

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Michael Kubayanda, Chairman;
Robert G. Taub, Vice Chairman;
Thomas G. Day;
Ann C. Fisher; and
Ashley E. Poling

Operational and Service Standard Changes Related
to the Delivering for America Plan, 2024

Docket No. N2024-1

ADVISORY OPINION ON THE OPERATIONAL AND SERVICE STANDARD
CHANGES RELATED TO THE DELIVERING FOR AMERICA PLAN



Washington, DC 20268-0001
January 31, 2025

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(Issued January 31, 2025)

I. EXECUTIVE SUMMARY

The Postal Service delivers mail and packages to nearly every residence and business in America, visiting more than 167 million addresses 6 days a week. Its mission: to provide prompt, reliable, and efficient mail service to all Americans – regardless of where they live. Yet, this vital service faces significant financial and operational challenges. Over the past several years, the Postal Service has reported steady volume losses, continued financial losses, and persistent service performance failures. These interrelated issues fundamentally affect the overall stability of the Postal Service and its ability to successfully fulfill its mission.

The Postal Service's answer to these challenges is its Delivering for America Plan (DFA Plan).¹ Announced in 2021, the DFA Plan encompasses sweeping changes it touts as a panacea that will achieve financial stability and service excellence, in part by overhauling its postal processing, transportation, and delivery networks.

As discussed in this Advisory Opinion, the challenges the Postal Service faces are significant, and change is essential. However, the Commission finds the Postal Service is irreversibly changing its network without laying a foundation for success. First, the Postal Service's plan depends on defective modeling and does not appear to be ready for implementation. Second, the Postal Service relies on overly optimistic and unsubstantiated financial projections for cost savings that are not likely to improve the financial health of the Postal Service. Third, the Postal Service's proposal has significant negative impacts on rural communities throughout the United States.

¹ The DFA Plan is the Postal Service's 10-year Strategic Plan. See United States Postal Service, Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence, March 23, 2021 (DFA Plan), available at https://about.usps.com/what/strategic-plans/delivering-for-america/assets/USPS_Delivering-For-America.pdf.-t2

Postal Service Challenges^{2, 3}



Over the last decade, the Postal Service has seen sharp declines in mail volume, of approximately 3 percent per year.⁴ In the period between FY 2014 and FY 2024, the volume for Market Dominant products declined by 46.4 billion pieces. Most significantly, First-Class Mail volume has been declining every year over the last

**FIRST-CLASS MAIL VOLUME
DECREASED BY 30.9 PERCENT
OVER THE LAST 10 YEARS.**

² Source: Docket No. ACR2019, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement*, May 7, 2020 (FY 2019 Financial Analysis); Docket No. ACR2019, Library Reference USPS-LR-29, December 27, 2019, Excel file “FY2019 First Class Mail.xlsx;” Docket No. ACR2024, Library Reference USPS-FY24-42, FY 2024 Revenue, Pieces, and Weight Report, December 30, 2024; Docket No. ACR2024, Library Reference USPS-FY24-5, Fiscal Year 2024 Cost Segments and Components Reconciliation to Financial Statements and Account Reallocations, December 30, 2024; Docket No. ACR2024, Library Reference USPS-FY24-29, Service Performance of Market Dominant Products, December 30, 2024.

³ The Postal Service has implemented a series of changes to service performance standards and the Service Performance Measurement system since FY 2012. FY 2019 is the most meaningful comparison because the Postal Service implemented its internal Service Performance Measurement system for Single-Piece First-Class Mail in FY 2019. The Postal Service lowered the service standards for First-Class Mail in FY 2022 by up to 2 additional days for 38.5 percent of First-Class Mail. Since implementing the service standard change in FY 2022, the Postal Service lengthened the standard days for delivery and decreased the percentage of mail that it delivered on time at the lower standard.

⁴ DFA Plan at 9.

decade, with an overall loss of 20.6 billion pieces.⁵ This downward trend is expected to continue. For FY 2025, the Postal Service projects total mail and package volume of 106.7 billion pieces, a decline of 5.7 billion pieces (5.1 percent) from 2024, primarily due to projected declines in the First-Class Mail and USPS Marketing Mail volume.⁶

Declines in mail volume affect the Postal Service's operating revenue and its overall financial position. Unsurprisingly, the Postal Service has not produced an operating profit in the last seven fiscal years, and the financial losses continued to grow. Over the last 10 years, the Postal Service has had a cumulative net loss of \$62.7 billion. For FY 2025, the Postal Service projects a net loss of \$6.9 billion. See IFP Report at 1.

Along with volume declines and financial losses, the Postal Service faces issues in meeting its service performance targets. The Postal Service has failed to meet its stated, overarching on-time goal of 95 percent for any of its High-Quality Service performance indicators since FY 2020.⁷ For example, on-time delivery for Single-Piece Letters and Postcards declined from 89.5 percent in FY 2019 to 81.0 percent in FY 2024. Overall, service performance was worse in FY 2024 compared to FY 2023 for First-Class Mail.⁸ The service performance score for First-Class Mail in FY 2024 was 86.5 percent, down from 91.4 percent in FY 2023. *Id.*

SERVICE PERFORMANCE

WAS WORSE IN FY 2024 THAN
IN FY 2023 FOR FIRST-CLASS
MAIL.

⁵ Docket No. ACR2023, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement*, June 17, 2024, at 44 (FY 2023 Financial Analysis).

⁶ See United States Postal Service, *Integrated Financial Plan (IFP), Fiscal Year 2025*, December 13, 2024, at 1 (IFP Report), available at <https://about.usps.com/what/financials/integrated-financial-plans/fy2025.pdf>.

⁷ Library Reference USPS-FY23-17, December 29, 2023, ZIP folder "USPS.FY23.17_ARC.Files," PDF file "FY2023.Annual.Report.to.Congress.pdf," at 39 (FY 2023 *Annual Report*).

⁸ See United States Postal Service, *Service Performance Dashboard*, available at <https://spm.usps.com/#/main>.

Postal Service's Proposal

The Postal Service requests an advisory opinion from the Commission on several proposed changes, including some that have evolved from prior DFA initiatives. First, the Postal Service plans to create a nationwide network of regional processing distribution centers (RPDCs) and local processing centers (LPCs) that consolidate and reduce transportation lanes (links) among facilities. Additionally, the Postal Service intends to implement its Regional Transportation Optimization (RTO) initiative on a nationwide basis that results in a delay in processing some outgoing mail volume. The Postal Service estimates that these two initiatives will allow it to improve productivity and efficiency, as well as achieve annual cost savings of between \$3.6 and \$3.7 billion once the initiatives are fully implemented. The Postal Service also plans to revise its service standards to align with these operational initiatives.

Commission Findings

The Commission finds that the Postal Service's proposal relies on defective modeling, overly optimistic financial and cost saving projections, and unclear timeframes for rollout of the changes. In addition, the Commission finds that the proposal fails to fully consider the significant, negative impact of these changes on rural communities across the country. The Commission's findings are summarized below.

The proposal relies on defective modeling and is ill-prepared for implementation. The Commission finds that many aspects of the proposed RTO initiative lack adequate research and preparation. The Postal Service makes several errors

COMMISSION FINDINGS ON THE PROPOSAL:

- DEFECTIVE MODELING
- FINANCIAL PROJECTIONS THAT LACK EMPIRICAL RESULTS OR DATA TO SUBSTANTIATE
- DOES NOT FULLY CONSIDER THE SIGNIFICANT NEGATIVE IMPACT ON RURAL COMMUNITIES

including basic steps such as not identifying all the offices within the scope of the initiative. In addition, the Postal Service has not developed a comprehensive RTO model, opting instead to use a Local Transportation Optimization (LTO) model as a proxy despite important differences between RTO and LTO.⁹ The Commission is also concerned about the speed at which the Postal Service plans to implement these changes, finding the potential for service downgrades prior to the realization of the full benefits of the network optimization. The Commission recommends that the Postal Service better prepare for the RTO initiative by creating detailed RTO-specific plans and models prior to implementation.

