

Response of the United States Postal Service to the Advisory Opinion of the Postal Regulatory Commission in PRC Docket N2024-1

Introduction/Executive Summary

The Postal Service has carefully reviewed the Advisory Opinion (AO) from the Postal Regulatory Commission (Commission or PRC) and has considered thoroughly the Commission's recommendations regarding the Postal Service's proposed operational changes and corresponding service standard changes. Unfortunately, it is abundantly clear that the PRC predetermined its views and failed to fully or fairly engage with the Postal Service's proposal. Rather, and as described in more detail below, the PRC presents a completely one-sided narrative that unjustifiably ignores or dismisses as unlikely to occur all of the positive benefits of the proposal; at times misrepresents or misunderstands the Postal Service's plans; and characterizes the service impacts in a way that lacks any sense of context or proportion.

The Postal Service, through the Delivering for America Plan (DFA), seeks to achieve the obligations that Congress has mandated: the provision of prompt, reliable, and efficient mail and package delivery through an integrated network, in a financially sustainable manner. As we extensively discussed in our filing with the Commission, the Postal Service's legacy transportation and processing networks are highly inefficient, and therefore stand in the way of the achievement of these statutory obligations. Much of this inefficiency is dictated by the Postal Service's current service standards, and specifically the fact that those standards do not account for the time and effort needed to transport end-to-end mail and packages from the origin retail facility to the processing network (Leg 1); instead, the standards only reflect the distance between the origin and destination processing facilities (Leg 2). The standards have not been adjusted to reflect Leg 1 operations even though the volume of Single-Piece First-Class Mail entered via our retail facilities, and hence being handled in Leg 1, has declined precipitously over the past two decades. This means that the Postal Service is running a large number of transportation trips in Leg 1 with largely empty trucks, adding limited value to service while also producing excess costs and carbon emissions.

To address these issues, the Postal Service has crafted a proposal that carefully balances the policies of the statute, in terms of enabling greater operational efficiency and cost savings while also ensuring that all customers continue to receive prompt and reliable service. As part of this balance, while most mail and package volume will retain the same standard or a faster standard, the Postal Service is implementing a service standard downgrade for a minority of volume that importantly will still be subject to the day ranges of the current service standards. This includes adding 1 day to the standards within Leg 1 for Single-Piece First-Class Mail volume that originates farther away from our processing network, while also maintaining the current day range (2-5 days). This change will enable the Postal Service to rationalize our Leg 1

transportation through implementation of the Regional Transportation Optimization (RTO) initiative, while also increasing the velocity and efficiency of our Leg 2 operations. It also aligns with a basic and straightforward principle that all modern service standards have followed – mail traveling longer distances receives a longer service expectation than does mail travelling a shorter distance – and simply extends that logical principle to Leg 1 (whereas the current standards only consider Leg 2).

The Commission advises against our proposal both because it: (1) denies that the Postal Service is actually engaged in a balancing of efficiency and service at all (by ignoring or dismissing the positive benefits of the proposal), and (2) states that even if those benefits did occur, it would still balance the policies of the statute in a fundamentally different manner that prioritizes the maintenance of current service standards over increasing efficiency and cost savings. Specifically, the AO states that, “The Commission urges the Postal Service to reconsider whether the speculative, meager gains from this proposal outweigh the certain downgrade in service for a significant portion of the nation.” However, the benefits of this proposal are not “speculative,” but reflect the engagement of modern operational strategies that are clearly necessary and achievable, and which will lead to more cost-effective, precise, and reliable operations. Moreover, the cost savings that will accrue from these strategies – nearly \$4 billion annually, a figure that is itself conservative – is certainly not “meager” under any reasonable interpretation of that word, and the fact that the Commission believes otherwise is nothing short of astonishing. These benefits clearly outweigh the relatively minor service impacts of the proposal.

Specifically, and as discussed in more detail below, the Commission’s reasoning and conclusions, which reflect the fact that it has no responsibility to ensure the financial viability of the Postal Service, are deficient in numerous respects:

- While the Commission pays lip service to the need for reform of the Postal Service, it displays clear hostility to the one plan that is actually seeking to solve the Postal Service’s long-standing financial and operational problems (the DFA), mocking the Postal Service’s pursuit of the DFA as a purported “panacea.” The Commission ignores the depth of the financial and operational crisis facing the Postal Service that the DFA is designed to correct, and in its zeal to discredit the Plan fails to recognize the significant progress achieved to date in reducing costs and increasing revenue through the self-help strategies of the DFA – a sharp reversal from prior trends. The Postal Service has never claimed that the DFA does not require difficult trade-offs or that change is not hard, and challenges will inevitably arise as we engage in a transformation of this scale and magnitude, but neither factor serves as a legitimate basis to oppose the pursuit of meaningful change in favor of an unsustainable status quo.
- The Commission does not defend the efficiency or operational viability of the legacy network and acknowledges that it is “theoretically possible” that the Postal Service’s operational strategies are the right path forward. Nevertheless, it concludes that the proposals are not ready to be implemented because of

purported deficiencies in the Postal Service’s modeling and implementation processes. These criticisms simply reflect the Commission’s ivory tower mentality and lack of practical understanding or real-world experience of how to modernize the postal network. The Postal Service is pursuing our operational changes through the engagement of strategies, models, and decision-making processes that are very robust and deliberate, and which allow us to make appropriate business and operational decisions as we move forward to ensure that we create a modern, efficient, and integrated network. As discussed throughout the case, including in record evidence, the Postal Service is engaged in operating planning and execution through a systematic, iterative, and region-by-region approach, in order both to address what is necessary to most efficiently transport and process mail and packages within each region, while also ensuring that the network as a whole is structured in a standardized, effective, and integrated manner. This approach enables us to actually plan and execute on meaningful change in the real world of postal operations, while the Commission’s approach treats this as a theoretical classroom exercise and would simply lead to “paralysis by analysis” and maintenance of the status quo by artificially creating barriers to change. While we acknowledge that this transformational change has led to temporary service disruptions in certain regions due to implementation challenges, those challenges are not a reason to stop (as the Commission would have us do), but instead present an opportunity to leverage the experience gained, make appropriate adjustments, and continue to move forward with the significant changes that need to be made.

- The Commission’s assertion that annual cost savings of nearly \$4 billion (or 4.4% of our total costs) from these initiatives are “meager,” Docket No. N2024-1, PRC AO at 10, and therefore not worth pursuing, reflects that it is an organization that is not seriously concerned with the Postal Service’s financial sustainability, or that it fundamentally misunderstands what changes of that magnitude would do for the Postal Service from a financial perspective. No private sector company or any other entity expected to operate in a business-like and self-sufficient manner would scoff at the opportunity to save nearly \$4 billion annually or to cut 4.4% out of its total cost base. If the Postal Service adopted the Commission’s perspective in this regard, we would never pursue any self-help operational initiatives to increase efficiency that also had a service impact, because no such initiative would ever have a material enough impact in the Commission’s warped view to be worth pursuing. However, the reality is that the only way the Postal Service is going to be financially sustainable is through the implementation of a comprehensive set of operational initiatives to cut costs and increase revenue that, cumulatively, will enable the Postal Service to achieve positive controllable and net income, and eliminating the excess costs imposed by our current legacy network is clearly both material and vital to that goal.
- While the Commission asserts that the Postal Service did not fully consider the impact on the service standard changes on rural areas, that is incorrect. We

considered that issue in depth when preparing the proposal, explicitly addressed the issue in our case, and thoroughly explained why we believed the balance struck to be appropriate, given the operational benefits and overall impact on service. In this regard, we considered the fact that (1) the changes would add *one day within* the existing service standard day ranges to the First-Class Mail service standards for mail originating in areas far from our processing network (with some very minor exceptions), which encompasses both rural and non-rural areas; (2) the current day ranges for First-Class Mail would stay the same, and be shortened for other end-to-end mail products, (3) the changes would benefit the speed of service within Leg 2 overall (and hence would improve the *delivery* of mail to rural communities), and (4) the changes would improve service reliability overall. Moreover, the changes allowed the Postal Service to maintain certain originating processing operations at a number of our Local Processing Centers that were identified in the docket. Further, a number of additional such facilities that will maintain certain originating processing operations were recently announced, with potentially more such facilities to be announced in the near future. This enables 2–3-day turnaround service from regional and local processing centers for mail destined in those same service areas. This approach is directly responsive to specific stakeholder concerns and only possible because of the other changes. Finally, the changes do not alter access to postal services at our retail locations.

- The Commission’s unexplained conclusion that the impact of our proposal on rural areas is “severe,” such that it should stand in the way of the Postal Service’s financial sustainability, fails to fairly reflect the actual proposal put forth by the Postal Service, and is based on an overly rigid and incorrect interpretation of the statutory policies. Under the Postal Service’s proposal, all customers – including those in rural areas – will continue to receive service levels that are fully compliant with the statute, while also benefitting from a more reliable, efficient, and sustainable Postal Service, capable of providing universal service for years to come.

