



National Postal Mail Handlers Union

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Via E-Mail (industryfeedback@usps.com) and Mail

Manager, Industry Engagement and Outreach
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Re: Comments of the National Postal Mail Handlers Union on the Postal Service's
Proposal to Revise Service Standards for First-Class Mail, Periodicals, and Standard
Mail

The National Postal Mail Handlers Union ("NPMHU"), which serves as the exclusive
collective bargaining representative for almost 47,000 mail handlers employed by the U.S. Postal
Service, hereby submits these comments on the Postal Service's September 21, 2011 "Proposal
To Revise Service Standards for First-Class Mail, Periodicals, and Standard Mail" ("Proposal").
See 76 Fed. Reg. 58,433 (Sept. 21, 2011).

DISCUSSION

At the very outset of its Proposal, the Postal Service candidly acknowledges that one of
its core missions over the years has been to build up its mail processing and transportation
networks to the point where those networks are sufficient "to achieve" the Postal Service's
current service standards for First-Class Mail and Periodicals, "**particularly** their overnight
service standards." See 76 Fed. Reg. at 58,434 (emphasis added). Yet in what can only be

described as a defeatist—and self-defeating—response to “sharp revenue declines associated with falling [mail] volumes,” *id.*, the Postal Service is now proposing effectively to abandon that core mission by: (i) eliminating the expectation of overnight service for First-Class Mail and Periodicals; (ii) substantially narrowing the two-day delivery range and substantially enlarging the three-day delivery range for such mail; and (iii) dismantling to a large degree the robust processing and transportation networks that have enabled the Postal Service “to achieve” its current service standards for such mail, “**particularly** their overnight service standards.”

The NPMHU joins with other commentators in strongly opposing this ill-conceived Proposal by the Postal Service, through which the Postal Service seeks effectively to abandon one of its core missions. Although couched as an incremental cost-cutting measure, the Proposal actually calls for a radical restructuring of the Postal Service. Such a restructuring could be justified, if at all, only after careful thought and extensive study—none of which are in evidence on the face of the Proposal. Indeed, as developed below through a point-by-point examination of the key statements made by the Postal Service in an effort to justify its Proposal and summarize its anticipated “major effects,” the Postal Service has either failed to consider or grossly underestimated the enormous downside risks of embarking on the radical course of action it is presently contemplating.

As a matter of sheer logic and intuition, the natural and foreseeable consequence of adopting the Postal Service’s Proposal would be a further precipitous decline in Postal Service revenues—rather than an improvement in, or stabilization of, the Postal Service’s finances. Needless to say, the decline in mail volume and associated revenue losses that the Postal Service has experienced in recent years is attributable in large part to greater reliance by traditional Postal Service customers on speedier services such as electronic mail and on-line or telephone

bill payment. Were the Postal Service to follow its proposed path of making first-class mail delivery even slower in comparison to these alternative means of communication, bill payment, and the like, the certain result would be a further precipitous decline in Postal Service revenues, and a consequent exacerbation, rather than diminution, of the Postal Service's current financial difficulties.

Casting logic and intuition aside, the Postal Service asserts that adoption of its Proposal is a "necessary" step in "bring[ing] operating costs in line with revenues." 76 Fed. Reg. at 58,434. But in setting out in conclusory fashion the basis of this assertion, the Postal Service turns a blind eye to the substantial revenue losses that invariably would flow from adoption of its Proposal and that would threaten to negate in whole or substantial part the Proposal's anticipated cost savings. At the same time, the Postal Service overstates those anticipated cost savings by wholly ignoring an array of substantial costs that would be associated with the proposed dismantling (or "substantial consolidation," as the Postal Service euphemistically describes it) of the Service's processing and transportation networks.

This head-in-the-sand approach by the Postal Service is readily seen through the following point-by-point examination of the key statements made by the Postal Service in an effort to justify its Proposal and summarize its anticipated "major effects":

- *"The Postal Service believes that, with the longer processing windows and other changes described above, it could consolidate mail processing operations from over 500 locations currently to fewer than 200 locations, resulting in lower facilities costs and significant labor workhour savings. . . . The Postal Service believes that the[se] consolidations and reductions . . . would result in an infrastructure that better aligns with current and projected mail volumes and would lead to significant cost containment opportunities."* 76 Fed. Reg. at 58,435.