Similarly, the Commission identifies several issues with the proposed RPDC/LPC network changes related to the facility location optimization process, the transportation model development, the disconnect between the transportation models and the processing operations, and the heavy reliance on transportation utilization in determining cost savings without including processing operations. The Commission concludes that it is unlikely that the Postal Service will create a more efficient network compared to the legacy network.

The Commission finds that the projections are based on assumption and conjecture that potentially lead to uncertainty about whether the Postal Service can achieve them, or even properly track and measure the success of the initiatives to determine whether additional change or alternative measures are necessary. Other than saying “trust us,” the Postal Service offers little convincing evidence or testimony to reasonably support its claims that its proposed actions will turn out the way it estimates.

The projected cost savings will not significantly improve the financial health of the Postal Service. The Commission identifies several concerns with the Postal Service’s methodology for estimating cost savings, including capture rate assumptions that lack empirical validation, potential measurement inaccuracy, an

⁹ LTO was a pilot of a transportation initiative in a limited number of areas that preceded RTO.

unclear timeline for savings realization, and a lack of clarity regarding the overall effect on the Postal Service's financial health. The Commission finds that the total projected cost savings, even if fully realized, represent approximately 4.4 percent of the Postal Service's FY 2024 operating expenses of \$81.8 billion. The Commission supports the Postal Service's efforts to save on costs. However, with operating expenses expected to increase in FY 2025, the projected savings are not likely to significantly improve the Postal Service's financial condition.

The proposal will have significant negative impacts on certain mail products and rural communities. The Commission finds that the Postal Service presents an overly optimistic—if not incomplete and misleading—description of how the proposed service standard changes will impact the American public. In particular, the Commission finds that the Postal Service focuses on the potential enhanced service under the proposed service standards and downplays the significant negative effects that its proposal will have on certain mail categories, mail classes, and rural communities. For example, for Single-Piece First-Class Mail, 49.5 percent of ZIP Code pairs will have downgraded service. Periodicals and Package Services will also experience significant downgrades.

The Commission also finds that the Postal Service's volume-based approach to analyzing rural versus urban service degradation glosses over the true impacts rural communities will experience. Impact analysis by ZIP Code pair reveals that rural communities will experience disproportionate negative service standard impacts as a result of the Postal Service's proposed changes to the service standards. In considering the Postal Service's claims that service performance and reliability will improve as a result of its proposed changes, the Commission is concerned that the opposite may occur, as demonstrated by the considerable decline in service performance in areas such as Richmond, Virginia and Atlanta, Georgia where the proposed network changes have already been implemented. The Commission is also concerned that these disproportionate impacts will most greatly affect rural citizens and

businesses who rely heavily on the Postal Service, delaying both their outgoing mail and their receipt of key documents and other essential items sent from areas also experiencing downgraded service.

In addition, the Commission finds that excluding Sundays and holidays as transit days for volume entered into the network on Saturdays or the day before a holiday will result in substantial portions of Market Dominant mail taking an extra day (or more) to be delivered. Despite the Postal Service presenting this change as a minor measurement revision, it is plainly a degradation in service impacting the actual number of expected days to delivery for affected mail. In particular, the Commission concludes that the expected delivery for a portion of Single-Piece First-Class Mail will extend to 6 or more days. The Commission recommends that the Postal Service provide clear communications about this change to mailers.

The Commission also finds that the Postal Service has not demonstrated that it has developed the methodological changes necessary to address the novel issues that arise from the service standard and operational changes proposed in this proceeding and it is doubtful the Postal Service is prepared to accurately, reliably, and representatively measure service performance under these new proposed service standards. The Commission recommends that the Postal Service develop, test, and present to the Commission and the public a measurement system capable of accurate, reliable, and representative service performance measurement at the 5-Digit ZIP Code level before moving forward with its proposed service standard changes.

As to the statutory requirements, the Commission cannot make a definitive determination at this time as to whether the proposal is consistent with title 39. Because there is too little known about the timeline of the changes and the Postal Service asserts that the changes are subject to continual adjustments, modifications, and variations, the record lacks a solid foundation upon which to evaluate the Postal Service's claims about balancing the objectives and factors set forth in 39 U.S.C. § 3691. In addition, although the Commission is very concerned about the

disproportionate impact the proposed changes will have on rural communities, there is insufficient information on the record to render a definite determination of whether the proposal violates 39 U.S.C. § 403(c). However, the Commission emphasizes that if the Postal Service is unable to mitigate impacts, or if implementation proceeds in a manner that creates further imbalances, such a result could reach the threshold of “undue or unreasonable.”

Furthermore, the Postal Service’s proposed changes appear inconsistent with the requirements of 39 U.S.C. §§ 101(a) and 101(e). The Postal Service has, “as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people[]” and is required to “provide prompt, reliable, and efficient services to patrons in all areas and . . . render postal services to all communities.” 39 U.S.C. § 101(a). Additionally, the Postal Service must, when considering policies, “give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” *Id.* § 101(e). The Commission strongly advises the Postal Service to consider these obligations and reconsider the impact of its proposed changes to the service standards, particularly on rural areas and the rural citizens and businesses who rely most heavily on the Postal Service.

In conclusion, the Commission supports the Postal Service’s stated goals of financial stability and service excellence, but the Commission cannot support this proposal. Even if the Postal Service’s goals of productivity, efficiency, and cost savings were realized with implementation of these changes, it does not appear the Postal Service has appropriately considered the significant downgrade in service for certain mail products or rural communities. The Commission strongly advises the Postal Service to take into consideration the concerns expressed in this docket as it continues to develop and implement the proposed changes. Further, the Commission advises the Postal Service to closely monitor the impacts of its changes on particular mail products and rural communities. The Commission agrees that changes are needed to ensure the

stability of the Postal Service. However, these changes must not come at the expense of the Postal Service's core mission: providing prompt, reliable, and efficient mail service to all Americans – regardless of where they live. 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.

II. COMMISSION LEGAL AUTHORITY

The Postal Service must request an advisory opinion from the Commission for proposed changes in the nature of postal services on a nationwide or substantially nationwide basis. See 39 U.S.C. § 3661(b). The Commission's rules require the Postal Service to file its request "not less than 90 days before the proposed effective date of the change in the nature of postal services involved." 39 C.F.R. § 3020.112.

Users of the mail are afforded a hearing on the record before the Commission's review is complete. 39 U.S.C. § 3661(c). The advisory opinion, based on evidence developed during hearings in accordance with 5 U.S.C. §§ 556 and 557, considers whether the Postal Service's planned changes conform, in terms of its objectives and effects, to the policies of section 3661 and the remainder of title 39. "The opinion shall be in writing and shall include a certification by each Commissioner agreeing with the opinion that in his judgment the opinion conforms to the policies established under this title [39]." *Id.* § 3661(c). The advisory opinion is intended to better inform the Postal Service in its decision-making process, provide transparency into the decision-making and policy-development process the Postal Service undertook, and provide a different perspective for the Postal Service's consideration.¹⁰

¹⁰ See Docket No. N2014-1, Advisory Opinion on Service Changes Associated with Standard Mail Load Leveling, March 26, 2014, at 7.

