market research, which was abruptly halted by the Postal Service after the collection of data, showed that the combined effects of the various cost-cutting initiatives currently under consideration would lead to revenue losses of approximately \$5.26 billion per year, or contribution losses of approximately \$1.96 billion per year. See APWU-XE-1, at Tr. 906.¹³

Above and beyond that, the Postal Service may be cutting itself off from future market competitive areas by eliminating one of its most significant advantages over its private industry competitors – its extensive and pervasive national processing and distribution network. As Marc Schiller testified, with the rise of on-line commerce, the business to consumer parcel market is poised for growth, but this market depends on rapid delivery. Rebuttal Testimony of Marc Schiller on Behalf of the American Postal Workers Union, AFL-CIO (APWU-RT-2) at 29 (“With broad product choice, easy to obtain price comparisons and free shipping offers, the retailer that is consistently quickest to put the product in the customer’s hands accrues a meaningful advantage.”). By increasing its delivery times, the Postal Service makes it extremely unlikely that it will be able to capture a larger share of this growing and lucrative business.

¹³ The disclosure of this research mid-way through these proceedings was even more surprising, given that David Williams had responded to an interrogatory stating that he was not aware of any postal official or contractor tasked with considering or evaluating the possibility that the effects of the service standard changes could be exacerbated by the Retail Optimization Initiative or the change from six-day to five-day delivery. See APWU/USPS-T1-8.

III. The Postal Service Has Failed to Apply a Rational Process to Determine Which Facilities Should Be Consolidated.

The Postal Service has described the proposed, smaller network as a “rationalized” network, suggesting that the proposed network was constructed through the use of objective criteria to result in a tested network that will process and distribute the mail more efficiently than the current network. The proceedings before the Commission, however, belie that suggestion. In reality, the proposed network appears to be the product of subjective determinations that were made by unidentified “subject matter experts” and that were never tested to ensure their feasibility.

A. The Computer Model Used Initially to Develop the Network Relied on Inadequate Assumptions, and this “Rational” Modeled Network Was Ultimately Jettisoned by the Postal Service Itself Upon Completion of the AMP Process.

Emily Rosenberg, then Manager of Network Analytics of the Postal Service, used the LogicNet model to design a network with a minimum of processing facilities that could deliver mail within the contemplated revised service standards. As Ms. Rosenberg testified, her extensive modeling exercise was based on the premise that overnight delivery would be eliminated. Tr. 1454:3-13. Neither she, nor anyone else at the Postal Service, undertook any analysis to determine the contours of a consolidated network that could maintain some degree of overnight delivery of First-Class Mail.

Although the LogicNet model may be a viable tool for designing an improved network, as witness Kacha testified, the model depends upon the inputs. As Rosenberg herself acknowledges, the model’s inputs were “high level” – meaning rough estimates, see Tr. 1477:22-1478:22. As one example, the LogicNet model assumed a 53-foot truck would be utilized, yet 67% of the USPS owned trailers and 76% of the leased

trailers are less than 53 feet, meaning that the model under-estimated the number of trucks required to move the mail. See Testimony of E. Rosenberg (USPS-T3) at p 9; Interr. Resp. GCA/USPS-T3-30. As another example, the model mapped shipping distances from the center of a three-digit zip-code, without regard to where a population was actually located within that zip-code. Interr. Resp. NPMHU/USPS-T3-10.

Moreover, given the “high level” at which the network was modeled, the inputs failed to incorporate site-specific features that Ms. Rosenberg admitted could have resulted in a different network. Interr. Resp. NPMHU/USPS-T3-19. For instance, the model utilized an average throughput estimate that did not incorporate site-to-site variations in productivity. Interr. Resp. NPMHU/USPS-T3-13. In addition, the model calculated the capacity of a gaining site based solely on the square footage of the building and did not consider the length of the building, the number of docking ports, total square footage of dock space, number of trucks that could be docked at one time, or number of access roads to the docking space. Interr. Resp. NPMHU/USPS-T3-19. Without sufficient inputs to consider the specifics of the network, the results of the LogicNet model cannot be relied upon as a basis to determine whether a consolidated network is feasible, much less whether it is in any way “rationalized.”