In sum, the Commission’s AO epitomizes the bureaucratic status-quo perspective that has led the Postal Service to financial and operational crisis—one that pays lip service to the need for change, while seeking to place barriers to actually enacting any meaningful reform. Cost savings of nearly \$4 billion a year are dismissed as “meager”, while service standard changes that are carefully designed and modest in impact within the current service standard day ranges are characterized as a “severe degradation” in service that must be avoided at all costs. The Postal Service’s efforts to address clear deficiencies in our current network through a long-term operational transformation are dismissed as “speculative” absent the Postal Service providing the Commission with up-front analyses and operational details that are unnecessary, unreasonable, rigid, and impractical, and because the Postal Service has experienced some initial challenges in implementing a massive transformational change. Rather than building on the

successes of the DFA to date, by moving forward with the transformation of the Postal Service network that will enable us to continue to reduce costs and grow revenue, the Commission would have us stop our transformation. Taking this “head in the sand” path would, however, lead to the Postal Service’s continued financial and operational deterioration and eventual ruin, and therefore does not constitute an appropriate balancing of the statutory policies.

The Commission includes specific recommendations in the AO that it encourages the Postal Service to follow if we move forward with the proposal. Despite the extensive problems with the PRC’s opinion, and that many of the recommendations are based on false premises, the Postal Service agrees with many of the recommendations. In fact, many of the recommendations represent common sense measures that the Postal Service already planned to take as part of our implementation process. Some are already well underway.

Other recommendations, however, would paralyze any progress, demonstrating the Commission’s lack of responsibility for the financial viability of the Postal Service and its preference for maintaining the status quo. Unlike the Commission, the Postal Service is responsible for ensuring the financial health of the Postal Service. For that reason, as noted above, the Postal Service cannot, in those instances, accept the recommendations, because doing so would be inconsistent with the Postal Service’s legal responsibilities to provide quality service in a financial sustainable manner.

Below, the Postal Service provides a further detailed rebuttal to the reasoning and conclusions set forth in the AO, and then provides a response to each specific recommendation from the Commission in the appended chart.

The PRC's Modeling Expectations Are Unrealistic, Unworkable, and Unfounded, and Would Stymie All Feasible Self-Help Efforts Before They Begin

The PRC heavily criticizes the modeling, data analysis, and planning that inform the operational changes we described in our proposal. The criticisms, however, demonstrate that the PRC, as a regulator (not an operator), takes an “ivory tower” approach with requirements that are insatiable and—in reality—unsatisfiable. The criticisms and related recommendations demand more and more *ex ante* analysis before any operational changes are made; this amounts to “paralysis by analysis” and maintenance of the untenable status quo.

The Postal Service’s models and decision-making processes are robust. The strategies we are employing are not revolutionary, but instead simply involve the deployment of modern approaches that any commercial logistics provider should use. Our operational planning and implementation processes to execute on those strategies are thorough and systematic, and enable us to appropriately design and execute on meaningful change in the real world of postal operations. Most fundamentally, while the PRC wants to prioritize never-ending study and analysis as if this were a theoretical classroom exercise, at the end of the day *we have to move forward with change given the short window that we have to effectuate change before we collapse financially.*

The PRC also criticizes the Postal Service for allowing on-the-ground, site-specific adjustments in our plan, preferring formulaic and rigid adherence to a plan that is comprehensively developed for the entire network (and presented to the Commission) in advance. The Postal Service is well aware of the issues caused by a network that is developed in an ad hoc rather than systematic manner – this is one of the central flaws of the legacy network that the Postal Service explained we are trying to correct through the new RPDC and LPC network. But building a more standardized and integrated network does not mean that the Postal Service must go too far in the opposite direction by developing a detailed operational plan up front, and then sticking rigidly to that plan. This criticism shows how the PRC is misaligned from the basic realities of running a large logistics operation. A design process that employs standardized approaches, with adjustments based on operational need as the Postal Service considers on-the-ground evidence of how to best design transportation and processing operations in each geographic region, is clearly the soundest approach given the complexities of postal operations in a country that is as large and varied as the United States, and one that is routinely utilized in the logistics industry, if not in the bureaucratic halls of regulatory agencies.

The PRC’s insistence that we pause all DFA initiatives pending a wholesale “stochastic” modelling exercise is likewise unsupported and lacking in credibility. The modeling approach used by the Postal Service allows us to build a logical, capturable, and conservative cost target aligned to the very real operating constraints of our network. Outputs from a stochastic model would be overly complicated and not realistically actionable, and the PRC never explains how a stochastic model would provide

information that is actually useful to the Postal Service's operational decision-making with respect to these initiatives. Indeed, the PRC's criticisms of our network modeling demonstrate a thorough-going failure to grasp both our modelled outputs and, in general, what models can feasibly be expected to accomplish.

The PRC's criticism of the fact that the Postal Service is largely using our existing facility network in the redesigned RPDC/LPC network, rather than creating new facilities in specific locations that Greenfield modeling identified as optimal, is also nonsensical from a financial and operational perspective. The fact that the Postal Service is creating a best-fit network that largely uses our existing facility locations (while creating new facilities in certain regions where appropriate) is financially necessary, given the capital expense involved in standing up entirely new facilities. It also reflects operational practicalities, given that the Postal Service is beholden to statutory service obligations that require us to continue to meet those obligations while transforming our vast embedded infrastructure. We do not have the ability to ignore our existing infrastructure when designing the new network.

To further facilitate effective operational implementation, about which the PRC is clearly concerned, the Postal Service plans to implement the service standard changes in a staged manner. To address the PRC's concerns, when we publish our final rule, we plan to establish an interim rule that will implement the service standard changes regarding Leg 1 and RTO first, and thereafter to implement the remaining service standard changes (including the Leg 2 changes and local turnaround) a few months later. During this interim period, the Postal Service will analyze data regarding the impact of the changes on Leg 1 in order to adjust our operational planning regarding Leg 2 operations to the extent warranted, and therefore help ensure that we are well positioned to implement the Leg 2 service standard changes.

Rebuttal

- The PRC's penchant for crystal-ball modeling—one in which every last detail is identified, assessed, and mapped out before any implementation steps whatsoever are taken, and thereafter rigidly adhered to—is rooted in fantasy. Consider the following quote from the AO: “An effective plan for a future state mail processing network design would not require as many adjustments and strategic changes to be made during implementation. An effective plan would also demonstrate that every aspect of the design contributes to the Postal Service's efficiency and cost-savings goals.” *Id.* at 175-76. It is hard to take such assertions seriously. The Postal Service *did* demonstrate how various operational features of our proposal—involving local transportation, middle-mile transportation, air transportation, and a plethora of Function 1 originating processing modalities—interrelate and contribute synergistically to efficiency and cost savings goals. What the Postal Service did not (and could not) do, is create a hubristic, rigid, all-encompassing “model” of the entire network that ignores reality. We must allot ourselves some flexibility in implementing our designs: this

a virtue of our plan, and not a flaw. As with all modeling processes, models are developed, iteratively assessed during implementation, adjusted, and improved upon. This would be advisable in any private sector modeling effort.

- RTO Planning and Implementation

- Despite insisting in prior Advisory Opinions that the Postal Service pilot initiatives before implementing them nationwide, the PRC dismisses the relevance of the LTO pilots to RTO. Specifically, it inaccurately suggests that our use of LTO as a proxy to estimate the cost savings from RTO somehow means that we are not prepared to implement RTO. However, LTO constitutes the same fundamental operational practices as RTO, in terms of designing a more logical regional transportation network that eliminates afternoon trips; RTO simply de-constrains additional sites and therefore provides a greater optimization opportunity. The LTO model is therefore fundamentally the same as the RTO model, and the experience gained through the pilots has provided clearly material real-world experience for the Postal Service to leverage as we implement RTO. It is baseless to assert that if the Postal Service conducts a pilot, and makes certain adjustments to the initiative it then plans to implement based on that pilot, we must conduct yet another pilot. This would prioritize never-ending piloting over actually moving forward with meaningful change. We are in fact going to create “RTO-specific plans and models” as we implement the RTO, which will occur through a deliberate, iterative, region-by-region implementation process that will enable us to make adjustments as we deem appropriate.
- The PRC’s complaint that the Postal Service’s planned approach will “lead to ad hoc and fragmented implementation plans” that “conflict with the Postal Service’s rationale in choosing the 50-mile static threshold,” *id.* at 117, is baseless. We are implementing RTO based on nationally applicable principles (specifically, the fact that ZIP Codes will be subject to RTO if they are serviced by a retail facility more than 50 miles from the RPDC), but the specific design of any particular regional transportation network is necessarily based on the specifics of the region and the embedded infrastructure, which is why planning occurs on a region-by-region basis. Also, while the Postal Service has left open the possibility of certain instances in which it may make operational sense to run multiple trips to a post office that would be subject to RTO (or not run multiple trips to an office that would normally not be subject to RTO), the existence of such minor exceptions does not undercut the validity of applying a consistent threshold across the nation, as it does not add a material level of additional complexity.
- The PRC criticizes the Postal Service’s use of the 50-mile threshold. The PRC instead “recommends that the Postal Service supplement its business judgment regarding a 50-mile threshold with more data-based analysis to explore different methods for determining RTO designations, such as one