III. PROCEDURAL HISTORY

On August 22, 2024, the Postal Service filed notice of its intent to conduct a pre-filing conference regarding its plan to transform its processing and transportation networks and to revise its service standards for end-to-end products to align with these operational initiatives.¹¹ On August 26, 2024, the Commission issued Order No. 7414, which established Docket No. N2024-1 to consider the Postal Service's proposed changes, notified the public concerning the Postal Service's pre-filing conference, and appointed a Public Representative.¹² The Postal Service held its pre-filing conference virtually on September 5, 2024, at 1:00 p.m. Eastern Time (ET). See Notice at 7.

On October 4, 2024, the Postal Service filed a request for an advisory opinion from the Commission regarding planned changes to its processing and transportation networks.¹³ The intended effective date of the planned changes is no earlier than 90 days after the filing of the Request. Request at 48. The Postal Service certifies that it has made a good faith effort to address concerns of interested persons about the Postal Service's proposal raised at the pre-filing conference. *Id.* at 49.

In support of its Request, the Postal Service provided the direct testimonies of five witnesses: Stephen B. Hagenstein (USPS-T-1), Arslan Saleem (USPS-T-2), Leslie Johnson-Frick (USPS-T-3), Gregory White (USPS-T-4), and Curtis Whiteman (USPS-T-5).¹⁴ The Postal Service identified a sixth individual, Sharon Owens, to serve as its

¹¹ Notice of Pre-Filing Conference, August 22, 2024, at 1 (Notice).

¹² Notice and Order Concerning the Postal Service's Pre-Filing Conference, August 26, 2024 (Order No. 7414).

¹³ United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, October 4, 2024 (Request).

¹⁴ Direct Testimony of Stephen B. Hagenstein on Behalf of the United States Postal Service (USPS-T-1), October 4, 2024 (USPS-T-1); Direct Testimony of Arslan Saleem on Behalf of the United States Postal Service (USPS-T-2), October 4, 2024 (USPS-T-2); Direct Testimony of Leslie Johnson-Frick on Behalf of the United States Postal Service (USPS-T-3), October 4, 2024 (USPS-T-3); Direct Testimony of Gregory White on Behalf of the United States Postal Service (USPS-T-4), October 4, 2024 (USPS-T-4); Direct Testimony of Curtis Whiteman on Behalf of the United States Postal Service (USPS-T-5), October 4, 2024 (USPS-T-5).

institutional witness and provide information relevant to the Postal Service's proposal that is not provided by other Postal Service witnesses. Request at 52. Additionally, the Postal Service filed 17 library references, 8 of which are available to the public and 9 of which are designated as non-public material.¹⁵

Witness Hagenstein discusses the proposed revisions to the service standards, including the three legs, the inefficiencies of the current network's first leg, how the RTO initiative corrects those inefficiencies, the anticipated flow of mail and package volume within the RPDCs and LPCs network, and the estimated impact of proposed service standards on 5-Digit ZIP Code pairs. See USPS-T-1.

Witness Saleem discusses how the proposed changes will be addressed in measurement (including through revisions to the Service Performance Measurement (SPM) Plan), the exclusion of Sundays and holidays as transit days, an estimate of impacts on mail volumes, and performance measurement based on 5-Digit ZIP Code. See USPS-T-2.

Witness Johnson-Frick discusses how RTO changes will not impact local mail collection and delivery, how local office operations might change to accommodate the RTO initiative, how changes will be communicated to customers, and measures taken to ensure timely delivery of election mail. See USPS-T-3.

¹⁵ Library Reference USPS-LR-N2024-1-1, October 4, 2024; Library Reference USPS-LR-N2024-1-2, October 4, 2024; Library Reference USPS-LR-N2024-1-3, October 4, 2024; Library Reference USPS-LR-N2024-1-4; Library Reference USPS-LR-N2024-1-4, October 4, 2024; Library Reference USPS-LR-N2024-1-5, October 4, 2024; Library Reference USPS-LR-N2024-1-6, October 4, 2024; Library Reference USPS-LR-N2024-1-7, October 4, 2024; Library Reference USPS-LR-N2024-1-8, October 4, 2024; Library Reference USPS-LR-N2024-1-NP1, October 4, 2024; Library Reference USPS-LR-N2024-1-NP3, October 4, 2024; Library Reference USPS-LR-N2024-1-NP4, October 4, 2024; Library Reference USPS-LR-N2024-1-NP5, October 4, 2024; Library Reference USPS-LR-N2024-1-NP6, October 4, 2024; Library Reference USPS-LR-N2024-1-NP7, October 4, 2024; Library Reference USPS-LR-N2024-1-NP8, October 4, 2024; Library Reference USPS-LR-N2024-1-NP9, October 4, 2024; Library Reference USPS-LR-N2024-1-NP2, October 17, 2024.

Witness White discusses how the RPDC/LPC network changes and RTO initiative will improve processing effectiveness and produce cost savings and the standard operation procedures for the RPDCs and LPCs. See USPS-T-4.

Witness Whiteman discusses the estimated cost savings, and the methodology used to calculate the estimated cost savings. See USPS-T-5.

On October 9, 2024, the Commission issued Order No. 7695, which set forth a procedural schedule for this proceeding.¹⁶ The Commission appointed Stephanie A. Quick to serve as Presiding Officer for matters “except for regulating the course of public conferences and hearings.” Order No. 7695 at 15. The Commission appointed Commissioner Ashley Poling to “preside over the technical conference and any hearings conducted as part of this proceeding.” *Id.*

The following 11 parties intervened in this proceeding: (1) Douglas F. Carlson; (2) National Postal Policy Council; (3) American Postal Workers Union, AFL-CIO; (4) Greeting Card Association; (5) National Association of Presort Mailers; (6) Mailers Hub; (7) Association for Postal Commerce; (8) Steve Hutkins; (9) National Association of Postal Supervisors; (10) News/Media Alliance; and (11) Package Shippers Association.¹⁷

¹⁶ Notice and Order on the Postal Service’s Request for an Advisory Opinion on Changes in the Nature of Postal Services, October 9, 2024 (Order No. 7695).

¹⁷ Douglas F. Carlson Notice of Intervention, October 16, 2024; National Postal Policy Council Notice of Intervention, October 17, 2024; Notice of Intervention of the American Postal Workers Union, AFL-CIO, October 17, 2024; Notice of Intervention of the Greeting Card Association, October 18, 2024; National Association of Presort Mailers Notice of Intervention, October 18, 2024; Notice of Intervention Mailers Hub, October 18, 2024; Notice of Intervention of the Association for Postal Commerce, October 18, 2024; Steve Hutkins Notice of Intervention, October 18, 2024; National Association of Postal Supervisors Notice of Intervention, October 21, 2024; The News/Media Alliance Notice of Intervention, October 21, 2024; Notice of Intervention of the Package Shippers Association, October 21, 2024.