As a threshold matter, the NPMHU notes that the Postal Service's premise that it could meet even the severely diminished service standards it proposes while closing such a large number of processing centers is wholly unsubstantiated and counterintuitive.

Be that as it may, the undeniable reality of the matter is that the Postal Service could not close such a large number of processing centers without incurring new and substantial transportation costs that would greatly diminish the cost-savings anticipated to flow from its proposed network "consolidation." In this regard, the Proposal fails to come to grips with the basic point that the mail must be transported to and from each processing center and each carrier route. The Postal Service's anticipated closure of processing centers would thus require either the establishment and maintenance of an equal number of transportation hubs, or a sharp increase in transportation vehicles, distance traveled, and associated costs. The Postal Service's Proposal—which, in the end, is aimed at cost-savings—does not even acknowledge these additional costs, let alone attempt to gauge their impact on the Service's overall cost-savings plan.

The same can be said of the costs that would be associated with the Postal Service's proposed transfer of operations, equipment, and employees from the closed processing centers to the remaining facilities. Although a one-time expense, these costs obviously would be quite substantial, yet too are not factored into the equation in the Service's Proposal.

The Proposal likewise fails to take cognizance of the adverse impact that the closure of a local processing center would have on the affected community. Such a closure would likely have a dramatic impact on the local economy, and would also diminish the sense of local identity that accompanies a local postmark.

- *"[The Proposal] could also reduce the total amount of machinery needed to run DPS, on a national level, by approximately one-half. This would allow for greater*

reliance on machinery that incurs lower maintenance costs." 76 Fed. Reg. at 58,435.

In optimistically predicting that it can reduce the amount of machinery needed to process mail by one-half, as well as reduce its costs in maintaining what machinery remains, the Postal Service relies on a number of unstated assumptions. These include the assumption that the Service would be able to utilize the machinery that it retains during the entirety of the new 16-hour DPS window, and the assumption that the machinery that the Postal Service retains would necessarily be characterized by lower maintenance costs than the machinery to be retired. But the Postal Service neither acknowledges the assumptions it is making, nor provides any empirical evidence in support of those assumptions. Of equal if not greater importance, the Postal Service fails to acknowledge and account for the substantial costs that would be associated with relocating some of its retained DPS machines among the Service's 200 remaining processing centers, in making adequate space for the relocated DPS machines available within those remaining processing centers, and in retiring such a large quantity of DPS machines.

- *"The reduced availability of locations at which drop ship discounts may be applied could require changes to commercial mailers' transportation networks. For national mailers, this could result in cost savings, given that they would transport mail to fewer locations. For regional and local mailers, the reduced availability of business mail entry units and drop ship locations could cause additional costs, if they have to transport mail over longer distances."* 76 Fed. Reg. at 58,435.

In making the foregoing statements, the Postal Service fails to account for the fact that its revenues will decrease, likely significantly, if commercial mailers are required "to transport mail over longer distances" to less convenient drop ship locations. As a general matter, any increase in the distance a business must transport its mail translates into higher costs for that business, and those higher costs invariably will cause some of the Postal Service's existing or potential business customers to take their business elsewhere. And, contrary to the Postal Service's

assertion, the same holds true for national commercial mailers: if national commercial mailers could save money by reducing the number of processing centers at which they drop ship mail, they presumably already would have taken advantage of this option; indeed, nothing prevents them from doing so now. This inevitable loss in Postal Service revenue, from commercial mailers of all stripes, looms large and is wholly unaccounted for in the Postal Service's Proposal.

- *"Commercial mailers who use products that have zone-based pricing may experience price changes, if the locations at which they currently enter mail are eliminated and the nearest available locations are within different 3-digit ZIP Codes."* 76 Fed. Reg. at 58,435.

Just as substantial revenue losses invariably would flow from a reduction in drop ship location options, the Postal Service invariably stands to lose substantial revenue if customers utilizing zone-based pricing are forced to pay higher prices because the processing centers at which they enter mail are closed. And, in this instance as well, the Postal Service's Proposal fails even to acknowledge these revenue losses, much less make any effort to quantify those losses and to consider to what extent they would offset the Service's anticipated cost savings.

