

# **Report of the United States Postal Service Regarding Advisory Opinion in Postal Regulatory Commission Docket No. N2010-1**

## **Executive Summary**

This report is the United States Postal Service's synopsis and evaluation of the March 24, 2011 Postal Regulatory Commission's (PRC) advisory opinion regarding plans to generally eliminate Saturday delivery of mail to street addresses and implement related service changes.

The Commission's opinion does not advise whether the service changes would conform to applicable statutory policies or recommend for or against them. Instead, it reflects the Commission's disagreement with the Postal Service's estimates of the net financial benefit that would be realized from implementing five-day delivery, expresses concern about potential adverse impacts to certain postal customers, and recommends further examination of those impacts. As stated in the separate views of two Commissioners accompanying the Commission's opinion, five-day delivery is needed to improve the financial stability of the Postal Service. The Postal Service estimates net \$3.1 billion in costs savings while the PRC estimates net cost savings of \$1.7 billion. Whether one accepts the USPS or PRC cost-benefit analysis, implementation of five-day delivery would significantly improve the Postal Service's financial stability. No other single action the Postal Service could take operationally will result in such large annual cost savings.

In reducing the Postal Service's estimate of approximately \$3.3 billion in gross annual operational cost savings by about \$1.0 billion, the Commission improperly assumes that the Postal Service will realize virtually no increases in productivity and efficiencies in important aspects of city carrier, mail processing and transportation operations despite delivering essentially the same amount of mail in five days that it now delivers in six days. The Commission downplays the fact that most of the savings will be realized in the first year after implementation and focuses disproportionate attention on the fact that some will not be realized until the third year.

The Commission's rejection of the Postal Service's methodology for estimating potential net revenue loss summarily dismisses unrefuted expert testimony on market research analysis and triples the \$200 million net loss estimated by the Postal Service to \$600 million.

The Commission's opinion that the Postal Service did not sufficiently evaluate the impact of five-day delivery on rural customers gives no weight to the Postal

Service's inclusion of rural customers in its market research and ignores the Postal Service's consideration of their needs in developing its implementation plan. In addition, the Commission's finding that customers in rural, remote and non-contiguous areas will be adversely affected by the Postal Service's proposal to eliminate Saturday street delivery appears to be based almost entirely on statements received at its field hearings or submitted by members of Congress under procedures that fail to satisfy the evidentiary requirements of the Administrative Procedure Act.

## I. Overview

On March 24, 2011, in Docket No. N2010-1, the PRC responded to the March 30, 2010 request of the United States Postal Service under 39 U.S.C. § 3661 for a non-binding advisory opinion regarding whether its plans to eliminate Saturday street delivery and implement related service changes conformed to the policies of title 39 United States Code.<sup>1</sup> The Commission's opinion states no conclusions regarding conformity of the planned service changes to relevant statutory policies. In lieu of recommending either in favor or against the proposed changes, the Commission's opinion challenges the Postal Service's estimates of the net financial benefit that it would realize from implementation, expresses concern about potential adverse impacts to certain postal customers, and recommends further examination of those impacts.

The Postal Service estimates a net \$3.1 billion in costs savings from implementing the changes reviewed in Docket No. N2010-1, while the PRC estimates net cost savings of \$1.7 billion. Although the Postal Service and the PRC do not agree on the magnitude of the resulting cost savings, there is no dispute that implementation of the proposed service would be substantial and would significantly improve the Postal Service's financial stability. No other action the Postal Service could take operationally will result in such large cost savings.

Below, the Postal Service provides a summary of the proposed service changes and the rationale underlying its plan to implement them. Next, the Postal Service contrasts the principal features of its plan with conclusions expressed by the Commission. Finally, the Postal Service explains why the Commission's major conclusions either reflect a disregard for the weight of the Docket No. N2010-1

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<sup>1</sup> PRC Docket No. N2010-1 took almost a full year to complete. In contrast, the Postal Service notes that the Commission's review of the most complex omnibus price changes is required by law to be completed in 90 days. 39 U.S.C. § 3622(d)(1)(E). The absence of any time constraint on the issuance of service change advisory opinions can create circumstances where the substantive value of advice is greatly diminished by its untimeliness.

evidence or a propensity to be influenced by matter that was not a part of the evidentiary record.