The Presiding Officer issued rulings amending the procedural schedule and ruling on various motions. Intervening parties, the Postal Service, and the Public Representative propounded discovery to clarify the Request and witness testimony. Five Presiding Officer's Information Requests (POIRs) were issued to further develop the record.¹⁸

On December 4, 2024, a hearing was held to enter the Postal Service's direct testimony into evidence and to provide an opportunity for oral cross-examination.¹⁹ The record also includes designated cross-examination responses and other materials incorporated pursuant to Presiding Officer's Ruling (POR) Nos. 5, 6, 7, and 9.²⁰

Two participants submitted rebuttal testimony: Stephen DeMatteo on behalf of APWU and Carlson.²¹

Initial briefs were filed by the American Postal Workers Union, AFL-CIO, Greeting Card Association, Douglas F. Carlson, the Public Representative, and the Postal

¹⁸ Presiding Officer's Information Request No. 1 and Notice of Filing Under Seal, October 21, 2024 (POIR No. 1); Presiding Officer's Information Request No. 2 and Notice of Filing Under Seal, October 24, 2024 (POIR No. 2); Presiding Officer's Information Request No. 3 and Notice of Filing Under Seal, November 4, 2024 (POIR No. 3); Presiding Officer's Information Request No. 4 and Notice of Filing Under Seal, November 5, 2024 (POIR No. 4); Presiding Officer's Information Request No. 5 (POIR No. 5), December 10, 2024.

¹⁹ Transcript of Proceedings, Volume 1, December 18, 2024.

²⁰ Presiding Officer's Ruling on Designation of Responses for Inclusion in the Evidentiary Record, November 27, 2024; Presiding Officer's Ruling Noticing Filing of Transcript, Designating Additional Materials for the Evidentiary Record, and Disposing of Outstanding Motions, December 18, 2024; Presiding Officer's Ruling on Designating and Taking Official Notice of Additional Materials and Closing the Evidentiary Record, December 18, 2024; Presiding Officer's Ruling Supplementing the Evidentiary Record and Ruling on Motions, January 8, 2025 (POR No. 9).

²¹ Rebuttal Testimony of Stephen DeMatteo on Behalf of the American Postal Workers Union, AFL-CIO, December 4, 2024 (APWU-RT-2); Rebuttal Testimony of Douglas F. Carlson (DFC-RT-1), December 4, 2024 (DFC-RT-1).

Service.²² The Public Representative and the Postal Service filed reply briefs.²³ The Commission also received eight statements of position and one letter.²⁴

The record in this docket closed on December 18, 2024. On January 8, 2025, the record in this docket was supplemented with a report from the United States Postal Service Office of Inspector General. See POR No. 9.

IV. SUMMARY OF POSTAL SERVICE PROPOSAL

A. Postal Service Request

The Postal Service requests that the Commission issue an advisory opinion regarding whether certain changes in the nature of postal services would conform to the applicable policies of Title 39, United States Code. Request at 1. In particular, the Postal Service plans to create a nationwide network of RPDCs and LPCs. *Id.* at 3. The Postal Service states that this initiative will “increase throughput, gain productivity, and increase asset utilization across the country.” *Id.* Additionally, the Postal Service intends to implement its RTO initiative on a nationwide basis. *Id.* The Postal Service states that the RTO initiative will “improve the efficiency and velocity of the processing

²² Brief of the American Postal Workers Union, AFL-CIO on the Postal Service’s 2024 Request for an Advisory Opinion on Changes in the Nature of Postal Services, December 18, 2024 (APWU Brief); Douglas F. Carlson Initial Brief, December 18, 2024 (Carlson Brief); Initial Brief of the Greeting Card Association, December 18, 2024 (GCA Brief); Initial Brief of the Public Representative, December 18, 2024 (PR Brief); Initial Brief of the United States Postal Service, December 18, 2024 (Postal Service Brief).

²³ Reply Brief of the Public Representative, December 26, 2024 (PR Reply Brief); Reply Brief of the United States Postal Service, December 26, 2024 (Postal Service Reply Brief).

²⁴ Letter from Members of Congress to Chairman Kubayanda on United States Postal Service (USPS) Delivering for America (DFA) Plan, November 25, 2024 (Congressional Letter); Statement of Position of the Association for Postal Commerce, December 18, 2024 (PostCom Statement); News/Media Alliance Statement of Position, December 18, 2024 (N/MA Statement); National Postal Policy Council Statement of Position, December 18, 2024 (NPPC Statement); Statement of Position of the Package Shippers Association, December 18, 2024 (PSA Statement); Virginia, Maryland, Delaware Association of Electric Cooperatives Statement of Position, December 13, 2024 (VMDAEC Statement); National Rural Electric Cooperative Association Statement of Position, December 12, 2024 (NRECA Statement); Statement of Position on USPS Proposed Changes, Joel E. Black, December 9, 2024 (Black Statement); Statement of Position of Steve Hutkins, December 18, 2024 (Hutkins Statement).

network.” *Id.* The Postal Service estimates that these two initiatives will allow it “to achieve estimated cost savings of between \$3.6 billion and \$3.7 billion on an annual basis once fully implemented.” *Id.*

The Postal Service also proposes to revise its service standards “to align with these operational initiatives” *Id.* Specifically, the Postal Service will “transition to 5-Digit to 5-Digit ZIP Code service standards” that reflect “the three operational legs applicable to the movement of mail and packages: collection to origin processing (Leg 1), origin processing to destination processing (Leg 2), and destination processing to delivery (Leg 3).” *Id.* at 4.

The Postal Service asserts that despite these changes, it will preserve the existing day ranges for First-Class Mail, which is currently 1-5 days, and USPS Ground Advantage, which is 2-5 days. *Id.* Additionally, the Postal Service intends to “transition the service standards for end-to-end USPS Marketing Mail and USPS Package Services so that they are based on the standards for First-Class Mail and USPS Ground Advantage,” which will shorten the day ranges for those products as compared to current standards. *Id.* The Postal Service states that “[s]ome mail and packages will . . . have a service expectation that is longer than the current expectation (although still within the current day-ranges)” if its originating 5-Digit ZIP Code is subject to RTO. *Id.* at 5. Finally, the Postal Service states that it will also exclude Sundays and holidays as transit days in these new service standards. *Id.* The intended effective date of the Postal Service’s planned changes is no earlier than 90 days after the filing of the Request, which was October 4, 2024. *Id.* at 48.

B. Witness Stephen B. Hagenstein Testimony

Witness Hagenstein serves as Executive Director of Logistics Modeling and Planning for the Postal Service and his responsibilities include providing analytics and insights to the Postal Service related to organizational review and strategic decision making. USPS-T-1 at i. His duties also include “Surface Planning, Air Planning, and

the Systems team that supports USPS Logistics.” *Id.* His testimony describes the state of the Postal Service’s transportation networks today and how the RTO initiative “will result in improved utilization of [Postal Service] trucks, reduced wasted layover hours or costly one-way trips, improved efficiency of [Postal Service] routings, and improved arrival profile[s] for our operating plants.” *Id.* at iii. His testimony also describes the RPDC and LPC network and explains how the Postal Service “will be able to improve the speed and reach of [Postal Service] network[s] as a consequence of RTO” *Id.* Finally, his testimony describes “the necessary revisions” that the Postal Service proposed to its “service standards for market dominant products and the impact of the proposed service standard changes, including RTO, on 5-Digit ZIP Codes within the redesigned network.” *Id.*

Witness Hagenstein testifies that the Postal Service’s local transportation networks have not “appropriately adjusted[]” to the decrease in mail volumes, increase in package volumes, expanding delivery points, and rising costs. *Id.* at 1. He also states that the Postal Service’s service standards have constrained its ability to implement “rational change and have led to extremely costly operating practices and irrational and irrelevant schedule requirements” *Id.* Current service standards, he continues, “are predicated on drive times between processing plants, with no consideration for the collections process and subsequent transportation to originating processing facilities.” *Id.* at 2. And this, coupled with the “illogical architecture of the network” and configuration of the Postal Service’s current processing network has resulted in transportation inefficiencies. *Id.* But, according to Witness Hagenstein, the RTO and RPDC initiatives, along with the corresponding service standard changes, “will effectively modernize postal operations” to create “a reliable, efficient, and financially sustainable network” *Id.*

Witness Hagenstein testifies that the new Postal Service model consists of “approximately 59 RPDC campuses which will serve as points of entry and exit into the network for designated regions.” *Id.* The RPDCs “will be supported by LPCs,” and be

designed with “rational configurations and will have functionalities that are logically designated.” *Id.* Additionally, he testifies that the Postal Service has “established an air stop network centered around the RPDC network” *Id.* at 3.