Due to both the basic design of the LogicNet system, and the assumptions used, the LogicNet model was inherently biased towards larger facilities, as it looked to the square footage of the facility and applied a formula to pack processing equipment into those facilities. At the same time, the design of the LogicNet system inherently underestimated the costs of consolidation by not accounting for the costs of transporting mail between facilities. Tr. 1490:22-25. Nor did LogicNet in any way account for

varying productivity levels at different facilities, as Ms. Rosenberg assumed that the Postal Service could always change productivity levels. Interr. Resp. APWU/USPS-T3-16; NPMHU/USPS-T3-13.

Because the model was based on such broad estimates, its results could not be trusted—even by the Postal Service. The Postal Service has stated that the model “was only intended to create a hypothetical network concept that would serve as a starting point” for discussion by Postal management. Resp. to CAN/USPS-T3-1(e). Postal management then threw out sixty-one of the 177 of the processing sites selected by the computer model, replacing these sites with seventy-one sites selected by Postal management (meaning that only 62% of the network to be studied through the AMP process matched up with the computer model). See Test. of E. Rosenberg (USPS-T3) at 17. Forty-five percent of the zip code assignments made by the LogicNet model were modified by Postal management. Tr. 1481:18-1482:14. This substantial modification to the computer model’s recommendation was apparently made solely on the basis of oral conversations and without any supporting data or calculations to support these decisions. See *id*; see also Resp. to CNO/USPS-5 (responding that there are no documents or workpapers supporting the decision to add New Orleans to the consolidation list, after it was not selected for consolidation by the LogicNet model). Those results were never subject to any modeling or simulation process, nor were the constraints of the model--deemed as reasonable for modeling purposes--applied during the revision process. Tr. 1504:18-25.

Then, those decisions were subjected to the AMP process, which determined that thirty-four of the potential consolidations were not feasible. Compare excel spreadsheet

attached to D. Williams Testimony to question posed by Commissioner Taub *with* USPS-LR1/6. An additional four consolidations were removed from consideration by the Postal Service in May 2012 (see Postal Witness Emily Rosenberg Response to the Commission Information Request No. 1, Question 4(a) (filed June 4, 2012)).

The resulting network was never submitted to any simulation or other testing process to determine if it could process and deliver mail within the proposed service standards. Interr. Response to NPMHU/USPS-T3-37.¹⁴ In fact, Ms. Rosenberg testified that the reason she did not do so is because the Postal Service does not have a simulation model to test a network design. Tr. 1223:7-1224:2. As observed by Public Representative Witness Subramanian Raghavan, failure to test the model either through simulation software or pilot implementation left the modeling process undertaken by the Postal Service incomplete. Tr. 3216:17-3218:13

The resulting network is in no way a “rationalized” version of the old network—rather, it would appear to simply reflect the personal preferences of local Postal management, with no real analysis into how the various local pieces fit together, and no assurances given to the Commission and the general public as to how this network will function as a whole.

B. The Postal Service Failed to Give Adequate Consideration to Public Input or the Impact on Rural Communities.

¹⁴ The May 17, 2012 consolidation list includes at least seven facilities that the LogicNet model had determined should remain as active processing centers, including Brooklyn P&DC, Northern NJ Metro P&DC, Middlesex Essex MA P&DC, Central Mass P&DC, Northwest Boston P&DF, and New Orleans P&DC.