## **II. Five-Day Delivery Plan Overview**

The Postal Service's Five-Day Delivery Implementation Plan calls for the general elimination of mail delivery to residential and business street addresses and the elimination of mail collection, dispatch and processing on Saturday. There would be no regularly scheduled collection of mail from blue collection boxes on Saturday. With the exception of Express Mail, articles accepted across a retail counter or deposited in a designated collection box on Saturday would not be dispatched for processing until the following Monday.

Saturday Express Mail collection and delivery would not change. Saturday delivery to Post Office Box addresses would continue. No postal retail offices would be closed on Saturday due to implementation of five-day delivery. Postal retail locations open on Saturday would continue to accept mail and offer normal retail services, including the sale of stamps and other postal products. Bulk mailers would still be able to drop-ship enter mail on Saturday at postal processing plants and delivery offices and Business Mail Entry Units. Service standard rules would remain the same.

## **III. Contrast Between USPS Rationale and PRC Conclusions**

The Postal Service's principal rationale for pursuing these service changes is to improve its financial stability. The ongoing precipitous overall decline in mail volume and the changes in the mail mix, trends that will continue into the foreseeable future, create a wide chasm between postal revenues and operating costs at a time when the Postal Service is approaching the limit of its borrowing authority. No other operational change would generate savings of the magnitude expected to be realized from the plan reviewed in Docket No. N2010-1.

- Five-day delivery is needed to improve financial stability.
  - The Commission's opinion does not address this issue, though the separately stated views of two Commissioners support this conclusion.
- Annual gross operational cost savings would be about \$3.3 billion.
  - The Commission's basis for reducing this estimate to \$2.3 billion was not presented for examination as part of the evidentiary record and relies on economic theories about the impact of operational

- change on costs in lieu of unrefuted expert testimony of postal managers responsible for delivery, mail processing and transportation and cost evaluation.
- The Commission's basis for reducing the annual cost savings improperly assumes that, for certain aspects of city carrier, mail processing and transportation operations, the Postal Service will realize virtually no increases in productivity and efficiencies by delivering essentially the same amount of mail in five days that it now delivers in six days.
- Most of the cost savings would be realized in the first year of implementation, with all of them realized in three years of implementation.
    - The Commission downplays the fact that most of the savings will be realized in the first year after implementation and focuses disproportionate attention on the fact that some will not be realized until the third year.
  - The annual net revenue loss<sup>2</sup> resulting from mail volume lost in reaction to the planned service changes would be about \$200 million.
    - The Commission's rejection of the Postal Service's methodology triples the estimated loss to \$600 million by summarily dismissing unrefuted expert testimony on market research analysis.
  - In its comprehensive market research and stakeholder outreach program, the Postal Service solicited the views of a broad range of customers, including those who reside and do business in rural areas. That research revealed no substantial difference in the willingness or ability of rural and non-rural customers to adjust to the planned service changes. It supports the conclusion that the elimination of Saturday street delivery warrants no accommodation to customers served by rural carriers vs. those served by city carriers.
    - The Commission's opinion that the Postal Service did not sufficiently evaluate the impact of five-day delivery on rural customers gives no weight to the Postal Service's inclusion of rural customers in its market research and ignores the Postal Service's consideration of their needs in developing its implementation plan.
    - The Commission's finding that customers in rural, remote and non-contiguous areas will be adversely affected by the Postal Service's

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<sup>2</sup> Net revenue loss reflects the financial contribution to overhead lost as a result of mail volume leaving the postal system in response to implementation of the service changes that are being planned.

proposal to eliminate Saturday street delivery appears based almost entirely on untested statements received at non-evidentiary field hearings and submitted by members of Congress on which the Commission, by operation of the Administrative Procedure Act (5 U.S.C. §§ 556 and 557), may not rely on in formulating an advisory opinion requested under 39 U.S.C. §3661.