- based on travel time” *Id.*, Appendix at 1. But the 50-mile driving distance threshold used for RTO (as measured by the industry standard PC Miler software) corresponds directly to, and thus provides a reliable proxy for, drive times. This is because any hypothetical drive-time designations would of necessity assume a mile-per-hour constant, just as current business rules do; and as we explained in throughout this proceeding—and as common sense and basic arithmetic would otherwise dictate—drive times coupled with a mile-per-hour constant translate to units of distance. Furthermore, the 50-mile threshold was not selected at random or on a whim. During the LTO pilot phase, multiple driving distance thresholds were considered, tested, and assessed; ultimately, a 50-mile threshold centered on RPDCs was determined to represent an optimal a trade-off between volume impacts, cost savings potential, and operational feasibility. Finally, it bears noting that if (as the PRC appears to recommend), the Postal Service assessed RTO thresholds separately for each RPDC, there would result a complex, heterogenous, shifting, and unworkable set of site-specific rules, causing operational difficulties and rendering the standards themselves opaque. A round number applied uniformly across all facilities, on the other hand, supports administrability, communicability, and change management.
- The PRC’s recommendation that the Postal Service learn from “its negative experience implementing Dynamic Routing Optimization to inform its preparation for implementing RTO,” *Id.* at 118, is moreover gratuitous, as we have already incorporated the lessons of that experience (e.g., basing plans on demonstrated performance and not around reported plant runs) into our local transportation modeling. This was explained as part of our direct case.
 - The PRC suggests that comparisons of modelled outputs to actual data (as presented for both local and middle-mile transportation networks) risks overstating potential cost savings. The Postal Service has for its own purposes also compared modeled outputs for RTO and the optimized network to modeled outputs under actual conditions; these comparisons also show the potential for significant cost savings. More generally, given that the current regional transportation practices necessitated by the current service standards are so clearly inefficient (necessitating that we run multiple underutilized trips to remote facilities on a daily basis), the cost savings potential from consolidating trips is obvious and significant.
 - The PRC’s strictures on layovers, and on the local transportation model’s alleged failure to account for them, are by turns baffling and misplaced. For instance, the PRC voices “concern” that “the Postal Service could not provide the average number and length of nationwide layovers.” *Id.* at 108. It is unclear what such a data point would contribute to either LTO or RTO, as layovers are assessed at each campus and are tracked closely as part of the implementation process. Furthermore, the Postal Service’s Transportation Strategy group has implemented a protocol to negotiate reduced layover

payments. Specifically, the Postal Service identifies current, modeled, and scheduled layovers as each region is modeled and as schedules are developed and implemented; these metrics are tracked with each modeled region and can be refreshed post-implementation.

- RPDC/LPC Network Modeling

- The PRC criticizes the Postal Service for not having “finalized network details in its filings in this docket,” and states that “the tools used by the Postal Service to guide it in its facility selections do not include the data necessary to operationalize” the benefits we expect in Leg 2. *Id.* at 156-58. On the contrary, as comprehensively explained in our case, we chose a best-fit facility network largely using existing infrastructure, and are deploying a set of operating principles to guide the development of the network, in terms of future facility processing assignment, equipment, layouts, mailflows, and other operational parameters. The PRC cannot (and does not) claim that those operating principles are flawed, and our models show that these changes will yield significant benefits relative to the legacy network. As discussed above, to demand that “finalized network details” be comprehensively developed and presented to the Commission up front ignores operational practicalities.
- The PRC’s finding that “while the Postal Service announces the advantages of the new RPDC hub-and-spoke network, it has not operationally tested the underlying transportation model,” *id.* at 138, is inaccurate. The Postal Service has, in fact, been implementing RTH throughout FY24 and FY25, resulting in significant mileage and surface cost reduction; and so far, 17 RPDC regions are in some stage of activation.
- The PRC asserts that “location-specific adjustments” to RPDC and LPC functions “are based on business judgment regarding local operational considerations rather than rigorous data analysis.” *Id.* at 172. There is no evidence presented for this statement, and it is patently false—the Postal Service’s systematic and robust implementation planning process noted above is based on rigorous analysis of how to most efficiently structure mail and packages within a particular region. The PRC acts as if the only way to engage in a rigorous process of transforming the network is to fully develop “finalized network details” up front, which is fundamentally incorrect.
- The PRC cites the decision to equip LPCs with destinating package processing capacity as a basis for concern that our plans will result in “another inefficient network.” *Id.* at 173. This basis of this criticism is not explained, and for good reason: it is baseless. As noted, the willingness and flexibility to adapt does not ensure the creation of “another ad-hoc network,” contrary to what the PRC suggests. *Id.* at 191. It is simply not necessary or practical (or sensible) for the Postal Service to state that we are setting forth a detailed plan now that is wholly inflexible and unchangeable.

- The PRC states that “only 2.2 percent” of the RPDC/LPC network will be new facilities and indicates that this is a problem because the Postal Service purportedly “has not explained how these inadequacies [of the legacy network] will be addressed in the network given that most of these facilities in the RPDC/LPC network are in use in the legacy network.” *Id.* at 143. This statement is perplexing, as we extensively explained that (and how) we are re-structuring these facilities by investing in them and changing their layouts, in order to correct their existing deficiencies. And we have successfully done so already in multiple RPDC regions utilizing existing facilities. It would be financially irresponsible, if even physically possible given the relatively short window we have to ensure our financial viability, not to leverage existing infrastructure.
- The PRC’s remarks on the Greenfield exercise are in this regard instructive. The Postal Service utilized the Greenfield analysis to determine how to construct a best fit network using existing infrastructure while adding new facilities when necessary and appropriate. By faulting the Postal Service for “not substantially us[ing] the Greenfield approach to determine where to locate facilities,” and indeed for failing to analyze “how costs and service performance in an RPDC network built around the results of the Greenfield application would differ from costs and service performance at the facilities it actually selected,” *id.* at 142, the PRC engages in “pie in the sky” thinking that ignores the fact that *the Greenfield exercise is geographically unbounded*. That is, it identifies coordinates that could overlap with already-existing real estate, topographies that are unsuited for processing centers, or land that the Postal Service could not feasibly acquire. The notion that the Postal Service should have created a completely new network from scratch simply to conform to a model is nonsensical, from both a financial and operational perspective. (The PRC, moreover, frequently cites the service performance failures at the newly built Atlanta facility; while we have explained the causes of those disruptions at length and have through multiple filings put those disruptions into historical context, it is rich of the PRC to both roundly criticize our effort to open a brand new RPDC out of one side its proverbial mouth, while suggesting out of the other that the Greenfield exercise be bent to purposes for which it was not designed and is manifestly unsuited.)
- The PRC produced calculations purporting to show “how the hub-and-spoke concept can result in circuitous routing,” as mail would travel to far-away locations for consolidation before approaching its destinating LPC, citing to transportation flows between Casper, WY and Pocatello, ID. *Id.* at 144-49. The PRC’s example has, in fact, been a long-standing design of the postal network. Pocatello and Casper do not currently have their own outgoing networks. All volume from Casper is routed via Denver for network aggregation because Casper is such a low volume origin. Pocatello is not an outgoing processing site, and all volume destined to Pocatello is directed

through Boise, since Boise is the package processing center for Pocatello. Most fundamentally, none of this is illogical, counterintuitive, or wasteful: it is simply inefficient and costly to run duplicative outgoing networks from low volume facilities. To the extent that the PRC is suggesting that a hub-and-spoke model is inappropriate and that the Postal Service should instead run direct trips between facilities simply to avoid what it characterizes as “circuitous routing,” it provides absolutely no support for why such a such an approach is operationally preferable to the Postal Service’s approach.