The concerns raised by this largely arbitrary process are heightened when one considers the very limited opportunity for public input into this process. Although the Postal Service's Postal Handbook 408 requires that the Postal Service conduct public hearings prior to consolidation of a processing facility, USPS-LR-1/3 at pp. 3, 16, the Postal Service's compliance with this obligation was mechanical at best. As several NPMHU-sponsored witnesses testified, these hearings often occurred on inconvenient dates,¹⁵ and were held in facilities that did not have sufficient space for interested parties. Comments by interested parties were limited, sometimes to as little as two minutes. See, e.g., Testimony of P. Hogrogian (NPMHU-T2) at 4. And, perhaps most troubling, the Postal representatives presenting the information read from a pre-prepared script and were unable to answer rudimentary questions about the proposal or provide the basis for the estimated savings calculations presented therein. See, e.g., Testimony of M. Hora (NPMHU-T1) at 6-7; Testimony of P. Hogrogian (NPMHU-T2) at 4; Testimony of B. Broxton (NPMHU-T7) at 4-5; Responses of Witness Michael Hora (NPMHU-T1) to United States Postal Service First Set of Interrogatories and Requests for Production (USPS/NPMHU-T1-1-6) at Attachment 1. As a result, mailers and members of the public were unable to provide meaningful input into the process. The Postal Service thereby was deprived of potentially important facts and perspective from the public that the Postal Service is charged with serving.

The preamble to the Postal Reorganization Act states: "The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation

¹⁵ For example, twenty-one hearings were held during the week between Christmas and New Years. See <http://about.usps.com/streamlining-operations/area-mail-processing.htm>).

together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” 39 U.S.C. § 101(a). By effectively denying concerned citizens a meaningful input into the network redesign process, the Postal Service has departed from this core mission.

Importantly, the Postal Service also has departed from this core mission by pursuing a network design plan that favors the consolidation of mail processing in urban areas at the expense of rural communities. In this regard, by sharply reducing the number of processing facilities, mail from remote and rural areas of the country will have to travel even longer distances prior to delivery. While the Postal Service may assert that there is no disparate effect on rural areas, as the service standards will increase nationwide in a similar manner, the simple fact is that when the distance mail travels increases, the likelihood of delays in mail delivery increases. And, in many rural areas, geographic features such as mountain ranges and weather conditions increase the likelihood of such mail delays. Moreover, while the Postal Service points to the growth of internet communications and on-line bill paying as a justification for its consolidation,¹⁶ it is precisely the residents of these more remote and rural communities, many of which have older populations and lack high-speed internet access, that are less likely to use these on-line fora. See *generally* Advisory Opinion on Retail Access Optimization Initiative (N2011-1) at 112; see *also* Testimony of C. Bentley (NPMHU-T3) at 4 (noting that Springfield, Missouri facility currently services many small, rural communities); Testimony of K. Hayes (NPMHU-T6) at 3-4 (noting that

¹⁶ Tr. 879:14-23.

Postal Service plans to close facilities in Cumberland, Roanoke and Petersburg, which service rural areas with high percentage of senior citizens). This is precisely the type of concern that motivated Congress to require the Postal Service to “preserve regular and effective access to postal services in all communities, including those in rural areas” when revising service standards, even where business interests might compel a different result. 39 U.S.C. § 3691.

C. The Postal Service’s Plan Has Underestimated and Inadequately Planned for the Logistical Challenges That Will Flow from the Consolidations.

The Postal Service’s proposed consolidations represent a major restructuring of its network. It cannot be denied that this degree of consolidation will be disruptive and difficult for Postal operations; as David Williams, the Vice President of Network Operations at the United States Postal Service Headquarters, conceded, the obvious choices for consolidation have already been implemented, and this plan gets to the meat or the “muscle” of the Postal network. See Tr. at 313: 3-12. In any such effort, there are inherent risks that the logistical difficulties of the down-sizing will overwhelm the anticipated efficiency gains. Here, there are particular reasons to be concerned, for as elaborated upon below, the Postal plan involves: (1) a move towards ever-larger processing facilities, which are inherently less efficient; (2) an increase in the number of miles that mail will travel, increasing the risk of travel-related delays; (3) a reduction of cross-coverage possibilities in the event of technical failures or natural disasters; (4) an increase in operating hours for machines, increasing the risk of technical failures; and (5) a greater reliance on hubs for the distribution of mail, without adequate pre-planning for these hubs.