Witness Hagenstein then details how current business rules and service standards require that mail volume collected from retail centers be dispatched on the same day it is collected. *Id.* This means that “most mail collection sites (for example, Post Offices) receive morning drop-off of mail to be delivered that day and afternoon collections of mail collected that day.” *Id.* But given the declining volumes, witness Hagenstein testifies that this practice “has engendered costs impossible to justify in today’s environment.” *Id.* A “more efficient collections strategy[]” will be implemented through the RTO initiative. *Id.*

According to witness Hagenstein, under the RTO initiative, the Postal Service will change the collections process to “reduce the number of trips and/or costly layover expenditures,” and improve the utilization capacity of its trucks. *Id.* The RTO initiative will also enable “the RPDC network to operate independently of the collection process at [the Postal Service’s] further-out retail units or LPCs.” *Id.* at 4. As a result, according to witness Hagenstein, volume enters “into the network sooner and enables all mail to travel more expeditiously through [the Postal Service’s] processing network,” because “processing operations no longer need to wait on collection volume coming from far-away retail facilities or LPCs.” *Id.*

Additionally, witness Hagenstein testifies that the proposed changes to the transportation network “enable, and are in turn supported by,” changes to the service standards that he testifies will “confer more specificity on operational planning and afford more transparency to customers.” *Id.* Currently, the Postal Service “coordinate[s] delivery expectations between 3-Digit ZIP Codes[,]” which witness Hagenstein testifies are “less understandable to customers and, given the size and scope that each 3-Digit ZIP Code encompasses, necessarily requires the Postal Service to try to meet the same service expectations across widely varied geographies.” *Id.*

The Postal Service proposes using “the more precise 5-Digit to 5-Digit level.” *Id.* The new standards “are calculated as the sum of service expectation days between 5-Digit ZIP Code pairs accruing across three successive legs.” *Id.* at 5.

Witness Hagenstein testifies that “[u]nder Leg 1, one service expectation day will be added to Single-Piece domestic [First-Class Mail (FCM)] accepted in and dispatched from locations subject to RTO.” *Id.* at 6. Next, “[u]nder Leg 2, 2-5 delivery expectation days will be added as a function of predicated drive times between processing facilities . . . map[ped] onto the redesigned RPDC/LPC network,” with drive times expanded “by an increment of 4 hours to reflect the processing efficiency enhancements enabled by this network.” *Id.*

Witness Hagenstein testifies that the Postal Service will “preserve the current 2-5 day range for end-to-end Single-Piece FCM, even in circumstances when a 5-day service expectation is assigned under Leg 2, and an extra day is nominally added under Leg 1.” Witness Hagenstein also testifies that certain service standards will be retained, some products will see improved standards, and that “[o]ther end-to-end market dominant products” will travel “with the same transportation logic, supporting the integrated movement of mail and packages.” *Id.* at 6-7.

Under the new service standards, Leg 1 is guided by the RTO initiative. *Id.* at 7. To illustrate how the RTO initiative better utilizes transportation, witness Hagenstein discusses the LTO pilots conducted in Milwaukee, Madison, and Green Bay, Wisconsin. *Id.* at 7-8. In those campuses, utilization percentage rose month over month, beginning with a utilization ranging from 35 to 45 percent, and culminating nearly 20 percent higher at 64.7 percent after the Postal Service implemented the LTO pilot. *Id.* at 8. Nationally, witness Hagenstein testifies that the Postal Service “ran in FY23 12.68 million local trips at a cost of roughly \$2.8 billion for local transportation.” *Id.* The average utilization was 21.4 percent for Local Delivery Transportation. *Id.* at 8. According to witness Hagenstein, RTO is designed to correct outdated business rules implemented when the Postal Service collected larger volumes. *Id.*

Currently, according to witness Hagenstein, its regional transportation strategy “frequently encounters inefficient and costly scenarios” because of “the deployment of separate AM drop-off trips and PM collection trips” *Id.* These “inefficient and costly scenarios” include paying “contractors to layover for multiple hours after executing AM drop-offs before executing a PM collection[,]” paying “a contractor for empty outbound legs or inbound legs[,]” and paying “a materially escalated one-way per-mile price” that results in a similar per-trip cost to the Postal Service as it would pay for an empty leg trip, and hiring a driver for AM drop-offs and a different driver for PM collections when it uses “a Postal Vehicle Services (PVS)/Privately Owned Vehicle (PVO) fleet” *Id.* at 9.

With the RTO initiative, witness Hagenstein testifies that the Postal Service “will drastically improve [its] regional transportation efficiency and network processing schedules with minimal impact on end-to-end delivery times.” *Id.* Under RTO, the Postal Service will “collect volume roughly 12-18 hours later than it is collected” currently, enabling it to perform “destinating drop-off and collections operations at the same time.” *Id.* at 10.

The Postal Service conducted an LTO pilot “in a limited number of geographic areas[,]” that “combine[d] a strategy of consolidating on the same transportation route drop-offs of destinating mail and pick-ups of originating mail with a route optimization methodology” *Id.* From the pilot, witness Hagenstein testifies that the Postal Service learned that it must make two structural changes. *Id.* First, it determined that it should change its service standards to create “a segmentation . . . through which an extra service expectation day” is added to certain “locations subject to consolidated dispatches of collected volume” *Id.* And second, it determined that implementation of RTO should center around RPDCs rather than LPCs. *Id.*

Witness Hagenstein testifies that under RTO, “all locations from which collected mail is dispatched that are located in 5-Digit ZIP Codes where at least one office is located at a driving distance of more than 50 miles from the servicing RPDC . . . may be

subject to consolidated delivery and collection transportation[,]" and subject to "an extra service expectation day" *Id.* at 11. Witness Hagenstein testifies that the locations that fall within the RTO initiative "tend to have low originating volumes relative to locations nearer to an RPDC and are therefore more likely to be serviced by cost-inefficient local transportation routes." *Id.* He states that "RTO will not impact destination entry Periodicals Mail, USPS Marketing Mail, or Package Services[]" and "will also not impact Presort FCM" *Id.*

Unlike under LTO, the service standards proposed along with the RTO initiative will reflect the fact that "mail and packages may be picked up on a transportation route that runs the day after they are entered." *Id.* Because RTO is regional rather than local, witness Hagenstein testifies that in terms of transportation route scheduling, the Postal Service will "achieve far greater efficiencies and cost savings than were available under LTO pilots." *Id.* at 11-12. Additionally, witness Hagenstein testifies that its plant operations will benefit. *Id.* at 12. Instead of having all volume arrive in the evening, areas subject to RTO "will distribute volume throughout the day[,]" which witness Hagenstein testifies will enable the Postal Service to more effectively use its morning shifts. *Id.* Further, witness Hagenstein testifies that the overall network will be speedier because "by distributing the workload from the farthest offices to the AM, [the Postal Service is] able to shift away from a model of waiting for the farthest office[]" and may instead "dispatch the vast majority of volume to the network earlier, allowing [the Postal Service] to commit to an enhanced Leg 2." *Id.*