### **A. The Commission's Opinion Does Not Address the Pressing Need to Reduce Delivery Frequency to Improve Financial Stability**

The PRC's opinion does not evaluate the reasons underlying the Postal Service's decision to generally reduce delivery frequency to five days a week. The Commission acknowledges being "aware that the Postal Service faces severe long-term financial challenges . . ." Nor does it advise how the Postal Service can significantly mitigate its current financial instability if five-day delivery is not implemented.

As explained by the Postal Service in support of its advisory opinion request, mail volumes have declined precipitously at the same time that delivery points continue to increase. The new mix of more Standard Mail and less First-Class Mail continues to result in lower overall contribution margins. The Postal Service has made extensive operational and administrative cost reductions, with more than \$3 billion in costs removed in fiscal year (FY) 2010, on top of \$6 billion in FY 2009. Even so, the FY 2010 net loss was \$8.5 billion, with \$5.5 billion of that loss due to retiree health benefits pre-funding obligations. Absent legislative change, including Congressional forbearance on preventing five-day delivery, the Postal Service forecasts continuing operating losses through FY 2020. Even if Congress decides to postpone the Postal Service's annual payment of \$5.4 billion for future retiree health benefits, such action will only temporarily delay insolvency. The Postal Service will reach its statutory borrowing limit by the end of this fiscal year. Without a suite of legislative changes and the benefit of the projected cost savings from five-day delivery, the Postal Service will lack the capital to invest in infrastructure improvements that could lead to further short-term and long-term cost savings.

The Postal Service's decision to pursue a general change in delivery frequency to five days a week was a difficult one. It was the product of thorough deliberations with all stakeholders regarding how best to fulfill its universal service obligation and proceed toward financial stability in the face of current and projected declines in mail volumes. The volume reductions experienced in recent years and projected into the future are of such a magnitude that continuing to deliver and collect mail six days a week will result in sub-optimal productivity levels every day of the week. Plainly stated, there is no longer sufficient volume to sustain six days of delivery.

The Postal Service's proposal to eliminate Saturday delivery and implement related service changes shows due regard for its statutory obligation to provide universal service in an economical and efficient manner. Its plan reflects a careful examination of the potential impact on all of its customers, whether they reside in sprawling metropolitan areas or remote rural locations. The five-day implementation plan ensures that adequate customer service will continue to be provided at a time when the operating model of the nation's postal system must evolve in order to substantially improve its financial stability. The Postal Service disagrees with the Commission's underestimation of the cost savings that will be generated by five-day delivery. However, even if only the savings estimated by the Commission were to be achieved, that amount is so substantial that eliminating Saturday delivery makes good public policy and business sense. In the Postal Service's market research and in independent public opinion polls, the American people have indicated that they will accept and adapt to five-day delivery to improve the financial stability of the Postal Service.

The Postal Service agrees with Commissioner Hammond's separate view expressed in conjunction with the Commission's opinion in Docket No. N2010-1 and regrets that the Commission, as a whole, did not embrace his approach. He acknowledges that:

[T]he Postal Service has been losing billions of dollars a year, and is in danger of being unable to meet its obligations by the end of this fiscal year. The Postal Service therefore is searching for additional ways to reduce its costs. In addition to trying to make its operations more efficient, it has identified eliminating Saturday delivery as a means to achieve substantial annual savings. Obviously, no postal customers want less service, but our analysis shows that even after the Postal Service's somewhat optimistic estimates are corrected, eliminating Saturday delivery would provide substantial financial benefit. . . .

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

## **B. The Commission's Key Findings Are Flawed**

Below, the Postal Service explains why each of the Commission's key findings is flawed.