1. The Postal Service's Plan Moves Volume to Larger, Less-Efficient Facilities

One aspect of the current plan is to take large or medium-sized processing facilities and consolidate them into large facilities. In many cases, this will result in “mega” processing centers, as one large facility is consolidated into another.¹⁷

The Postal Service proposal therefore represents a move to larger plants, which are inherently less efficient. See Test. of W. Weed (PRCWIT-T-1) at 11-13 (noting that “losing” facilities had higher productivity in almost all category groupings and noting that “the cost-driving variable was distance . . . to get to the dock”); see also Tr. 3037:12 – 3038:20. Indeed, as Mr. Weed noted, the PIR reports from past AMPs demonstrate that, in those consolidations, productivity and processing slowed significantly. See Test. of W. Weed (PRCWIT-T-1) at 19. A review of the 24-hour clocks for the large gaining facilities, contained in each AMP study, shows that many of these facilities are already struggling to move the mail efficiently. NPMHU witness Christopher Bentley provides one example, relating to the planned consolidation of the Springfield, Missouri P&DC into the Kansas City P&DC. See NPMHU-T3 at 2. Springfield, a very efficient facility, will be closed, and the mail moved to Kansas City, an older facility which processes mail on three floors, using freight elevators to move the mail. The consolidations of both Topeka and Springfield into Kansas City will result in approximately a 40% increase in

¹⁷ As just some examples, under the plan, the Rochester P&DC will increase from daily volume of 2.7 million pieces to daily volume of almost 6 million pieces; the Baton Rouge P&DC will increase from less than 1.8 million pieces daily volume to more than 4.1 million pieces; Los Angeles P&DC will increase from 7.6 million pieces to 11.8 million pieces daily volume (with the addition of mail from both Pasadena and Long Beach); and the Philadelphia P&DC will increase from 5.6 million to 9.2 million daily volume. See USPS-LR-1/73 (AMP studies).

mail volume; yet the 24-hour clock for Kansas City shows that the “Trips on Time” for this facility are already all in the red alert zone, with many other categories in the red or yellow zones as well.¹⁸

The relevant productivity of plants was apparently not a factor in the Postal Service’s determination as to whether facilities should be consolidated. Not only is this a basic flaw in the process by which the network was developed, but it also increases the risk that mail delivery will be slowed well beyond the level that the Postal Service anticipates.

2. The Postal Service's Plan Increases Travel Distance, Thereby Increasing the Risk of Travel-Related Disruption

Increasing the mileage that mail must travel increases the risk that traffic or poor weather will disrupt and slow down mail delivery. Although these are risks that the Postal Service has long had to contend with, these risks are compounded when the size of the network is reduced. This is an unavoidable consequence of a smaller network. But, even more troubling, it does not appear that the Postal Service has taken this into consideration in its planning. When asked what plans the Postal Service has made to overcome disruptions to the smaller network caused by natural disasters or Acts of God, the Postal Service provided only a dismissive response, suggesting that the Postal Service has made no efforts at special planning in this regard.¹⁹

¹⁸ See *also* Direct Testimony of P. Hogrogian (NPMHU-T2) (discussing the productivity of Staten Island versus Brooklyn). The testimony presented by these NPMHU witnesses confirms the data presented in Witness Weed’s testimony, by providing an on-the-ground observation regarding the relative efficiency of the facilities involved.