Witness Hagenstein next provides modeling of cost benefits, which is based on LTO modeling and estimates the savings to the Postal Service if it implements RTO. *Id.* at 12-13. He states, however, that its modeling reflects a "very conservative approach as RTO should yield substantially more savings." *Id.* at 12. Witness Hagenstein testifies that the Postal Service began modeling by "feeding inputs drawn from various Postal Service databases into Blue Yonder's Transportation Modeler (TMOD) logistics modeling software, which then generates schedules of cost-effective transportation

routes.” *Id.* at 13. “The inputs provided to TMOD fall into two categories: cost assumptions and operational constraints.” *Id.*

Witness Hagenstein testifies that cost assumptions were categorized as either hard or soft. *Id.* at 14. Hard cost inputs are constants, including constant dollar amounts for the hourly wage of PVS drivers, the per mile rate for PVS transportation fuel and vehicle maintenance costs, the hourly wage of highway contract route (HCR) drivers, the per mile rate for HCR transportation fuel and vehicle maintenance costs, HCR layover costs, and “HCR adjustments accounting for profit margin, rent/utilities, and other costs.” *Id.* “Soft cost inputs impose volume arrival profile (VAP) controls and a single-dock constraint.” *Id.*

Witness Hagenstein testifies that operational constraints include facility locations, hours of operation, dock restrictions, accessibility outside of business hours, HCR trip constraints, hub selection, fixed time for loading and unloading of trucks, drive times and mileage between locations, “[m]odel timeframes developed to ensure reliable weekly transportation plans for individual sites[,]” “PVS lane assignments designed to ensure that sites which receive trips from PVS domiciles are served by PVS transportation, maintaining contractual constraints[,]” and “[p]lant operating plans for volume availability.” *Id.* at 15-16.

There were 23 locations subject to the LTO pilot program. *Id.* at 16. To obtain a baseline for pre-LTO transportation costs, the Postal Service used the same cost assumptions fed into the LTO modeling methodology. *Id.* at 17. Witness Hagenstein testifies that the Postal Service estimated transportation cost savings using the TMOD’s route optimization “with morning dispatches of collected mail at locations further than 50 miles from their servicing LPC taken into account.” *Id.* The results of the “difference between weekly baseline cost estimates and weekly LTO cost estimates were then annualized, yielding for the 23 modeled locations an average cost reduction of 33 percent.” *Id.* Because RTO is regionalized rather than localized, Witness Hagenstein testifies that it “provides far more optimization capacity regarding transportation

scheduling than would a nationwide scale-up of LTO,” particularly in transportation consolidation since “more locations lie beyond 50 miles in driving distance of their servicing RPDC than lie beyond 50 miles in driving distance of their servicing LPC.” *Id.*

Witness Hagenstein testifies that although the LTO pilot did not “yield[] the total cost savings projected,” it did provide the Postal Service with “real-world experience in implementation[,] . . . highlighted the key operational approaches required for [RTO] to be maximally successful[,]” including that distance from RPDC rather than LPC was key to achieving its desired benefits and that a change to its service standards was required. *Id.* at 18-19. Witness Hagenstein further testifies that the LTO pilot program also highlighted certain areas, such as transportation contracts and layover hours, as well as consistent adherence to contract termination notices to avoid emergency contracts, that the Postal Service could improve upon. *Id.* at 19. It also helped the Postal Service better understand the time necessary to accomplish the changes and communication necessary to provide to stakeholders. *Id.* at 19-20. Witness Hagenstein testifies that processing efficiency will also “arise at sites where mail is aggregated” *Id.* at 20. Rather than aggregating at Surface Transfer Centers (STCs) or P&DCs, and “delayed while volume streams from far-away locations” arrive, under the RTO initiative, “RPDCs will aggregate mail with the latest mail volumes arriving from locations within a driving distance of 50 miles or less; the mail from 50+ miles driving distance away from the RPDC will generally arrive earlier, between mid-morning and early afternoon, on Day 1.” *Id.* at 20-21. According to witness Hagenstein, this allows “for earlier outgoing processing and dispatches to destinating processing centers” *Id.* at 21.

Regarding Leg 2, witness Hagenstein testifies that the current processing and transportation network consists of numerous facilities, including P&DCs, Network Distribution Centers (NDCs), STCs, and “numerous ancillary facilities (such as annexes) enlisted to support their core functions.” *Id.* According to witness Hagenstein, this “legacy network contains too many facilities for transported mail volume to be effectively consolidated and integrated, leading to poor truck capacity utilization rates and

correspondingly high costs.” *Id.* at 21-22. In the redesigned RPDC network, “each RPDC will serve a distinct region defined by reference to a set of 3-Digit ZIP Codes.” *Id.* at 22. Within those regions, witness Hagenstein testifies that there will be “a number of LPCs[,]” with the number varying across region. *Id.* Witness Hagenstein testifies that “[t]he Postal Service currently anticipates 59 RPDCs once the process is complete, though this number is preliminary and could change.” *Id.*

The Postal Service intends for mail and packages in the RPDC/LPC network to be divided into originating flows, which “correspond roughly to the first half of a mail piece’s end-to-end trajectory, from collection to sortation at an originating RPDC[.]” and destinating flows, which “correspond roughly to the second half of that mail piece’s end-to-end trajectory, from sortation at a destinating RPDC to dispatch towards its destinating address.” *Id.* at 23.

Originating flows will utilize originating delivery units (DUs), which will be hubbed with either a S&DC or LPC. *Id.* Some DUs will have LPCs that are co-located with an RPDC and some DUs that are “in close proximity to an RPDC may dispatch directly to that RPDC.” *Id.* at 24. The LPCs and S&DCs will then “separate letters, postcards and flats from parcels, with parcels being consolidated into one set of containers and mail being consolidated into another set of containers.” *Id.* Mail and parcels will then travel to an originating RPDC. *Id.* Originating RPDCs “are intended to serve as gateways for their respective regions and primary network nodes connecting other RPDCs.” *Id.* Volume travels from an originating RPDC to a destinating RPDC, where that volume will then “undergo further sortation and dispatch to destinating LPCs[,]” or to an intermediate RPDC for dispatch to a destinating RPDC. *Id.*

Destinating flows, on the other hand, begin with destinating RPDCs, which “handle destinating operations for letter trays, flat tubs, and packages for a designated region.” *Id.* at 25. According to witness Hagenstein, “RPDCs will sort destinating volume for all letters, flats, and packages to the 3-digit level.” *Id.* They will then transfer “3-digit letters and flats to an LPC,” and “sort destinating parcels at the 3-digit level

destined for the LPCs.” *Id.* Some parcels, however, will be “pulled out of the 3-digit sort and finalized at the 5-digit level” *Id.* Destinating LPCs will “sort destinating letters, flats, and sort and/or cross-dock packages to S&DCs and DUs at the 5-digit level.” *Id.* Destinating S&DCs “will sort packages and carrier route flat bundles to the carrier route level, sort manual 5-digit letters and flats to the carrier route level, and carriers will sort manual letters and flats to delivery point sequence.” *Id.* at 26. Destinating DUs “will sort packages to the carrier route level, sort manual 5-digit letters and flats to the carrier route level, and carriers will sort manual letters and flats to delivery point sequence.” If a S&DC is a transfer hub, they will “sort and/or cross-dock packages to the 5-digit and will combine with cross-docked 5-digit letter and flats, to be dispatched to DUs.” Both facilities will dispatch volume for delivery. *Id.*

Witness Hagenstein next testifies that for First-Class Mail, USPS Marketing Mail, Periodicals Mail, USPS Ground Advantage, Priority Mail, and Package Services “that originates in and destines in the same RPDC service area” the Postal Service “will offer turnaround service.” *Id.* It will also offer turnaround service for single-piece First-Class Mail “that originates and destines in the same service area of certain LPCs” *Id.* Witness Hagenstein testifies that “[t]he designation of LPCs that will retain such operations will be based on operational considerations, including the LPC’s distance from the RPDC and the volume of Single-Piece FCM that both originates and destines in the LPC service area.” *Id.* at 27.