### **1. The Commission Contradicts Its Own USO Report**

The annual cost savings from implementing five-day delivery and related service changes were estimated by the Postal Service to be \$3.3 billion. The Commission reduces that estimate by \$1.0 billion. The Commission's approach is not conservative and is not the middle ground approach it purports to be. The Commission uses, in part, a costing methodology that assumes changes in costs based on volume changes. In essence, the Commission concludes that the Postal Service will realize little if any efficiencies and increases in productivity by delivering essentially the same volume Monday through Friday instead of Monday through Saturday. With all due respect, this makes little sense. The Commission's approach ensures a significant understatement of the cost savings that would be realized by implementing five-day delivery.

The largest part of cost savings is expected to result from the elimination of Saturday carrier operations. The Postal Service's estimate of \$2.75 billion in delivery cost savings is reasonable. This conclusion is reinforced when one examines the percentage of overall delivery costs that Saturday operations represent. In FY 2010, for example, it cost the Postal Service about \$29.1 billion to deliver all mail. Saturday is currently one of six (16.7 percent) delivery days per week. So, at most, eliminating Saturday delivery would save \$4.9 billion in delivery costs. The Postal Service reasonably estimates that five-day delivery would result in costs savings for delivery of \$2.75 billion, which is over one-half (56 percent) of the \$4.9 billion.

The PRC accepted some of the Postal Service's estimates; where it disagreed with the Postal Service, it substituted its own very "conservative" savings estimates. But it did this by relying on ratemaking product cost analysis methods developed for measuring cost changes caused by changes in volume. However, in its 2009 USO Report, the Commission affirmed that such an approach was not appropriate for estimating savings associated with five-day delivery because volume is not changing as a result of eliminating a day of delivery. Instead, as the Commission noted in its USO Report, it is the day-to-day nature of operations that is changing. Thus, the Commission rejects the Postal Service's Docket No. N2010-1 savings estimates for city carrier, plant mail processing and highway transportation and replaces them with a ratemaking costing framework that gives virtually no consideration to the changes in operations that result from switching from six-day to five-day delivery. In doing so, the Commission's advisory opinion

relies on the very same analytical approach that the Commission itself previously declared to be inappropriate.

The Commission did not present its alternative cost savings methodology and estimate for scrutiny by the Postal Service or the parties during the 12-month duration of the Docket No. N2010-1 service change case. Had the Commission done so, the Postal Service and other parties would have had the opportunity to demonstrate how the Commission's methodology is flawed and contradicts its previous work. Moreover, the Commission substituted its methodology even in areas, such as transportation and mail processing, where not one party in the case questioned or objected to the evidence supporting the Postal Service's estimated cost savings.

## 2. City Carriers

The PRC found \$760 million less in annual cost savings in city delivery operations than the Postal Service's estimate of \$2,263 million – a 34 percent reduction.

The Commission rejected the expert judgment of the Postal Service's Vice President responsible for delivery operations that the Postal Service would be able to handle Saturday's volume on Monday and the other days of the week, while adding only 10 percent of Saturday's delivery time. The Postal Service's cost reduction estimates were based upon extensive experience in day-to-day management and analysis of fluctuating delivery volumes and carrier operations. Rather than give due weight to such expertise and judgment, the PRC makes the extreme and illogical assumption that there would be *absolutely no* savings of any volume-variable street time from moving to five-day delivery and that *all* of the volume-related delivery costs that the Postal Service currently incurs on Saturday would be experienced on other delivery days if Saturday street delivery were eliminated. The PRC's extreme approach ignores the basic fact that, in many instances, based upon volume and the type of delivery route, delivering Saturday's volume on Monday will not incur any extra workhours or cost. The Postal Service recognizes that there will be instances in which additional workhours would be required. Accordingly, the Postal Service reasonably estimated that nearly a quarter of Saturday's volume-related time would be needed on other days of the week in a five-day delivery environment. This is a more reasonable and a more "middle of the road" approach than the PRC's extreme position.

