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Postal Service Challenges PRC Five-Day Analysis *Stands by \$3.1 Billion Savings Estimate*

WASHINGTON — In a report issued today and delivered to Congress, the U.S. Postal Service asserted that the Postal Regulatory Commission (PRC) based a recent advisory opinion on a questionable analysis of the potential cost savings that could be achieved by implementing a five-day delivery schedule to street addresses.

The Postal Service has estimated that making the move would yield a net annual cost reduction of \$3.1 billion based on extensive market research and financial estimates provided to the PRC March 30, 2010. The PRC issued a nonbinding advisory opinion March 24, 2011 that concluded that transitioning from a six-day delivery schedule to a five-day street delivery schedule would only achieve \$1.7 billion in net annual savings.

The \$1.4 billion discrepancy between the respective estimates results from:

- the Commission's unwillingness to recognize about \$760 million in savings from increased city carrier productivity and efficiency under a five-day schedule;
- the Commission's failure to account for more than \$260 million in highway transportation and mail processing economies associated with one less day of street delivery; and
- the Commission's summary dismissal of the unrefuted testimony of market research experts to reach its conclusion that the Postal Service estimate of annual revenue loss resulting from the change was understated by \$386 million.

On the variances between the agency's cost savings estimates, the Postal Service report questions the PRC assumption that "little, if any, efficiencies and increases in productivity would be realized in certain city carrier activities by delivering the same volume Monday through Friday instead of Monday through Saturday." The PRC revenue loss estimate "is contradicted by the overwhelming weight of expert testimony ... [and] falls short of the requirement that it be based on substantial record evidence."

The Postal Service finds it unfortunate that the PRC relied upon a questionable financial analysis in developing its nonbinding advisory opinion. The total impact of transitioning to a five-day delivery schedule will significantly improve the Postal Service's financial stability by reducing annual net costs by about \$3.1 billion annually. The report states that "No other single action the Postal Service could take operationally will result in such large costs savings."

Further, the Postal Service report explains that the Commission's estimate of approximately \$1 billion less in annual operational savings stems from the PRC's use of its rate case approach to product cost analysis, which assumes a static network. The PRC acknowledged in its Jan. 30, 2009 *Report on Universal Service and the Postal Monopoly* that such an approach fails to consider the operational impact of changing delivery frequency.

The Postal Service report vigorously disputes the PRC claim that the five-day delivery proposal did not sufficiently take into account the needs of customers in rural and remote areas. The Postal Service contends that its extensive market research considered the views of rural customers and incorporated them into its implementation plan. The Postal Service noted that the same market research methodology for considering the needs of rural customers was accepted by the PRC in its 2009 *Universal Service* report.

The Postal Service report regarding the March 2011 advisory opinion also criticizes the PRC for its inability to fulfill its core function in the nonbinding advisory process, which is to address whether the proposed service changes would be consistent with governing statutory policies.

The USPS report is available at:

<http://about.usps.com/news/electronic-press-kits/five-day-delivery/pdf/USPS-Report-re-PRC-Advisory-Opinion.pdf>

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