¹⁹ See NPPC/USPS-T12 (responding that the Postal Service had planned for 95% utilization, and that “[a]s with the current network, adjustments . . . necessitated by natural disasters or Acts of God will depend on the location, nature, severity and

3. The Postal Service's Plan Moves to a Smaller Network With Less Opportunity for Cross-Coverage

Similarly, a smaller processing network means a reduced chance for cross-coverage or backup when the Postal Service experiences mail delivery problems such as a sudden influx of mail to a particular facility, weather problems limiting access to a facility, or technical problems at the facility including equipment failure or power outages. NPMHU Local President David Wilkins provided one example of how this has worked in the past, testifying that the Postal Service has used the Buffalo P&DC to provide backup for the Rochester P&DC's mail, and vice versa. See NPMHU-T5 at 3. With the consolidation of the Buffalo mail processing, Rochester will no longer have that option. Given that the Postal Service has planned for equipment to handle 95th percentile volume, see Resp. to APWU/USPS-T1-4, the Postal Service has not planned for much excess processing capacity within a facility. The fact that many facilities will now be losing their neighboring facility greatly increases the risk that the Postal Service will not be able to handle and deliver the mail efficiently.

4. The Postal Service's Plan Increases the Risk and Consequences of Equipment Failure

The Postal Service's plan has, as its linchpin, the expansion of the mail processing operating window: According to the Postal Service, if service standards are changed to allow it to begin its destination sort much earlier in the day, it will need fewer machines and can achieve major efficiencies in its operations. However, this

projected duration of the consequences of the events.”); CPI/USPS-19 at Tr. 2565 (responding that weather patterns “are matters beyond the scope of the Postal Service’s powers of prognostication.”).

necessarily results in greatly increased wear and tear on the machines, and greatly increases the risk that the machines will break down.

This very intuitive conclusion is confirmed by the experience of the NPMHU-sponsored witnesses, who have considerable experience working on many of these machines and representing Mail Handlers who operate these machines. Christopher Bentley, Vice-President of NPMHU Local 297, explained that “mail generates paper dust, which accretes on the machine parts and causes increasingly frequent breakdowns as the operating window progresses.” In other words, in my experience, you see a lot more jams and breakdowns in the sixth hour of operation than you do in the first hour of operation.” Resp. to USPS/NPMHU-T3-3(d) at Tr. 3463; *see also* Testimony of M. Hora, NPMHU-T1 at 4. As the machines approach twenty hours of operation, the problem will grow exponentially worse. Testimony of Harold J. Matz on Behalf of the Postal Regulatory Commission (PRCWIT-T2) at 31-33. Indeed, in this respect, the past is prologue, as James Haggarty (President of NPMHU Local 307) testified that “Grand Rapids [, Michigan] was on a seventeen hour plan several years ago, and this operating plan had to be abandoned because the machines were breaking down too frequently.” NPMHU-T4 at 3.

Moreover, as fewer machines process greater mail volumes, the impact of any breakdown is magnified, as more mail is displaced. See NPMHU-T3 at 7. This increases the probability that mail will not be delivered in accordance with even the revised service standards.

5. The Postal Service's Plan Relies on an Inadequately-Planned "Hub"

Concept

As discussed *supra* at pages 14-16, the revised Postal network will depend heavily on mail transfer and consolidation hubs, in order to reduce the number of operating miles in transporting mail from the processing facilities to post offices. We already have shown how the under-staffing of these planned hubs in the AMP process skews the Postal Service's cost estimates. This failure to adequately plan for the hubs creates an even larger operational problem, however. When asked to provide the calculations used to determine staffing levels at hubs, the Postal Service responded that such analysis "has not yet been undertaken" and is "ordinarily undertaken during implementation." Resp. NPMHU/USPS-5. Implementation—after Mail Handlers have been released or relocated because they were told there would be no work for them at their facility—is too late to plan for staffing requirements. As James Haggarty testified, the Postal Service has a history of understaffing hubs, then scrambling to add staff to accommodate mail volume. See Direct Testimony of James Haggarty on Behalf of the National Postal Mail Handlers Union (NPMHU-T4) at 2-3. It appears that the same mistake is being made here, a hundred or more times over.

D. The Plan for Phased Implementation Was Haphazardly Developed, and the Postal Service Has Presented No Evidence as to the Feasibility of Phase 1.