- The Commission’s Focus on Stochastic Models is Unclear and Misguided
 - The AO (together with Commissioner Day’s addendum) repeatedly criticizes the fact that the Postal Service did not utilize a “stochastic model” without bothering to define with any specificity what such a model would entail in this circumstance or why its use would provide any material practical benefit to the Postal Service operational decision-making, beyond offering trite truisms like “a stochastic model predicts possible outcomes weighted by their probabilities.” *Id.* at 148 n. 86. This delves no deeper than what a simple Google search would (and indeed did) yield. *Why* a “stochastic model” would be better suited to the Postal Service’s purposes, *how* such a model would differ from the iterative, close-to-the-ground process of refinement we delineated, *whether* the increased cost and inconvenience of such a model would justify the wholly speculative benefits claimed on its behalf: these and other important questions are not addressed.
 - Given that the Postal Service intends to repurpose existing infrastructure, to schedule regularly recurring transportation trips, and to make adjustments where warranted based on an array of operational factors, including volume fluctuations, it is unclear what additional value a time-consuming, labor-intensive “stochastic” model would at this time provide. Furthermore, the PRC’s insistent demand for a stochastic model is incoherent if the PRC also wants the cost savings projected by management to be reasonable. The deterministic approach identifies capturable upside that aligns to the realities of what the organization can absorb, whereas a stochastic model—which is not aligned to the labor, facility, and schedule constraints that the Postal Service operates in daily—does not. In other words, the modeling approach used by the Postal Service allows us to build a logical, capturable, and conservative cost target aligned to the very real operating constraints of our network.
 - The use of outputs from a stochastic model would require the ability to change our routings, consolidations, dock assignments, etc., on a daily basis. Such outputs would be overly complicated and not realistically actionable for our plants, people, or network function. As the Commission is already concerned with the Postal Service’s ability to implement effectively, it seems

- inconsistent to recommend an overly complicated modeling approach that will yield unnecessarily complicated outputs with no clear benefits.
- Despite clear record testimony on the issue, the PRC ignores the fact that as we build out our network, we will progressively integrate the processing and transportation modelling efforts. Currently, the models are integrated to the extent that their assumptions are compatible with each other; the fact that they are not a “single” model does not mean that the models are mutually inconsistent. More fundamentally, the demand that we deploy an integrated transportation and processing model—one which encompasses facility locations, processing capacity, and local and middle-mile transportation schedules all at once—*ex ante*, ignores facility location constraints: RPDCs and LPCs locations are overwhelmingly based on existing infrastructure, i.e., existing facilities. Given such constraints, more complex, labor-intensive, time-consuming and expensive “integrated” models likely would not have outputted a materially different grid of facilities, and instead would only achieve substantial delay and maintenance of the status quo in the interim, with no meaningful benefit.
 - In this regard, the PRC misrepresents an exchange between Commissioner Day and Witness Hagenstein: “[w]hen asked whether he agrees with the statement, ‘[t]he first rule of systems engineering, if you optimize the components, you will probably ruin system performance,’ witness Hagenstein states “‘I agree with that statement, not necessarily in this application.’” *Id.* at 100. The PRC contorts Witness Hagenstein’s reply out of its intended meaning: the Postal Service has not (as the PRC insinuates) proposed to optimize any aspect of its complex network in isolation from all others—indeed, the PRC appears to have conveniently forgotten that our case comprised detailed testimonies addressing both transportation *and* processing. Instead, the Postal Service merely intends to recognize certain basic realities, among them the pre-existing infrastructure which we plan to repurpose. That is a constant *with which* our analysis must contend and *around which* we must formulate our operational plans unless we want to take decades to modernize. Conversely, transportation models are designed to move volume in a manner that supports processing and service standard constraints, not to determine processing facility locations.
 - Further, the PRC confuses a “single analytical algorithm” with “integrated modeling.” It is standard in complex networks to build multiple components that connect to each other logically. The “suboptimization” the PRC references occurs when the components are logically incoherent from each other. That is not the case here, nor is there anywhere in the testimony reason to believe that would be the case.
 - The Commission’s complaint that in our network design, “transportation models do not inform the mail processing operations or costs,” *id.* at 100, derives from a similar misunderstanding of (or refusal to acknowledge) the

- infrastructure constraints within which we are bound to operate: we begin largely by identifying existing facilities that can be repurposed; we then design transportation schedules *within* those constraints. To use the tail to wag the dog—to base facility locations on transportation flows—is to assume a map upon which facilities can be moved around like board game tokens.
- The PRC’s concern “that [the] air transportation network is not included in the model, despite claims of cost savings from modeled transportation changes in the inter-RPDC model,” *id.* at 158, is baffling. Air transportation cost savings within the RPDC/LPC network are indeed calculated; volumes (and accompanying cost estimates) subject to surface-to-air diversion within the future state network and under the proposed service standards were provided; and as the Leg 1 and Leg 2 transportation models focus by design on reduced surface transportation mileage, it is difficult to imagine what further “inclusion” of air transportation into “the model” would entail.

The PRC Misrepresents Both the Historical Record and Our Future Commitments to High-Quality Service Performance

The PRC misrepresents the demonstrable benefits yielded by the prior service standard changes discussed in Docket No. N2021-1, which established the current First-Class Mail service standard day range (1-5 days) that we are maintaining in this proposal, and disregards the significant benefits achieved by the DFA more generally to date. The prior service standard changes have allowed us to accomplish what was intended – moving transportation from air to surface and creating a more optimized surface transportation network – and we have seen significant transportation savings as a result. The service performance issues cited by the Commission are, as we explained in the case, distinct from the service standard changes previously implemented. More generally, under the DFA, we have seen significant improvements in revenue and reductions in workhours.

While the PRC also doubts our ability to achieve efficiencies because we have had issues with implementing RPDC and LTO initiatives in certain areas to date, it disregards the fact that those were the initial pilot regions, and that we have adapted our processes and approach in response to those issues. It also conveniently ignores examples of successful implementation that do not comport with the Commission's preordained narrative.

Rebuttal

- The PRC congratulates itself for having voiced skepticism of the service standard and transportation changes discussed in Docket No. N2021-1. See *id.* at 138. Such misplaced congratulations are unwarranted. The Postal Service has seen substantial declines in transportation spending in recent years due to the standards put in place at that time, as they enabled us to do what we set out to do: move volume from air transportation to surface transportation and build a more efficient surface transportation network. This is evidenced by the air-to-surface conversions and reduction in transportation spending that we have achieved in recent periods, as set forth in our Reports under Section 207 of the Postal Service Reform Act.
- The changes downstream of Docket No. N2021-1 also resulted in markedly improved service performance after they were enacted, in FYs 2022 and 2023, with some categories of mail reaching 95 percent. By the end of FY 2023, however, we had not achieved breakeven status; and, while this was largely due to factors beyond our control—including high inflation and our inability to achieve CSRS reform—it became clear that achieving target service performance scores within our existing network came at an unacceptable cost. The Postal Service therefore determined that it was critical to push forward with further self-help efforts to improve our operations and our financial position, which has had an impact on our service performance scores in FY2024, due both to the temporary execution challenges that we have acknowledged, and due to the fact that our

current service standards need to be adjusted to account for Leg 1. We explained this repeatedly in this Docket, but as these facts do not fit easily with the PRC's canned narrative that the DFA strategies have led to worse service, the PRC all but ignores them.

- The PRC states that the FY2025 service performance targets constitute an “implicit recognition by the Postal Service that service performance will deteriorate as a result of the proposal in FY 2025.” *Id.* at 218. However, the FY 2025 targets are *higher* than FY2024 performance, so the targets say nothing of the sort. The targets reflect operational reality and the magnitude of the transformational task ahead of the Postal Service; they reflect the transitions which will unfold during the coming year, but in no way do they belie the improvements we expect the modernized network to achieve over the long term. The Postal Service seeks to build a cost-effective network in which our long-term service excellence goal can be achieved in a financially and operationally sustainable manner, in contrast to prioritizing higher short-term performance at the expense of building a cost-effective network. What we learned from our improving service performance experience in FY 2022, and again in FY 2023 where service performance for several products reached 95 percent, was that achieving such a level of service performance within our existing network could only come at an unacceptable cost that the Postal Service is simply no longer able to bear, given our legal obligation to be financially self-sufficient.
- The Postal Service fully recognizes that the results initially seen in Atlanta and Richmond were unacceptable, and recovery in those initial regions took too long. Richmond was the first RPDC region, and Atlanta was a particularly complex activation that involved a brand-new facility and the consolidation of a large number of separate facilities. However, it is also unrealistic to expect that there will be no transition impacts given the scale of the task facing the Postal Service. Moreover, the PRC fails to acknowledge significant service improvements in the Richmond area—improvements of which the OIG has recently taken note. Nor does the data show a “significant decrease” in service performance regarding the Portland RPDC, as PRC claims, *see id.* at 218-19; indeed, only a few pages later, the PRC notes minimal impacts in Portland. *Id.* at 221. Finally, the PRC ignores the benefits of our RPDC pilots, noting a lack of space “for personnel to unload trailers, move mail into the facility, stage mail for operations, and dispatch outgoing mail” in the Atlanta RPDC. *Id.* at 176. We have in fact applied learnings from the Atlanta RPDC implementation to subsequent RPDCs.
- The Postal Service is pursuing this initiative in a systematic manner and the successes we have seen to date validate our strategy. The challenges we have faced in certain initial regions are not a reason to stop the Postal Service's transformation—which is based on simple and proven operational strategies. Instead, we can now leverage the experience gained, make appropriate adjustments, and continue to move forward with the changes that must be made.