The reasonableness of the Postal Service's approach is shown by a sensitivity analysis of how much street time could be absorbed. Such an analysis shows that, at most, there is uncertainty regarding whether about 40 to 50 percent of Saturday delivery volume could be absorbed on other days without generating additional workhours. This analysis raises the *possibility* that the Postal Service's

\$2,263 million city carrier cost savings estimate might be overstated by as much as \$250 million, an amount that does not change the basic conclusion that the cost savings from eliminating Saturday delivery are huge.

The Commission also rejected the Postal Service's estimate of city carrier office workhours that would be experienced in a five-day delivery environment. Carrier routes are designed so that the letter carrier can deliver the mail to each address on the route on every day that service is provided. In a six-day environment, that means delivering the route six days a week; in a five-day environment, that means delivering the route five days a week. Whether in a five-day or six-day delivery environment, the mail would be delivered to the same addresses on every day of delivery service. Thus, the number of routes would not change as a result of moving to five-day delivery. If some additional time is needed on other days of the week to handle mail that is currently delivered on Saturday, this would occur only on one or two days and will be handled by a variety of operational strategies. It would not cause additional routes to be created. The PRC's advisory opinion denies this fundamental characteristic of the postal delivery network and *assumes* that additional routes would need to be created. This unfounded assumption leads the PRC to the inconsistent position of agreeing that Saturday network *street* time workhours would be saved by moving to five-day delivery but denying that Saturday network *office* time workhours would be saved.

### 3. Transportation

In Docket No. N2010-1, the Postal Service estimated that approximately \$377 million in transportation cost savings could be realized annually if the planned service changes were implemented. The PRC finds \$208 million less in savings. Postal Service witnesses testified there would be savings from not transporting mail on the weekend and the PRC agreed. However, testimony from the Postal Service's transportation management expert indicated that, given highway transportation utilization rates in the 50 percent range on the other days of the week, the Postal Service could carry Saturday's mail on those other days without adding capacity. The PRC rejected this conclusion and assumed, instead, that the Postal Service would be able to use *none* of the empty space on other days to carry Saturday's mail. This flawed assumption adds the cost of Saturday's capacity to Monday and Tuesday, virtually eliminating the highway surface transportation savings estimated by the Postal Service.

In place of careful and conservative estimates by experienced managers who oversee day-to-day operation of the postal transportation network regarding the amount of capacity that could be eliminated in moving to a five-day environment, the Commission substituted its own operational theory of what could happen. For example, the Postal Service estimated reductions of only 20 and 30 percent of Saturday capacity on inter-Area and inter-Cluster transportation contracts,

respectively. The Commission did not quantitatively demonstrate that the postal approach was erroneous based on specific daily capacities filed in the case; rather, it relied on the historical correlation between volume and the number of trips. However, that relationship is based on a largely static network and does not recognize that the significant operational changes proposed by the Postal Service would alter this historical link between volume and the number of trips.

The Postal Service notes that absorption of unused transportation capacity currently occurs on the Highway Contract Route network due to seasonal fluctuations in mail volumes. For example, a comparison between Postal Quarter 1 FY10 and Postal Quarter 4 FY10, utilizing the Commission's methodology, shows that the cubic volume increased by 12 percent while the number of trips over these time periods was essentially the same. This demonstrates that the Postal Service currently absorbs increased volumes without increasing capacity. Thus, it is very reasonable to conclude that it could continue to do this in moving to five-day delivery.

#### **4. Mail Processing at Plants**

The Postal Service estimated that approximately \$123 million in annual mail processing plant cost savings could be realized if the planned service changes were implemented. The PRC concluded that only \$66 million in savings would be realized. The PRC rejected postal mail processing operations expert testimony regarding allied and support workhours not being needed on Saturday and declared that most of the workhours saved on Saturday would instead be used on Monday. The Commission rejected the conclusion that there were significant economies to be gained in allied operations from shifting Saturday's processing to Monday. As a result, the Commission slashed the Postal Service's estimated annual savings of \$75.9 million for allied and support operations to \$19.5 million. As elsewhere, the Commission's approach essentially considers changes in costs within the context of ratemaking, where there will be volume changes with no change in day-to-day operations, as opposed to a context in which there will be significant changes in operations.