On May 17, 2012, the Postal Service announced a substantially revised plan for implementation of the proposed consolidations and service standard changes. Tr. 2713-14. This revised plan involves two phases of implementation. In the first phase,

the Postal Service plans to consolidate 48 facilities in August 2012 and an additional 92 facilities in January and February of 2013. Effective July 1, 2012, this Phase 1 would also change service standards to add a day to delivery for most First-Class Mail, including the elimination of overnight delivery except for intra-SCF turn-around mail (and certain presorted mail meeting strict entry times). *Id.* The second phase, to begin in February 2014, will involve an additional 89 consolidations and eliminate the overnight delivery for intra-SCF mail. *Id.*

Although the Postal Service claims this is merely a “phased implementation” of its original plan, with the end goal remaining the same,²⁰ the phased plan raises significant questions. Troublingly, the Postal Service has apparently done little or no analysis to craft the network that will result after the Phase 1 consolidations, or to test whether that network will be able to handle the mail volume. It has applied no network modeling tools, has not analyzed the expected mail processing capacity utilization rate, and can produce no workpapers showing any analysis at all of the parameters of the Phase 1 network. Response of Witness Rosenberg to CIR, No. 1-8(a)(i),(v),(vi), at Tr. 2731.

The assumption seems to be that, if the Postal Service’s ultimate plan is feasible (a big “if”, as we have shown), then half the plan will be twice as feasible. When questioned on this issue, Ms. Rosenberg testified for the Postal Service as follows:

Currently in today’s environment, assuming that the infrastructure stays the same, we support that overnight service area today plus some in a lot of cases. So really the interim environment [is], and I can’t say what percentage of the facilities it may be, what they do today or maybe a little less. There are a couple of places where you might have a consolidation that it might have added a little more, but for the most part it’s less than

²⁰ See, e.g., Tr. 2768:4-9.

what they're doing today. . . . So, if we cut back, if they could handle it today, they should still also be able to handle that tomorrow.

Tr. 2771:5-13; 2777:8-10; see *also* Tr. 2813:12-17 (“[T]his is just my opinion from that standpoint, but again this whole idea of intra-SCF for the most part many of these plans [sic] do that today. So if we have certain levels of standards that we are meeting today then we should be able to carry that through in the interim phase.”)

Ms. Rosenberg’s conclusion ignores the interdependence among various aspects of the Postal Service’s overall plan, and thus has at least four obvious flaws:

1. The future staffing for consolidated facilities, as developed in the AMP studies, is based upon the productivity improvements that the Postal Service hopes to achieve through moving to a twenty-hour processing window. The Phase 1 stage will only move to a ten-hour window, and therefore the staffing needs will need to be recalculated. Tr. 2752:7-14. The Postal Service has not done these calculations. Tr. at 2751:12-21. This raises the specter that the Postal Service will be understaffed at these facilities,²¹ or will need to relocate employees to the gaining facilities (incurring relocation costs), only to release or relocate them again when Phase 2 is implemented.

2. The equipment sets for the gaining facility were calculated based upon the premise that, with the twenty-hour processing window, fewer machines would be needed to process the same volume of mail, thereby maximizing the amount of mail that can be directed to one facility. With a shorter processing window, more machines will

²¹ As shown by the OIG report of the Richmond, VA facility performance following the consolidation of the Charlottesville facility, such understaffing can have profoundly negative effects on service performance. See *supra* 2; see *also* Off. Insp. Gen. Audit Report EN-AR-11-004, “Implementation of Lima, OH to Toledo, OH Area Mail Processing Consolidation” at pp. 2-3 (discussing serious problem of delayed mail arising, in part, due to under-staffing following consolidation).

be needed. The Postal Service has not recalculated the equipment needs for those 140 facilities affected by the Phase 1 consolidations, or has done only a very “high-level assessment.” Tr. 2753:4:23. In light of this failure, it is unclear (and, indeed, doubtful) that the gaining facilities will be able to handle the added volume.