The PRC's Advisory Opinion Misconstrues the Substance and Thoroughness of Our Proposal

The PRC's assertion that the Postal Service's case boils down to "trust us," *id.* at 9, is inaccurate and tendentious. Indeed, while the PRC accuses our proposal of insufficient analysis and supporting data, the PRC itself engages in baseless speculation. Contrary to the PRC's AO, our case included extensive testimony and reference material demonstrating our analysis, setting forth in detail the operating principles that will guide our decision-making moving forward, the modeling we have employed, and how the new service standards would work. The PRC pointed to the complexity of the case the Postal Service filed as a reason why it needed to extend the period for issuance of the AO. We then responded to extensive discovery requests by the PRC and other participants, including by producing more evidence to support the case. Yet, when raising concerns in its opinion, the PRC displays a disregard or misunderstanding of the massive amount of material that the Postal Service produced. We have also explained above why certain operational details must await actual implementation of the new network through our iterative processes – this is not a flaw in the Postal Service's proposal, but a recognition of operational reality – and to claim otherwise seeks to elevate bureaucratic procedure over business-like operations.

The PRC also makes multiple errors of fact which suggest a fundamental misunderstanding of both Leg 1 and Leg 2 transportation and the nature of the Postal Service's proposed operational initiatives—which are all the more remarkable in light of the extensive record evidence that we provided and the opportunity to question our witnesses during the hearing.

Rebuttal

- The PRC's Opinion exhibits a failure to grasp certain basic details of our Plan. This casts doubt on the soundness of the PRC's analysis and conclusions.
 - The PRC appears to confuse and conflate Legs 1 and 2 and the relationship between RTO and RPDCs, stating: "the introduction of the RPDC/LPC network will degrade service standards, most notably for Single-Piece First-Class Mail entered in RTO-designated 5-Digit ZIP Codes." *Id.* at 160. The insinuation is that RPDC/LPC redesign compels the extra service expectation day under RTO +1, and that transporting mail to a RPDC for origin processing will lead to more Leg 2 transportation. In reality, as explained, the extra service expectation day in Leg 1 is needed to implement RTO, and RTO in tandem with the RPDC/LPC redesign will accelerate service standards in Leg 2.
 - The PRC asserts that "the distances optimized mail must travel under RTO will be materially greater than under LTO," observing that "[f]or Post Offices eligible for RTO, the average distance to its servicing RPDC is 56.8 miles farther than to the servicing LPC." *Id.* at 127. On the basis of this

- observation, the PRC concludes that “the LTO model is an imperfect proxy for RTO transportation,” since “these longer distances and travel times may introduce operational constraints outside of the LTO Model.” *Id.* at 129. The import of these remarks is unclear. Either the PRC has confused the RTO’s *optimization logic* with the *operational path* of mail dispatched from optimized locations; or it willfully ignores the extra service expectation day afforded by our revised business rules. Our proposal does not change the operational path of mail dispatched from an “optimized” location; instead, the use of RPDCs as “centroids” serves only to identify Post Offices eligible for consolidated pickups/drop-offs: mail from such locations will continue to travel from Post Office to LPC to RPDC. And it is obvious and inevitable that the mileage between network nodes will increase as the number of nodes within the network decreases, but that the overall efficiency of the network will improve; however, the extra service expectation day assigned by our revised rules more than accounts for extended distances within the consolidated network.
- The PRC’s suggestion regarding “local” versus a “regional” optimization—namely, that the Postal Service consider “a threshold of 26.5 miles using an LPC-centric approach,” which, according to the PRC, would optimize roughly the same number of Post Offices, *id.* at 113—overlooks one of the prime benefits of the regional model. By anchoring the RTO radius to RPDCs, we remove constraints from outlying LPCs, which enables us to flow volume from those aggregation points without service impacts. By way of example, consider Charleston, which lies approximately 5 hours from Pittsburgh: without an extra service expectation day under *RPDC-centric* logic, we would have to retain that node within the outgoing network in order to remain service-responsive. Yet one key objective of RTO is to eliminate outgoing networks from LPCs.
 - The PRC also suggests that the Postal Service has selected “45 of the 59 RPDCs to operate as RTHs [Regional Transfer Hubs] in its inter-RPDC mileage model.” This conflates the Mixed Integer Programming Model, which identified locations eligible for cross-docking operations, with the number of locations that will serve as Regional Transfer Hubs (approximately 20) in the inter-RPDC network.
 - The PRC urges the Postal Service to “resolve the contradiction of advocating for a regional approach while still allowing certain Local Processing Centers (LPCs) to retain cancellation operations.” *Id.* at 113. It is hard to know what to make of this, since there is no contradiction to speak of. This step is linearly connected to our RPDC processes and does not contradict the network efficiency of consolidating via single nodes. Moreover, LPC cancellations are intended to mitigate service impacts under RTO—specifically, to enable more 2-day turnaround service than would otherwise be feasible to offer. In fact, this decision was made in part based on concerns

- raised by customers and stakeholders regarding local mail traveling to an RPDC to then have to return to the originating LPC, as one part of the overall balance that the Postal Service carefully struck in this proceeding. More to the point, would the PRC recommend that we *not* perform cancellation at select LPCs, thereby not enabling turnaround service for more local areas and ignoring stakeholder concerns? It is evident of the zeal that the PRC has to find fault with the proposal wherever it can that it simultaneously criticizes the Postal Service's proposed service downgrades while also criticizing the Postal Service's efforts to mitigate those downgrades.
- The PRC's criticisms of the Postal Service's alleged failure to substantiate projected Function 1 productivity improvements (linked to workhour reductions) is similarly baseless. The PRC does not engage with the extensive and detailed record supporting these projections, and it seems to think that informed "business judgment" is an inappropriate input for a business case.
 - The PRC's contrarian remark, at 185, that that high-productivity sites may in some way be "idiosyncratic"—and their successes non-replicable—is itself mere speculation. The point of our planned redesign is to standardize operations to the greatest extent possible, reducing to a minimum the "idiosyncratic" variations that exist between plants in the current legacy network (in terms of processing assignments, layouts, mailflows, and other factors), and thereby ensuring that all plants achieve high levels of productivity. It is baseless for the Postal Service to criticize the planned new network by pointing to the flaws of the legacy network that we seek to correct.
 - The Postal Service considered product type, operation type, planned investments, efficiency gains from RTO, and the RPDC/LPC network redesign when formulating improved productivity rates across various Function 1 LDC modalities. The Commission criticizes the Postal Service for "not quantify[ing] the estimated effects of each factor, including the effect of RTO and RPDC/LPC network redesign." *Id.* at 185. Yet while we provided productivity (and related workhour) expectations at a high degree of granularity, down to discrete processing modalities, quantifying each specific change factor is not feasible. The Commission's demands would bog improvements down in endless "data analysis" that yields no real-world added value.
 - The PRC further cites productivity data from "the Postal Service's ideal examples of LTO (the two Wisconsin sites)," which, despite a condensed operating window and earlier clearance times, did not see an improvement in letter cancellation productivity. *Id.* at 184-85. However, record evidence shows that machines within the relevant LDC function ran within a shorter operating window, i.e., at a higher level of productivity. This counts as a success—albeit one constituting step 1 in a two-step process. Step 2 is to adjust staffing accordingly; and as explained at length throughout this proceeding, it is the shorter operating windows and more effective machine deployments enabled by RTO that will in time *allow* for more efficient staffing.

- Similarly without basis is the PRC’s assertion that “Postal Service has not explained” how processing inefficiencies resulting from underinvestment and deferred maintenance “will be addressed in the new network given that most of the facilities in the RPDC/LPC network are in use in the legacy network.” *Id.* at 144. Explanations of how such inefficiencies will be addressed comprised a substantial portion of the evidentiary record which apparently went unconsidered.
- The PRC claims that consolidating letter cancellation in fewer facilities will not improve the productivity of that operation because higher volume facilities do not necessarily have higher productivities and because future RPDCs are not high-productivity facilities. *Id.* at 174-76; 182-184. However, rejecting the benefits of the new network based on facility-level data from the legacy network ignores the fact that facilities that become RPDCs will be very different from their current state, once the investments and changes to facility layouts, machine capacity, and in-plant volume transportation are implemented. As these improvements occur, future RPDCs will have the same processes and capacity to efficiently handle collection volume and achieve expected productivities.
- The PRC also sidesteps extensive record evidence demonstrating expected Function 1 productivity at originating processing facilities, observing that “[the Postal Service] has not modeled, or even estimated, the expected arrival profiles at each RPDC.” *Id.* at 178. The relevance of this remark is unclear. Possibly it reflects the PRC’s confusion, noted above, between the *optimization logic* of RTO and the *operational path* that mail originating at optimized locations will follow. At all events, 17 RPDC regions are currently at some stage of activation, and the information gleaned from these sites has informed many of the decisions outlined in our proposal—for instance, the regional concept of RTO, which was adopted in large part *because* of its effects on volume arrival profiles.
- As regards volume arrival profiles, the PRC acknowledges record evidence showing that—even under LTO—cancelled mail at the Wisconsin pilot sites entered earlier into the network but cautions that such was not the case at other LTO locations. The PRC here disregards substantial record evidence explaining why the Wisconsin sites (by contrast to Richmond, for example) more closely approximated a controlled environment. The PRC also ignores the network efficiency benefits expected of RTO, which unlike LTO, will reduce outgoing networks from LPCs, and with them, variability in volume arrival profiles.
- The observation that “facilities gaining cancellation operations (those becoming RPDCs) are not generally the facilities currently achieving high cancellation productivities,” *id.* at 185, is not the damning criticism that the PRC takes it to be. In fact, it goes a long way toward justifying our proposal: these locations can, should, and will become more productive; late-arriving

volumes impose a significant drain on these facilities' productivity levels; and RTO will generate more evenly distributed volume arrival profiles.