#### **5. Net Revenue Loss**

The Commission opines that the \$200 million annual net revenue loss estimated by the Postal Service is understated by \$400 million. This conclusion is not supported by the weight of the expert testimony in the evidentiary record.

The market research conducted by the Postal Service used a basic and fundamental approach in developing its adverse volume impact estimates, by recognizing the likelihood that survey respondents would have a certain degree of uncertainty in their specific volume estimates. As explained by three market

research expert witnesses testifying on behalf of the Postal Service, respondents' uncertainty translates into their overstatement of volume estimates. These experts said a "likelihood" factor is commonly applied in analyzing market research survey responses to correct for this phenomenon. One witness, a nationally recognized market research academician, testified that the approach used by the Postal Service appropriately accounts for this uncertainty. He further explained that the use of the "likelihood scale" to adjust respondents' estimates of volumes was an appropriate use of "the expected value equation," a fundamental statistical concept that is almost certainly the most prevalent statistic used for any estimation. One opposing witness who admitted to not being an expert in market research testified that he did not know whether survey participants tended to overstate or understate their intent to purchase.

The Commission increased the Postal Service's revenue loss estimate by rejecting the use of a "likelihood" factor. In doing so, the Commission concluded that there was no evidentiary basis for determining whether respondents to market research overstate their responses or that application of a likelihood factor to adjust for overstatement was appropriate to measure consumer response to changes in existing services. Inasmuch as this conclusion is contradicted by unrefuted expert testimony in the record, the Commission's opinion appears to fall far short of the requirement that it be based on substantial record evidence.

## **6. Concerns about First-Class Mail and Priority Mail**

In assessing potential adverse impact of the planned service changes on customers, the PRC opines that the delivery of approximately 25 percent of First-Class Mail and Priority Mail would be delayed by two days in a five-day delivery environment. The claim is dubious on several grounds. The Commission ignores the extensive market research results indicating that many customers would adjust when they mail and that others would continue to mail as they do now, because the elimination of Saturday street delivery is not a significant concern to them. The Commission's 25 percent projection assumes that *not one* single mailer who currently enters mail on Saturday will change to another entry day when Saturday outgoing processing is eliminated. The Commission apparently also assumes that *all* customers who mail on days where the expected delivery day would currently be Saturday will continue to enter mail on the same day in a five-day delivery environment.

These unrealistic assumptions fly in the face of the substantial record evidence presented to the Commission. If the proposed changes were implemented, there would indeed be a shift to Monday delivery for some mail currently delivered on Saturday. However, many respondents to the market research presented to the Commission indicated that they would continue to mail on Saturday *or shift their mail entry to Monday* and said that, applicable service standards notwithstanding,

they were relatively indifferent to whether their mail was delivered on a particular day.

The Commission describes the result of the planned service changes as a "two-day" delay in delivery. This characterization glosses over the fact that Sunday is already a non-delivery day. Thus, even if there were absolutely no change in mailers' behavior, the planned service changes would result in delivery being delayed by one additional day, not two.

## **7. Service to Rural and Non-Contiguous Areas**

The Commission expresses the view that the qualitative market research presented by the Postal Service was flawed because it did not give adequate consideration to the impact of the planned service changes on unique requirements and arrangements for customers in rural and remote service areas, including the non-contiguous states and territories. According to the Commission, the market research only took into account urban, suburban and suburban rural areas, and did not consider rural areas. This finding, too, is not supported by the evidence. While the Commission correctly finds that the qualitative market research included focus group sessions conducted in Chicago, Seattle, New York and Atlanta, it fails to acknowledge that market research focus group participants included household residents who live in the rural areas surrounding Atlanta and Seattle and are served by rural carriers.