Witness Hagenstein next testifies about the surface transportation optimization it modeled for the proposal. *Id.* First, witness Hagenstein testifies that the Postal Service performed inter-RPDC modeling, which consisted of four steps. *Id.* First, it used “volume data for the FY 2023, 85th percentile day by product” which were then “mapped onto the inter-RPDC network.” *Id.* Next, “a Mixed Integer Programming (MIP) model was enlisted to discover inter-RPDC hub routes . . . that minimize network costs for the mail flows ascertained in step one” *Id.* at 27-28. “Third, TMOD was used to schedule inter-RPDC shipments along MIP-specified hub-routes.” *Id.* at 28. Finally, “a

cost-per-mile assumption was applied to the resulting route, schedule, and shipment data to estimate future network costs.” *Id.* Witness Hagenstein then detailed the constraints and assumptions built into the inter-RPDC model, which include specifying the maximum cross-docks per route, a sufficient number of trucks for the volume, requiring that volume flow from origin to destination, used a 5-day service standard for First-Class Mail and USPS Ground Advantage, and specified arrival times, departure times, CETs, cross-docking capacity, and the number of transportation runs per year. *Id.* at 28-29. The modeling resulted in projections of 3,378 daily trips over 2,217,326 miles, which results in annual projections of 1,037,046 annual trips over 680,719,082 miles. *Id.* at 30.

Next, witness Hagenstein testifies that the Postal Service modeled intra-RPDC trips, which “are those between RPDCs and LPCs. *Id.* In order to complete this modeling, witness Hagenstein testifies that the Postal Service calculated “both the number of trucks needed from origin LPCs to origin RPDCs and the number of trucks needed from destination RPDC to destination LPCs.” *Id.* at 30-31. It then used assumptions such as a minimum number of trips, capacity of trucks (including 100 percent capacity utilization), and “empty return trips.” *Id.* at 31. Based on these assumptions, the Postal Service estimates that from origin LPC to origin RPDC, there will be 4,430 daily trips for 348,400 miles, which annually results in 1,360,000 annual legs for 106,959,000 miles. *Id.* It estimates that from destinating RPDC to destinating LPC, there will be 2,200 daily trips for 209,000 miles, which annually results in 781,000 legs for 74,195,000 miles. *Id.* For Terminal Handling Services (THS) on the United Parcel Service (UPS) network, the Postal Service estimates 380 daily trips for 21,995 miles, which results annually results in 117,000 legs for 6,752,000 miles. *Id.* In total, this results in 7,010 daily trips for 597,395 daily miles, or 2,258,000 annual legs over 187,906,000 annual miles. *Id.*

“The modeled mileage totals . . . sum to 868,625,082 miles of transportation.” *Id.* Witness Hagenstein testifies that based on the actual surface transportation mileage in

FY 2023, “[t]he model’s estimated transportation mileage outputs therefore represent a 31 percent reduction in mileage” *Id.* at 31-32.

Witness Hagenstein next testifies that the volumes that cannot be transported via the Postal Service’s redesigned surface transportation network “due to service standard constraints were designated by the model . . . to be transported via the air network.” *Id.* at 32. Witness Hagenstein details that the Postal Service’s air network was also reconfigured to align its air stops with RPDC service points, “further consolidating volumes and enabling a more streamlined and cost-effective air network design than what previously existed.” *Id.* Witness Hagenstein testifies that the Postal Service has already negotiated “a more favorable air cube unit rate cost in the new supplier contract.” *Id.* As a result, witness Hagenstein testifies about “the estimated annual air cost savings made possible by the RPDC-LPC network.” *Id.* at 33.

Finally, witness Hagenstein discusses an overview of the service standard changes set forth in the proposal. *Id.* at 33-50. Because the redesigned network will work within a regional concept and the legacy network nodes will be closed or repurposed, witness Hagenstein testifies that the service standards must be updated to account for those changes. *Id.* According to witness Hagenstein, the new standards “reflect all three segments traversed by end-to-end volume, including collection and delivery.” *Id.* at 34. One prominent change that witness Hagenstein discusses is the shift from assigning delivery day expectations at the 3-Digit ZIP Code level to 5-Digit to 5-Digit service standards. *Id.*

For inter-RPDC First-Class Mail, “the Postal Service proposes service standards calculated as the sum of service expectation days between 5-Digit ZIP Code pairs, accruing across three successive legs.” *Id.* at 35. Leg 1 constitutes point of entry to originating RPDC, Leg 2 covers “transit from originating RPDC, to destinating RPDC, to destinating LPC[,]” and Leg 3 covers “transit from destinating processing plant to point of delivery.” *Id.* Witness Hagenstein testifies that “[n]o delivery expectation days will be added under Leg 3,” which is “consistent with the current approach.” *Id.* For Leg 1,

witness Hagenstein testifies that “[t]o enable RTO, one service expectation day will be added to Single-Piece domestic FCM originating in the contiguous 48 states that is accepted in and dispatched from a 5-Digit ZIP Code that is over 50 miles in driving distance from its servicing RPDC.” *Id.* For all other First-Class Mail “originating in the contiguous 48 states, . . . zero delivery days will be added in this leg.” *Id.*

For Leg 2, witness Hagenstein testifies that because of “the improved arrival profiles of collected mail from RTO” that permit “earlier dispatches of volume into the network[,]” the Postal Service was able “to expand the drive-time service bands currently embodied in Part 121 by an increment of 4 hours.” *Id.* at 36. Additionally, witness Hagenstein testifies that “[t]wo service expectation days will be added to domestic FCM if the combined drive time between the originating RPDC, the destinating RPDC, and the destinating LPC is 7 hours or fewer” *Id.* Further, “[t]hree service expectation days will be added to domestic FCM if the combined drive time between the originating RPDC, the destinating RPDC, and the destinating LPC is more than 7 hours and not more than 24 hours” *Id.* Witness Hagenstein continues that “[f]our service expectation days will be added to domestic FCM pieces if the combined drive time between the originating RPDC, the destinating RPDC, and the destinating LPC is more than 24 hours and not more than 45 hours” *Id.* Finally, witness Hagenstein testifies that “[f]ive service expectation days will be added to all remaining domestic FCM pieces, except that four days will be added to any such FCM in which a day is added under leg 1.” *Id.* at 37. Witness Hagenstein clarifies that “the outer limit for FCM service standard will remain 5 days.” *Id.*

Witness Hagenstein then discusses the exceptions to these rules. First, USPS Connect Local Mail will continue to receive a same day standard as long as it is “properly accepted at participating Destination Delivery Units before the day-zero CET” *Id.* Further, USPS Connect will continue to have 1-day service standard as long as it “is accepted via carrier pick-up or properly accepted at participating Destination Delivery Units after the day-zero CET.” *Id.* While “[c]urrently, a one-day service

standard is applied to intra-SCF domestic Presort FCM pieces properly accepted at the SCF before the day-zero CET[,]" because of the network changes, witness Hagenstein will now apply "a one-day service standard . . . to intra-LPC domestic Presort FCM pieces properly accepted at the LPC before the day-zero CET." *Id.* The Postal Service will offer turnaround service for domestic Single-Piece First Class Mail in RPDC regions and certain LPCs. *Id.*