- The PRC worries that the Postal Service “could implement changes to service standards and RTO even before it activates a corresponding RPDC.” The PRC deems such a move “concerning because it could lead to service downgrades potentially months prior to when the full benefits of the network optimization could be realized.” *Id.* at 96. The PRC’s meaning is not entirely clear. If the PRC is concerned about our ability to connect the operational and service standard implementations in Leg 1 and Leg 2, it is true that as RPDC network dispatches are adjusted to align with the expanded Leg 2 bands, it will be critical to advance collection volumes into RPDCs to align with the earlier dispatches. This, however, can be done incrementally: many LPCs beyond the 50-mile threshold will have an added service expectation day in Leg 1 and, even prior to implementing RTO, can dispatch network volumes early to connect with the RPDC outgoing network. As RTO is implemented, the volume arrival profile into LPCs will further support timely arrival at RPDCs.

The PRC Blows the Service Impacts of this Proposal Out of Proportion, and its Discussion of Rural Impacts Is One-Sided and Misleading

When assessing the trade-offs involved, the PRC does not fairly or comprehensively assess the Postal Service's actual proposal. Instead, it presents a one-sided narrative that disregards or dismisses all of the positive benefits of the balance the Postal Service has struck, while blowing the negative elements completely out of proportion.

One of the primary criticisms of the PRC in the AO is baseless assertion that the Postal Service did not fully consider the impact on rural areas. But that is incorrect—we considered that issue in depth when preparing the proposal, explicitly addressed the issue in our case, and thoroughly explained why we believed the balance struck to be appropriate, given the overall impact on costs and service.

The PRC focuses specifically on Single-Piece First-Class Mail, and baselessly characterizes the impact of this proposal as being “severe.” The PRC fails to recognize that the proposed service standard downgrades are in all cases within the day ranges of the current service standards and would (with only minor exceptions) lead to the addition of only *one day* within the already-existing day ranges. While the PRC states that such impacts are “severe,” it never actually explains why that is the case, and instead treats any service standard downgrade impacting rural areas as being inherently problematic.

The PRC fails to engage with efforts identified by the Postal Service to mitigate the already limited impact of the changes on rural communities, as part of the careful balance this proposal strikes. Specifically, the plan maintains the existing service standard day ranges for First-Class Mail and USPS Ground Advantage, meaning no mail will have a standard of more than 5 days, and our service within these ranges will be more predictable and reliable. The plan also provides 2-3-day turnaround service within a region and within certain local areas. The PRC further disregards the plan's improvements for mail and packages overall in Leg 2, and specifically ignores the neutral, or improved, impact on the *delivery* of mail to rural communities. In other words, individuals living in rural areas will benefit from the expansion of the Leg 2 bands which will enable mail and packages to travel farther from the origin plant to more distant destination plants in terms of their receipt of important mail (including checks and medicines) that originate in a ZIP Code not covered by RTO. Also important to note, these changes do not alter our retail or delivery services: they do not alter access to, or services provided at, Post Offices; nor do they change the service standards for Leg 3 (from processing operations to delivery). These are all factors critical to our balancing of considerations.

Rather than engage with this balancing effort, the PRC goes so far as to challenge the Postal Service's decision to maintain certain originating processing operations at some LPCs as creating a “contradiction” within the plan. As explained above, LPC cancellations are intended to mitigate service impacts under RTO—specifically, to

enable more 2-day turnaround service than would otherwise be feasible to offer. As indicated in the docket, due to the financial and efficiency gains from the proposed service standard changes, and in recognition of specific concerns raised by stakeholders that value local turnaround service, the Postal Service identified 16 LPCs that would maintain some originating processing operations, and additional LPCs that would likewise maintain some originating processing were announced today, with potentially more to follow. As also indicated in the docket, this list of LPCs is not exhaustive. The Postal Service is announcing additional LPC locations that will maintain certain originating processing operations, including local cancellation, to facilitate more local turnaround mail. This includes LPCs in states that otherwise would not have cancellation operations, thus expanding on the local turnaround service more than originally planned.

Rebuttal

- These service standards and operational changes will result in a net positive for mailers—especially as Americans receive the benefit of processing refinements that speed-up mail and packages that they receive.
- The PRC refuses to credit the improved precision of the 5D standards or the improvements to service standards at Leg 2.
- The PRC deems our “volume-based approach . . . misleading because it allows the impacts from the highest volume areas to mute the impacts in lower volume areas.” *Id.* at 203. This is, to say the least, unfair, as the PRC bolsters its case with evidence provided voluntarily by the Postal Service. The PRC in turn fails to acknowledge that its preferred OD-pair-based analysis sits at several degrees of abstraction from actual mail flows. If the “volume-based” and the “OD-pair based” analyses diverge, it is because the latter accords equal weight to all OD-pairs, even those between which little or no volume transits. Fundamentally, volume-based analysis is far more illuminating as to the “practical impacts on individuals and businesses” of a service standard change, *id.* at 206, than an analysis based on OD-pairs.
- Indeed, the PRC unwittingly makes our case for us: the very discrepancy that the PRC highlights is one embedded within an unsustainable operational grid. Simply put, year over year, less mail originates in locations eligible for optimization, while the transportation required to reach those locations grows ever more costly.
- One would therefore expect the PRC to at least try to justify its dismissal of the Postal Service’s volume-based analysis. Aside from some criticisms of collection box testing—criticisms which do not fatally compromise the Postal Service’s service impact projections—no such justifications are provided.
- Supporting the idea that the PRC was committed to find fault in the RTO proposal is the fact that the PRC has not characterized volume data as “misleading” in prior N-cases. Nor, of course, did we hide the OD-pair data—we affirmatively

filed it, so it is baseless to claim that we did not “adequately consider” that data or sought in some way to obscure it.

- The PRC, on the other hand, provides data without appropriate context. For example, the PRC asserts that 57 percent of rural ZIP Codes “will experience multi-day service standard downgrades.” *Id.* at 215-16. From this datum, readers could reasonably infer that under the revised service standards, 57 percent of rural ZIP Codes will experience 2-day service standard extensions across all OD pairs. This is not accurate. Drawing on data from the U.S. Department of Agriculture Economic Research Service, the PRC appears to have characterized all rural-urban commuting area (RUCA) codes in which at least one OD pair receives a 2-day service standard extension as “experiencing multi-day service standard downgrades”; this, however, leaves aside most OD pairs originating in rural areas. By the Postal Service’s calculations, the revised standards will result in multi-day service extensions for 0.88 percent of OD pairs overall. The gap between 0.88 percent and 57 percent is a large one and it is bridged by a crucial piece of context that the PRC’s analysis conceals: the vast majority of First-Class Mail OZIP5s origins with at least one multi-day service standard extension are for single DZIP3 destinations. The PRC’s analysis, in short, inflates the magnitude of rural-originating multi-day service downgrades out of all reasonable proportion. Overall, the amount of Single-Piece First Class Mail that will receive a 2-day downgrade, from either a volume or OD pair perspective, is very small (and nor is such a downgrade, within the existing service standard day ranges, inherently problematic in any event).
- As regards the additional service expectation day that most volume and OD-pairs subject to service standard downgrades will receive, the PRC does not explain why this represents a significant diminution in service. Single-Piece First-Class Mail will remain within current day ranges (2-5 days), and significant quantities of mail originating from the same delivery points is already subject to longer service standards: by way of illustration, consider that if the revised service standards shift delivery expectations for some OD-pairs from 2 to 3 days, current service standards already assign a 3-day service expectation to some mail originating from the same location. Moreover, there is no explanation from the PRC why the addition of one day in the service standard expectation for some OD-pairs constitutes a severe change: the PRC simply makes conclusory assertions in this regard, and therefore acts as if any service standard downgrade in rural areas is inherently problematic under the statute.
- The PRC also ignores evidence that most Postal customers—including of course rural customers—receive on average far more mail than they send and that our proposal provides inbound network benefits (with the same or upgraded service over an expanded area due to the Leg 2 changes) for the critical goods and services customers, including rural customers, receive through the mail. Among the mailings they receive are critical government communications, government checks, and so forth.