The qualitative market research approach for assessing the effect of five-day delivery presented by the Postal Service for review in Docket No. N2010-1 is the same approach presented by the Postal Service to the Commission as it developed its 2009 USO Report. Both research studies were conducted for the Postal Service by Opinion Research Corporation, a nationally recognized market research firm. In both research studies, customers living in urban, suburban and rural areas were participants in the focus group sessions. In both studies, customers living in rural areas provided their views of how five-day delivery would affect them and how they would adjust to the service change. In the USO Report, the PRC expressed no concern about the research methodology. Now, it apparently finds that same approach flawed.

The Commission expresses concern about the impact of five-day delivery on customers who might rely on rural carriers to conduct retail transactions along a delivery route in the absence of an accessible Post Office location on Saturdays. However, this was not a concern expressed by the rural participants in the market research focus group sessions. These participants said that eliminating Saturday delivery was not a significant issue to them because they currently do not tend to wait for mail delivery on weekends. If they generally are not home at the time or are indifferent to when mail is delivered on Saturday, it stands to reason that Saturday is not a day on which they currently plan or wait for the arrival of their rural letter carrier to conduct retail transactions.

The Postal Service does not downplay the likelihood that some customers (rural or otherwise) prefer to preserve the opportunity to receive mail and conduct retail transactions with carriers on Saturdays. However, there was no evidentiary basis for the Commission to conclude that customers with limited access to postal retail locations in rural and remote areas or non-contiguous states and territories that have rural carrier delivery would lack the opportunity to conduct retail transactions with their carriers on other days of the week if Saturday delivery were eliminated.

The Commission's opinion recommends that the Postal Service not curtail delivery frequency for the relatively small percentage of rural customers who already receive delivery less than six days per week. This recommendation is in harmony with the operating plan submitted by the Postal Service to the Commission for review. The elimination of regular Saturday delivery is not intended to curtail delivery frequency for rural customers who already receive delivery less than six days a week. Postal data indicate that of the almost 151 million delivery addresses in the United States, 25,000 delivery addresses (0.02 percent) receive delivery three days a week on a Monday-Wednesday-Friday (MWF) or Tuesday-Thursday-Saturday (TTS) basis today. In a five-day delivery environment, as was explained by Postal Service witnesses, these delivery addresses would continue to receive delivery three days a week, even if it means adjusting the current schedule. In other words, delivery addresses receiving TTS delivery in a six-day delivery environment would receive delivery three days a week on a MWF basis in a five-day delivery environment.

Noting the statutory prohibition against the placement of unstamped mailable matter in customer mailboxes (18 U.S.C. §1725) and the long-standing exception for Sunday and holiday editions of daily newspapers normally delivered by mail (Postal Operations Manual § 632.528), the Commission recommends that the Postal Service extend the scope of this exception to accommodate Saturday editions of such publications as well. The exception to which the Commission refers was enacted by the Postal Service at a time when newspaper circulation was much more robust and Sunday and holiday editions of daily newspapers delivered by mail were more common than is generally recognized to be the case today. During the Commission's review of the Postal Service's planned service changes, the Postal Service requested that publishing industry witnesses provide estimates of the number of newspapers that publish weekend editions of newspapers ordinarily delivered by mail and pertinent aggregate circulation figures. Such data could shed light on the likely impact of any decision regarding expansion of the current Sunday/holiday exception. No such figures were produced. The Postal Service has not foreclosed the possibility that circumstances may justify re-examination of the current exception. However, given the policy considerations underlying both the general statutory prohibition and the narrow exception in the regulation, such a change has not been justified.

### **III. The Commission's Four Recommendations**

The PRC opinion concludes that, if the Postal Service moves forward with five-day delivery, it should create a plan to address the following four issues. As explained below, three of the issues were addressed in the implementation plan presented to the Commission for review. The Commission's fourth concern arises from an unfortunate data anomaly.

#### **A. Voting by mail**

The Commission recommends that the Postal Service continue to work with local elections boards to minimize the impact of the elimination of Saturday delivery on the use of the mail to participate in elections. The PRC urges the Postal Service to follow through with its commitment to its long-standing practice of working with election officials around the country to ensure that (a) elections-related materials sent to voters are delivered as timely as possible based on the level of service chosen and paid for by the elections board and (b) completed ballots mailed by voters in a timely manner are delivered to local elections boards in time to be counted.