- *"Commercial mailers of First-Class Mail, Periodicals, and Standard Mail who seek to have their mail reach recipients on specific delivery days may have to restructure their production cycles to align with the changed critical entry times and reduced number of entry points. . . . [S]ome commercial mailers could effectively maintain same-day processing and overnight delivery by restructuring their production cycles to align with the changed critical entry times."* 76 Fed. Reg. at 58,435.

In making the foregoing statements, the Postal Service grossly understates the extent to which diminished service standards would require commercial mailers to alter their operations. Postal Service customers intending for mail to be delivered on specific days would be required to move their operations up an entire day, or else work through the night, in order to deliver their mail to a processing facility by the time DPS is proposed to begin. And, it is likely that a significant number of customers would be forced to move up the timetable of their operations

even more substantially, in light of the increased distances they would be forced to transport their mail owing to the proposed processing center closures.

By the same token, the Postal Service's Proposal fails to account for the magnitude of this effect upon its existing and potential customers. For many customers, the costs associated with establishing a new graveyard shift, especially overtime and other labor costs, would be prohibitive. Such customers thus would be confronted with the Hobson's choice of either shipping their materials one day earlier, or having those materials arrive one day later. Neither of these options will be acceptable for customers with time-sensitive materials, and the foreseeable result will be yet another substantial loss in Postal Service revenues. Any suggestion by the Postal Service to the contrary is unduly optimistic and without any logical or empirical support. And, here again, insofar as is evident on the face of its Proposal, the Postal Service has made no effort to quantify these inevitable revenue losses and to consider to what extent they would offset the Service's anticipated cost savings.

- *"[By virtue of] the substantial consolidation of the mail processing network made possible by the [proposed] service standard revisions . . . , it is possible that Area Distribution Centers (ADCs) would no longer be available for entering mail. Therefore, it is possible that the Proposal could require a revision to the current service standard for end-to-end Standard Mail entered at ADCs, as set forth in 39 C.F.R. 121.3(a)(2). The exact nature of this revision is presently unclear." 76 Fed. Reg. at 58,434.*

The foregoing statement by the Postal Service acknowledges another adverse impact on the business mailing community from adoption of the Service's Proposal, wherein ADC closures could result in a less convenient entry point for mail drop shipments. That in turn would lead to a further deterioration in mail volume and revenue as commercial mailers seek alternative methods to deliver their products.

Although the Postal Service's candor in noting the adverse effect of its Proposal is admirable, here again the Postal Service makes no effort to quantify that adverse effect and to balance it against the perceived advantages of its Proposal. As already shown, this is a basic flaw that runs throughout the Postal Service's Proposal and that counsels strongly against its adoption.

CONCLUSION

The Postal Service's Proposal is ill-conceived and should unceremoniously be laid to rest. By increasing the delivery time for most First-Class Mail and Periodicals by one day, and by eliminating the expectation of overnight service for such mail, the Postal Service would effectively be abandoning what it itself acknowledges has been one of its core missions over the years and conceding that it is no longer capable of fulfilling that mission on behalf of the American people.

On its face, this is a defeatist approach to the Postal Service's current financial difficulties. In an effort to reduce its costs, the Postal Service is proposing to severely downgrade its current service standards and dismantle its current mail processing and transportation networks, in a truly radical fashion that is guaranteed to result in a further precipitous decline in Postal Service revenues. Nothing in the Proposal indicates that the Postal Service has made any kind of careful assessment of these revenue losses; nor has the Postal Service compared those revenue losses against the Proposal's anticipated cost savings, which are themselves overstated. To put it bluntly, the Postal Service has failed to come to grips with the distinct possibility that adoption of its Proposal would **not** "bring operating costs in line with

revenues," 76 Fed. Reg. at 58,434, but instead would exacerbate the Postal Service's current financial difficulties and beget further downgrades in service standards, in a true "death spiral."

Before embarking on the untested and dangerous path of severely downgrading its service standards and repositioning itself as a provider of second- or third- tier shipping services, the Postal Service should painstakingly exhaust all alternative means of "bring[ing] operating costs in line with revenues"—including means that are calculated to augment rather than further diminish the Postal Service's revenue streams.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "J.F. Hegarty", with a long horizontal line extending to the right.

John F. Hegarty
National President

Cc: National Executive Board
All Local Unions
National/Regional CAD