- Moreover, we designed the new service standards to minimize negative service impacts and provide more precision. The Commission’s criticisms, taken to their logical conclusion, would seemingly indicate a preference for adding one day to all OD pairs, and not just those that originate beyond a certain distance from our processing network.
- The PRC’s demand that we “consider” our Section 101(a) obligations when it comes to rural areas—as if we did not do so—simply reflects its overly rigid and unsustainable view that the provision of prompt, reliable service to all communities means that we cannot distinguish between different geographic areas within the existing day ranges of the current service standards. But that is not what the statute says: it does not require uniformity in service levels across geographic areas, and it does not require that specific service standard changes meet some standard of “equity” in terms of impact among different areas or different products. *Id.* at 212. The question is whether we are providing a level of service for all communities that meets the standard of prompt and reliable service, in which any distinctions are reasonable; we clearly are fulfilling these requirements.
- The PRC’s criticism of the Sunday/holiday change to service performance measurement (SPM) as leading to some mail taking longer than 5 calendar days to deliver, *id.* at 232, omits the fact that today, some mail is timely under the SPM system if it takes longer than 5 calendar days to be delivered (for example if the delivery day is on a Sunday or holiday). Despite overblown claims by the Commission about the overall impact of this change, our proposal simply leads to a modest amount of additional mail that might fall into this category, balanced against the significant cost savings and efficiency gains that will result from this change. Continuing to adhere to these artificial and unnecessary business rules restricts our ability to evolve our operating practices to serve modern day customer needs. The PRC accuses the Postal Service of obscuring the impact of this proposed change to the SPM, but the Postal Service has clearly articulated the changes that will occur and the Commission’s own analysis was based on the very data and information presented by the Postal Service. We were clear about the overall modest impact that this change would have and explained the benefits we expect to realize in exchange.
- Similarly, the PRC questions the Postal Service’s ability to successfully update SPM to measure performance at a 5-Digit level. *See id.* at 232-33. However, the Postal Service repeatedly explained that the methodology for doing so was being developed and that notice of these changes would be filed pursuant to the Postal Service’s regulatory obligations—facts that the PRC acknowledges multiple times in the AO. Nevertheless, instead of recognizing the reality that the Postal Service simply has not yet developed an appropriate, final methodology, the Commission jumps to the baseless conclusion that we are somehow incapable of doing so. To be clear, the Commission is not questioning the overall merits of providing SPM data at the 5-Digit level. In fact, several Commissioners noted that this

level of data would be welcome. Instead, they merely take another opportunity to ignore the facts presented to them and criticize the Postal Service.

The PRC's Cost Analysis Reflects a Lack of Serious Engagement With Our Financial Situation and the Statutory Policies

The PRC dismisses projected cost savings of nearly \$4B a year—a figure that is itself conservative—as “meager” and therefore not significant enough to outweigh the purported harms caused by the proposal. This reflects a lack of serious engagement with, or concern for, the Postal Service’s financial viability under the current business model. No business in the private sector or government entity in the public sector would scoff at or trivialize these savings;¹ indeed, they have celebrated savings less than half of that of our proposal.

The PRC’s perspective reveals its lack of expertise and limited overall experience concerning operations, logistics or business for an organization with a logistics system as complicated and demanding as the Postal Service. The PRC has no responsibility to ensure that the Postal Service operates in a cost-effective, financially viable manner, and the AO reflects the lack of such responsibility. As such, it presents a view concerning how to balance the statutory policies that is a perfect example of the perspective that has led to the Postal Service to financial and operational crisis. The persistent failure by the PRC and others to confront and embrace the type of change that is critical for the financial viability of the Postal Service would have only one outcome: the Postal Service’s financial and operational collapse.

It is, moreover, simply unrealistic for the PRC to think that reductions in operational expenses that would apparently satisfy its exorbitant materiality threshold for cost savings could occur under the current service standards or without a more significant impact on service than the current proposal represents. This plan represents the Postal Service’s efforts to implement modern operational practices to save costs while also minimizing the impact on service. The PRC’s criticism indicates a preference for the status quo over efficiency and financial sustainability: because no self-help operational initiative is likely to have what the PRC would apparently consider a material impact, from a percentage basis, on *total* USPS expenses, if the Postal Service adopted the PRC’s perspective, we would never pursue any self-help operational initiatives to increase efficiency that also had a service impact.

The PRC ignores an obvious and inevitable link between cost savings and our public-facing mission: if we cannot control costs and achieve financial sustainability, we will find ourselves unable to serve the public at all. The only way the Postal Service is going to be financially sustainable is through the implementation of a comprehensive set of operational initiatives to cut costs and increase revenue that, *cumulatively*, will enable the Postal Service to achieve positive controllable income. The Postal Service is in no

¹ To provide a recent example, FedEx reported an operating margin for the second quarter of Fiscal Year 2025 of 4.8%, noting that its “second quarter results demonstrate that our efforts to transform our operations are working.” See <https://investors.fedex.com/news-and-events/investor-news/investor-news-details/2024/FedEx-Reports-Second-Quarter-Diluted-EPS-of-3.03-and-Adjusted-Diluted-EPS-of-4.05/default.aspx>.

position to continue to incur excess costs imposed by our current legacy network, nor to turn our back on nearly \$4 billion in annual cost savings.

Rebuttal

- When comparing the expected cost savings to the Postal Service's current financial position from a net income/loss and controllable income/loss perspective, it is clear that the cost savings are highly significant and essential to achieving financial sustainability that more than justifies the modest negative impact on service that will result for certain customers (particularly given the overall operational benefits).
- The PRC also questions the Postal Service's estimated cost savings because we have not achieved positive net income. See *id.* at 103-04. This is completely circular and nonsensical. We have not achieved positive income because of factors outside our control—record high inflation and the lack of CSRS reform—not the operations at issue in this proposal. In fact, the Postal Service has achieved significant reduction in costs through our DFA self-help initiatives to date, which *validates* the savings we are projecting here. Moreover, the eventual achievement of net income is absolutely contingent upon not only growing revenue, but also substantially cutting costs.
- The following remark by the PRC should be put into context: “with expenses expected to increase in FY 2025, the projected savings are not likely to significantly improve the Postal Service's financial condition.” *Id.* at 7. The PRC seems to suggest that whatever the savings we realize, such savings are immaterial because inevitably they will be offset by cost inflation to a “significant” degree; in other words, no attempt to cut costs is ever worth the effort because nominal costs will increase by that amount in a year's time. This is, frankly, bizarre. Our estimates are denominated in current dollars; and that amount will go up in the future, commensurate with inflation.
- Again demonstrating its tendency toward paralysis by analysis, the Commission raises concerns with our cost savings estimates. The Commission is forced to recognize that the Postal Service's methodology is theoretically sound, but nevertheless casts doubt on its practical application, calling for more data and more analysis to purportedly demonstrate the strength of our assumptions and the likelihood of realizing these cost savings. Our capture rates and cost savings estimates are sound. Delaying implementation to conduct more and more analysis, which is unlikely to produce a different result or satisfy the Commission's desire for data, is unnecessary and only serves to maintain the status quo and further delay the critically necessary cost savings. Something all parties seemingly agree is untenable.
- The PRC deems the “notion that the LTO Model would then provide a conservative proxy for RTO cost savings” to be “unsubstantiated.” *Id.* at 126. Of course, we did not expand our savings estimates beyond what the LTO model showed—an inherently conservative approach. Furthermore, the PRC

expresses “concern” at the alleged lack of research to justify the claim that more consolidated trips under RTO “could lead to additional transportation efficiencies and cost savings.” *Id.* It stands to reason that RTO will produce additional transportation efficiencies, and thus increased savings, relative to LTO; it is the PRC’s contrary claim that stands in need of support—support which the PRC declines to provide. In the end, LTO is (as the PRC asserts) an “imperfect proxy for RTO” because it optimizes fewer locations and promotes originating processing efficiency to a far lesser degree; and the cost savings modeled on its basis thereby understate the full potential of RTO. That hardly seems like a valid justification for not pursuing RTO.