Postal Service testimony presented to the PRC reflected a commitment to encourage more local elections boards to use P.O. Box addresses to receive ballots if Saturday delivery to street addresses is eliminated. The Postal Service is committed to continue working with elections boards to communicate with voters regarding how changes in Saturday mail collection and processing could affect the timing of the delivery of ballots in elections with Tuesday voting deadlines.

#### **B. Mail order pharmacies**

The Commission opines that the Postal Service needs to work with mail order pharmacies to ensure that Americans continue to receive medicines via mail in a timely manner. It is noteworthy that none of the participants in the USPS market research, which is part of the evidentiary record, indicated that the elimination of Saturday street delivery would pose a material problem with regard to receipt of pharmaceutical products. The Postal Service's plan calls for the general delivery of mail -- including pharmaceutical and medical products -- to street addresses on Monday through Friday and P. O. Box addresses on Monday through Saturday. The evidence before the Commission shows that most medicines delivered in the mail are fulfillment of prescriptions that provide a 60 to 90 day supply. At its non-evidentiary field hearings, the Commission was informed that medical product shippers employ systems to repeatedly remind recipients to re-order products in a timely manner to ensure continuity of supplies. The delivery

of medicines on weekdays will almost always meet the needs of customers. Express Mail will continue to be available for emergency shipments of medicines in many locations.

**C. Mailers of live animals or other extremely perishable matter**

The PRC encourages the Postal Service to take into account the needs of the customers mailing and receiving live animals, insects and other extremely perishable materials. This encouragement echoes the Postal Service's testimony and implementation plan, both of which explain how the needs of these customers were considered and will continue to be met. The Postal Service will work with mailers to ensure that shipments arrive at the delivery unit in time to be delivered Monday through Friday. In the event that a shipment is not available at a delivery unit in time for delivery on Friday, the Postal Service will contact the recipient to arrange for pick up at the delivery unit that day, consistent with its current long-standing practice on Saturdays.

**D. Small businesses that send and receive packages by mail**

The PRC recommends that the Postal Service re-examine the needs of small businesses that use its parcel services, based on the conclusion that Saturday is the day on which they send and receive their heaviest volume of parcels. The Commission's concern for the plight of small businesses in the five-day delivery environment is understandable, but not justified. It ignores the Postal Service's market research which reveals that many small businesses are not open on Saturday; others are open but do not ship or receive mail; and others indicating they do not need Saturday operations.

The Commission's concern also appears to be based upon an anomaly in data supplied by the Postal Service. In the USPS response to Question 10 of Chairman's Information Request No. 3, an anomalous data point skews the average daily parcel volume percentages calculated by the Commission. The data entry error creates the impression that a single Post Office near Indianapolis, IN delivered 31,024,468 parcels on a single Saturday in June 2009. Had the Postal Service and the parties been given an opportunity to scrutinize the PRC's intended use of the data during an evidentiary phase of Docket No. N2010-1, the anomaly could have been identified and its impact nullified. When the anomaly is rectified and data for fiscal years 2008 through 2011 are examined, Saturday ranks as the second lightest day of the week for package delivery, not the heaviest day. In addition, the Commission's analysis failed to account for the actual number of delivery days for each week in calculating the percentage of parcels delivered each day of the week.

## **IV. Conclusion**

The Commission's advisory opinion does address applicable statutory policies or recommend either in favor or against the proposed service changes to eliminate five-day delivery. As two Commissioners stated in their separate views, five-day delivery is needed to improve the financial stability of the Postal Service.

Whether one accepts the USPS or PRC cost-benefit analysis, implementation of five-day delivery would significantly improve the Postal Service's financial stability. The Postal Service estimates net \$3.1 billion in costs savings while the PRC estimates net cost savings of \$1.7 billion. No other action the Postal Service could take operationally will result in such large annual cost savings.