3. The Postal Service has asserted repeatedly in this case that the current service standards require it to maintain a very short DPS window. The Postal Service now proposes a significant expansion of this window, but without conducting any modeling or simulations to test whether overnight-delivery is still possible with this expanded window. Ms. Rosenberg testified that it would be possible because the facility would no longer have to wait for mail from overnight trading partner facilities before beginning the second-pass DPS sort. While this is true, the facilities will have to wait for mail arriving from post offices that may be hundreds of miles away, which will necessarily delay the start of DPS sort beyond that originally anticipated. Direct Testimony of Frank Neri on Behalf of the United States Postal Service (USPS-T4) at 19 (“Incoming secondary letter operations or DPS processing would be processed at 12:00 p.m. – 4:00 a.m.”).

4. The Postal Service has not done any analysis to ensure that gaining facilities with substantially expanded service areas will be able to achieve overnight service to these expanded service areas, particularly given that mail that was previously turn-around will now be trucked both ways. For instance, after the Plattsburgh, NY CSMPC is closed in early 2013, will the Postal Service be able to truck the mail 200 miles from Malone, NY down to Albany for processing, and move it back to Malone for overnight delivery?

The Postal Service has admitted candidly that it has not thoroughly analyzed this Phase 1 network. When the Commission members raised questions regarding the lack of analysis of the Phase 1 network, the Postal Service’s mantra-like response was that the analysis of whether and how this Phase 1 network would work “is being done through the implementation process.” Tr. 2753:12-13; 2757:6-9. Although Ms. Rosenberg testified that the facilities have “run plan generators,” which are “basically a calculator that looks at those parameters [such as volume, arrival profiles, breaks, etc.] to make sure that we can meet operating plan,” the Postal Service does not plan to employ these until “implementation happens.” Tr. 2777:11-17; 2778:20-2779:1.

This approach—which smacks of “we’ll figure out the blueprint as we build the house”—provides little assurance that mail will continue to be delivered efficiently during the eighteen-month implementation phase. Given the testimony of APWU-sponsored witness Marc Schiller that mail customers are feeling currently a high degree of anxiety regarding the future reliability of the Postal Service, and actively considering other options,²² this is not the time for the Postal Service to embark upon such uncharted waters.

E. Before Embarking on Phase II, the Postal Service Should Engage in a Substantive Re-Evaluation of Whether Phase II Is Necessary and Submit the Plan for Consideration by this Commission.

In Phase II of the Postal Service’s revised plan, postal customers will experience a significant further degradation of service—the loss of overnight delivery for even local mail. The Postal Service has stated that this Phase II change will have a much larger

²² See Resp. to USPS/APWU-RT2-23(c); Tr. 3901:10-3902:23.

impact on over-night delivery than the Phase I change, as 80% of First-Class Mail currently receiving overnight delivery will not be affected by Phase I. Tr. 2713-2714. As the Phase II change affects local mail, for which delivery expectations are likely to be higher, it will likely be much more disruptive to most postal customers than the Phase I service standard changes.²³ Yet, by the Postal Service's own calculations, it would not greatly increase the Postal Service's savings. The Postal Service itself has estimated the Phase II savings to amount to only \$.9 billion. *Id.* The Postal Service has not made any estimates of the revenue loss attributable to the Phase II standard changes, but given the significance of the Phase II changes, it is highly likely that a large portion of the revenue loss would come in Phase II.

The Postal Service began this proceeding by suggesting that there was not a way to preserve overnight delivery for First-Class Mail without jeopardizing the financial viability of the Postal Service. Indeed, as discussed *supra* at 20, the Postal Service did not even attempt to model a network that would preserve some portion of First-Class Mail. *See also* NNA/USPS-T1-10. Now, six months into the process, the Postal Service has found a plan by which it believes it can preserve most overnight mail and still achieve substantial savings. This plan deserves to have a chance to run its course

²³ Although the Postal Service's market research witnesses testified that most people were surprised by the range of the current overnight delivery standards, and expected longer delivery times, the market research did not attempt to separate out mailer's expectations for local mail versus inter-state mail. *See, e.g.*, Direct Testimony of Rebecca Elmore –Yalch on Behalf of the United States Postal Service (USPS-T11) at 15-52. It is extremely likely that individuals have much higher expectations for an invitation mailed to a neighbor, a letter to the editor of a local newspaper, or a bill payment mailed to their doctor across town.