- The PRC also cites the “higher cost of PVS” as a cause for concern, given the Postal Service’s plans to use more PVS transportation, at least at the local level (i.e., in Leg 1). *Id.* at 159. PVS cost is, however, factored into optimization models. Moreover, there is a difference between *increasing PVS transportation* and *expanding PVS responsibility*, and optimization efforts have tended to emphasize the latter. That is, PVS transportation has largely been used to backfill HCR reductions so that PVS employees are not exceeded. Covering eliminated HCR routes with PVS transportation, in line with our union contract obligations, is an efficient use of resources, not a sign of profligacy.
- The PRC attempts to cast doubt on our facility cost savings estimates by noting that that contract end dates vary, with the last of the planned 77 lease terminations set to end in FY 2031. The PRC then finds that in our alleged failure to “separate out” cost savings by year, the Postal Service has compromised “its ability to measure and verify actual cost savings.” *Id.* at 189. Though “separation by year” is easily accomplished, it is unclear what value such an exercise would add to the cost savings estimates we put forth. Furthermore, a lease’s end-date only conveys so much information. Unneeded annexes can be more profitably repurposed for the remainder of their lease term, and leases can, if necessary, be terminated early. Our estimates are also inherently conservative, as they are based on an FY 2023 “snapshot,” whereas lease costs increase year-over-year. Moreover, there is nothing about the PRC’s criticism in this regard which suggests that we should not eliminate leases and save the lease costs for facilities we will no longer need.
- In another example of the Commission failing to see the forest for the trees, the PRC disputes the workhour reductions estimated for certain “indirect” sources of cost within the Function 1 processing modalities, e.g., LDC 17. LDC encompasses “allied operations,” which is to say, intra-plant transportation. To estimate workhour reductions linked to streamlined operations within LDC 17, the Postal Service transferred the 16.1 percent workhour reduction averaged across other “direct” sources of cost within other Function 1 processing modalities. The PRC, on the other hand, employed a log-log econometric model, which suggested that a 1-percent decrease in direct LDC workhours across facilities corresponds to only a 0.8638-percent decrease in indirect LDC workhours,

“holding all else constant”; on this basis, the PRC estimates that instead of the projected 16.1 percent workhour reduction for “indirect” LDCs, we will at most be able to reduce such workhours by 13.9 percent. *See id.* at 185-87. The PRC’s error here is easy to spot: it consists of disregarding copious record evidence demonstrating that *our plans do not hold all else constant*. Rational plant layouts (which reduce the distance between dock operations and package processing operations), newly installed conveyors (which transfer volume between equipment sets and/or from dock operations to equipment sets, and/or from equipment sets to dock operations), volume consolidation within the redesigned network (which allows forklift transportation to more effectively leverage its full capacity, thereby reducing trips), STC insourcing: these and other measures will reduce intra-plant transportation considerably. There is, therefore, no reason to share the PRC’s baseline assumptions regarding the “elastic” relationship between dependent and independent variables, and thus, no reason to take the PRC’s recalculated productivity estimate seriously. Indeed, it is quite possible that our 16.1 percent estimate is a conservative one, given the important facility overhaul projects currently underway. Moreover, even if the PRC’s erroneous and hypercritical analysis was correct (which it is not), would the fact that we could only reduce indirect workhours by 13.9 percent rather than by 16.1 percent serve as a basis to decide not to reduce those workhours?

- The PRC’s cursory statutory analyses deny efficiency and cost considerations the weight accorded to them by Title 39. They demonstrate a bureaucratic mindset that completely ignores the need to balance service expectations against the legal requirement for the Postal Service to be financially self-sufficient.
 - The Postal Service is tasked with balancing cost and service. The proposed changes further our statutory requirements to compete, achieve financial sustainability, create an integrated network, and foster reliability in our service and remove archaic, unreasonable, and unachievable obstructions found in our service standards and business rules.
 - The Commission itself recognizes that sections 101(a), (e)-(f), 403(a), and 3661(a), and the objectives and factors in 3691 when taken together require the Postal Service to balance speed, efficiency, economy, and reliability in all aspects of its operations. Despite recognizing that Title 39 does not require the Postal Service to prioritize speed of delivery above all else, and that the Postal Service is responsible for the balancing of title 39’s often-competing provisions, the Commission nevertheless attempts to discredit the Postal Service’s balancing with its own focusing solely on delivery speed, and disproportionately, the delivery speed on Single-Piece First-Class Mail. The Commission singles out two of the multitude of statutory considerations the Postal Service must balance with a fixation on speed—and more importantly on the minority of service downgrades that will occur under this proposal rather than the majority of volume that will be unchanged or upgraded. In doing so, the Commission improperly

ignores the statutory importance of ensuring the Postal Service's long-term financial sustainability and the meaningful progress towards achieving that goal under this proposal—a 4.4 percent reduction to *total* expenses, by conservative estimates. Such a myopic interpretation of title 39 reads rigid delivery speed requirements into these statutes that are not there and strips meaning from all other policy considerations in title 39, including economy, efficiency, and reliability, to say nothing about the overall lack of perspective regarding the overall scope of the service downgrades within the day ranges of the current service standards.

- Not only that, but the Commission found that the Postal Service's balancing of these statutory considerations was appropriate and facially consistent with these consideration in N2021-1, where the projected costs savings were less than one-quarter of 1 percent of total FY2020 operating expenses, the outer bound for service standards was changed (from three days to five days for FCM), 19 percent of *total* First-Class mail volume with a 1- or 2-day standard and 53 percent of *total* First-Class Mail volume with a 3-day standard would experience a downgrade and more OD pairs were impacted. Advisory Opinion, Docket No. N2021-1 at 23, 109, appx. at 2, appx. at 12. There is no logical basis for the Commission to aver that our proposal now—which generates more costs savings relative to a percentage of total costs, with significantly fewer impacts on service—is somehow not properly balanced or less consistent with the statutory considerations in an apparent contrast to our proposal in Docket No. N2021-1. The Postal Service has appropriately balanced the competing statutory considerations here, as we have done in the past; any statements to the contrary are simply irreconcilable with the facts.
- Even setting that aside, the Commission does not have the authority to deprioritize or ignore title 39's statutory considerations. By thoughtlessly adhering to standards that no longer reflect operational, financial, or business realities, or the reasonable expectations of most of our customers, the Commission ignores the fact that the Postal Service is not currently able to achieve the statutory purposes of title 39. Maintaining the status quo or prioritizing speed over cost savings and efficiency improvements moves us even further from that goal and threatens the continued fulfilment of the Postal Service's public service mission as well as the continued viability of the Postal Service as a whole.
- In this regard, the PRC's 403(c) analysis, especially as regards the rational basis "prong," is flawed. The PRC begrudgingly acknowledges cost savings as a possible reasonable basis for the changes proposed in this case, and it is in fact crystal clear that considerations of increased cost-effectiveness and efficiency supply a rational basis for distinguishing among postal customers. However, the PRC then notes that parties in a complaint may allege that cost savings "as applied" do not constitute a

legitimate or rational basis for these changes, and further declares that if the Postal Service is “unable to mitigate the impacts of these proposed changes to the degree expected, or if it proceeds in implementing these proposed changes in such a way that creates additional imbalances,” then the “undue and unreasonable” component of the 403(c) test may be met. PRC AO at 286. This reasoning is flawed: the existence of regional imbalances is more properly analyzed under the first “prong” of the PRC’s test, i.e., different terms and conditions; what matters for the “undue and unreasonable” prong is the existence of a *rational basis*. The multiple benefits enumerated by our proposal, *including substantial cost savings*, provide a rational basis within the meaning of 403(c).

The PRC's Recommendations and Commentary Regarding the Impact of the Changes at Retail Facilities Seeks Solutions for Non-Existent Problems

The PRC spends time criticizing the lack of a comprehensive communications plan and makes other assertions that assume the Postal Service has not considered the effects of the proposed changes on retail offices. However, the Postal Service has committed to a comprehensive communications plan prior to actual implementation, and there is no basis to conclude that this change will have any material impact on retail operations.

Rebuttal

- Regarding the handling of mail dropped at RTO Post Offices, the Commission ignores the Postal Service's current practices and misrepresents our position. Specifically, the PRC recommends that, at relevant RTO Post Offices, the Postal Service extend the time customers have to deposit mail by collecting from blue collection boxes, lobby drops, and Self-Service Kiosk parcel receptacles closer to the morning dispatch time. As the Postal Service explained in our briefs, tying transportation schedules and collection schedules runs counter to RTO's objectives. However, as also acknowledged in our briefing (but ignored by the PRC in the advisory opinion), we will make appropriate business decisions regarding whether to move mail dropped at a Post Office after-hours with the next dispatch, consistent with our overall strategy and in alignment with our existing practices.
- While the PRC expresses security concerns, detailed planning to ensure that mail and packages can be properly secured overnight at retail facilities was a key part of our LTO pilots, and will also be a part of our RTO implementation process.
- While the PRC speculates that changes to automated postmarking at LTO/RTO locations may cause more mailers to go to the retail counter, it presents no basis to conclude that any such effect would occur, or lead to a material impact on wait-times. The Postal Service does not expect to see any material impact.
- The PRC's recommendation relating to Election Mail demonstrates a misunderstanding of the Postal Service's current practices and state election laws. In particular, the PRC recommends that the Postal Service generate a plan to address election mail in future elections for the final state of the RTO and LTO initiatives with consideration given to the unique rules of each state's election board. This recommendation is based on the PRC's observation that "many states have specific rules for the handling of election mail that might preclude that mail from traveling out of state and there exist 10 states in the contiguous United States that will not have an RPDC located within them." *Id.* at 248. The Postal Service is unaware of any state election law that prohibits mail from traveling out of state, and notes that mail routinely crosses state lines in the legacy network. Moreover, election officials routinely send ballots via mail to voters living out of state so they can vote absentee. Many also rely on mail service providers in different states to prepare and mail ballots.

- The Postal Service will continue to provide election officials and voters who choose to use the mail as part of the electoral process with a secure, efficient, and effective means of doing so. However, the Postal Service has not, and will not, develop plans that are specific to each individual state's rules, as that would effectively convert our integrated nationwide system into one that is fragmented on a state-by-state basis.