and be fully analyzed prior to the Postal Service's embarking on a further round of consolidations that would require a much greater degradation in service.²⁴

The implementation of Phase II constitutes "a change in the nature of postal services which will generally affect service on a nationwide or substantially nationwide basis," as compared with Phase I. 39 U.S.C. § 3661. The Commission has not yet had a full opportunity to consider how the Phase II change, as compared with what will be implemented in Phase I, conforms to the policies established in Title 39. In particular, the Commission does not have the information on the cost savings versus revenue losses associated with the Phase II change that is necessary to form an opinion as to whether the significant degradation in service and possible revenue loss are worth the savings that may be achieved in Phase II. As such, the NPMHU submits that the Postal Service should be required to file a new request for another advisory opinion a reasonable period of time prior to implementation of Phase II. To the extent that the Postal Service intends to proceed based upon the plans and information presented in Docket N2012-1, the proceedings may be stream-lined by reference to the testimony offered in this Docket. However, given that eighteen months will pass between now and the planned Phase II implementation, including the planned implementation of major operational and network changes associated with Phase I, it may be that the Postal

²⁴ As the Postal Service has acknowledged, it may be that Congressional action will foreclose the Postal Service's ability to proceed with Phase II. Tr. 2813:18 – 2814:8. The Senate has passed a Postal relief bill which would limit the Postal Service's ability to implement Phase II. See S. 1789, as amended and passed by the Senate on April 25, 2012. The Postal Service has indicated that, if Congress provides financial relief but does not limit the Postal Service's ability to move forward with consolidations, it still intends to implement its Plan. Tr. 2813:18 – 2814:8. This raises the possibility that the Postal Service will forge ahead with its plan, even absent the financial exigency that it has argued to the Commission justifies the plan.

Service's plans will change significantly. If that is the case, federal law dictates that the Commission be given an opportunity to consider those plans and provide its informed opinion.

CONCLUSION

In closing, the NMPHU urges the Commission to issue an opinion advising the Postal Service to correct the fundamental errors in its proposed consolidation plan prior to implementation of *any* Phase or aspect of that plan. While the Postal Service doubtless needs to take steps to address its financial problems, the proceedings before the Commission have revealed plainly a haphazard consolidation plan that is based primarily on subjective and untested judgments, without any rigorous verification that the proposed network could continue to provide basic service as planned, and without any realistic and supportable assessment of the anticipated savings and likely costs (in terms of foregone revenue) of that consolidation plan. To compound this problem, the Postal Service announced a number of late changes to its proposal, including a two-phase implementation plan that lacks sufficient detail for the Commission to evaluate its feasibility.

The Commission should advise the Postal Service to return to the drawing board on its proposed consolidation plan in order to conduct a rigorous testing process and to put forth a proposal that is both cost-effective and that preserves the integrity of a public service relied on by millions of Americans. In particular, the Postal Service should be advised to recalculate its anticipated savings and provide adequate support for these calculations; to submit its proposed network to a simulation model to test functionality; to conduct a pilot project of the feasibility of proposed operating windows; and to

resubmit sufficient information regarding its implementation plan for Phase II within a reasonable timeframe for the Commission to provide an advisory opinion.

While it is beyond dispute that the Postal Service must take timely steps to address realistic financial constraints and a changing postal market, it is the province of the Commission to ensure that these steps will result in the improvements in savings and efficiency predicted by the Postal Service, rather than to further degrade an important public service. Seven months of proceedings before the Commission have shown that the Postal Service is poised to dismantle one of its most important assets—its extensive national network for processing and distribution of mail—without having done the homework for either the Postal Service or the Commission to determine that its plan is feasible, or advisable. As such, the Commission should render its opinion finding this proposal ill-advised

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