Witness Hagenstein testifies that "a two-day service standard will apply to Single-Piece domestic FCM originating from a 5-Digit ZIP Code that is within 50 miles in driving distance of the RPDC or qualifying LPC and destinating within the same RPDC's or qualifying LPC's service area" *Id.* at 38. "[A] three-day service standard will be applied to Single-Piece domestic FCM originating from a 5-Digit ZIP Code that is over 50 miles in driving distance of the RPDC or qualifying LPC and destinating within the same RPDC's or qualifying LPC's service area." *Id.* Finally, witness Hagenstein testifies that "[p]resort FCM that originates and destinate in the same RPDC region (and is not eligible for overnight service) will receive 2-day service." *Id.* Witness Hagenstein also clarifies that "RTO will not apply in locations outside of the contiguous 48 states" *Id.* But, he clarifies that a 5-day service standard will apply to volume that "originates in the contiguous 48 states," that "is collected in and dispatched from a 5-Digit ZIP Code that is over fifty miles in driving distance from its servicing RPDC (meaning RTO applies)," and that "destinates in a domestic location that is not within the contiguous 48 states." *Id.*

For International First-Class Mail, witness Hagenstein testifies that Outbound Single-Piece First-Class Mail International "properly accepted before the day-zero CET will be equivalent to the service standard for domestic FCM pieces originating from the same 5-Digit ZIP Code area and destined to the 5-Digit ZIP Code area in which the designated International Service Center is located." *Id.* at 39. Witness Hagenstein further testifies that Inbound Letter Post "accepted before the day-zero CET will be equivalent to the service standard for domestic FCM pieces destined to the same 5-

Digit ZIP Code area and originating from the 5-Digit ZIP Code area in which the designated International Service Center is located.” *Id.*

For Periodicals, witness Hagenstein testifies that the “[s]ervice standards for end-to-end Periodicals Mail will flow from the FCM standards using the same measured travel path, which results in a faster service standard day range within the contiguous 48 states.” *Id.* Thus, “a 3-6 day service standard will be applied to Periodicals with the standard specifically equaling the sum of the applicable FCM service standard plus 1 day[.]” *Id.* This “3-6 service standard day range for end-to-end Periodicals Mail will cover all origin-destination pairs within the contiguous 48 states[]” and the existing service standards will no longer apply. *Id.* at 40. Service standards will not change for “end-to-end Periodicals Mail originating and/or destinating in locations outside of the contiguous 48 states” *Id.* Similarly to First-Class Mail, one day will be added for Periodicals Mail that “originates in the contiguous 48 dates,” that “is collected in and dispatched from a 5-Digit ZIP Code that is over fifty miles in driving distance from its servicing RPDC (meaning RTO applies),” and that “destinates in a domestic location that is not within the contiguous 48 states.” *Id.* at 44.

Witness Hagenstein testifies that “[t]he service standards for destination entry Periodicals Mail will remain largely unchanged,” except for “several minor exceptions” that reflect the proposed network changes. *Id.* Witness Hagenstein testifies that the current standards for Periodicals Mail that qualify for a Destination SCF (DSCF) rate and Destination ADC (DADC) rate will have the same service standards as Periodicals Mail that qualify for a destinating LPC rate if they are accepted before the day-zero CET at the designated destinating LPC. *Id.* at 40-41. Furthermore, witness Hagenstein testifies that because the current rules “assign different service standards to Periodicals Mail properly accepted at DADCs” depending on whether “the relevant DADCs and DSCFs are co-located,” and destinating LPCs will replace both, “the co-location condition will no longer be operative, and the shorter of the two service standards . . . will apply.” *Id.* at 42.

Similarly, witness Hagenstein testifies that because the redesigned network replaces destination NDCs (DNDCs) and Auxiliary Service Facilities (ASFs) with RPDCs, the service standards that currently apply to Periodicals Mail “qualifying for a DADC containerized rate that are properly accepted before the day-zero CET at the designated DNDC or ASF will instead be applied to Periodicals Mail qualifying for a Destination RPDC (DRPDC) rate . . . that is properly accepted before the day-zero CET at the designated” destination RPDC. *Id.* at 41-42. Furthermore, witness Hagenstein testifies that because the current rules “assign different service standards to Periodicals Mail properly accepted at DNDCs or ASFs as a function of whether the relevant DADCs and DSCFs are co-located,” and destinating RPDCs will replace both and LPCs will replace DADCs and DSCFs, “the co-location condition will no longer be operative, and the shorter of the two service standards . . . will apply.” *Id.* at 42.

Witness Hagenstein testifies that service standards for “destination entered Periodicals Mail originating and/or destinating in locations outside of the contiguous 48 states . . . will largely remain unchanged” except for updating “facility nomenclature updates reflecting the network redesign, with few exceptions.” *Id.* He details those “few exceptions” in his testimony related to Periodicals pieces that enter the network at either the DSCF or DADC in Puerto Rico and are destined to the U.S. Virgin Islands or certain 3-Digit ZIP Code areas in Alaska, which will have “the shorter of the two service standards” apply to the same material when LPCs replace both SCFs and ADCs, or entered at the DSCF in Hawaii or designated DADC and destined to American Samoa, which will have a 4-day standard “[f]or reasons of operational feasibility” *Id.* at 42-43.

For USPS Marketing Mail, witness Hagenstein testifies that service standards for USPS Marketing Mail must change to reflect the redesigned network, and those standards will now “flow from the FCM standards using the same measured travel path.” *Id.* at 44. Thus, “[f]or USPS Marketing Mail originating and destinating within the contiguous 48 states, the rules will add two days to the applicable FCM service

standard.” *Id.* at 44. Therefore, witness Hagenstein testifies, “the outer bound for USPS Marketing Mail will be 7 days, rather than 10 days under the current rules.” And as was the case with First-Class Mail, witness Hagenstein testifies that an additional service expectation day will be added to the service standard for USPS Marketing Mail that “originates in the contiguous 48 states,” that “is collected in and dispatched from a 5-Digit ZIP Code that is over fifty miles in driving distance from its servicing RPDC (meaning RTO applies),” and that “destinates in a domestic location that is not within the contiguous 48 states.” *Id.* For destination entered USPS Marketing Mail, witness Hagenstein testifies that similar to Periodicals Mail, “the service standards for destination entered USPS Marketing Mail will be updated to reflect the redesigned network,” but that “[t]he service standards for destination entered USPS Marketing Mail will not otherwise change.” *Id.*

For Package Services, witness Hagenstein testifies that because the current standards are tied to the current network, the redesigned network will require it to update to the service standards for end-to-end Package Services. *Id.* at 45. “The revised service standards for end-to-end Package Services mail will accordingly correspond to the service standards for USPS Ground Advantage standards . . . plus two days.” *Id.* Witness Hagenstein testifies that “the service standards for end-to-end Package Services mail will be 4-7 days, as opposed to the 2-8-day range that currently applies.” *Id.* Similarly to First-Class Mail, the Postal Service proposes adding an extra service expectation day for pieces that “originate in the contiguous 48 states, . . . are collected in and dispatched from a 5-Digit ZIP Code that is over fifty miles in driving distance from its servicing RPDC (meaning RTO applies), and . . . destinate in a domestic location that is not within the contiguous 48 states.” *Id.* at 45-46. Additionally, witness Hagenstein testifies that “[a]s with Periodicals Mail, the service standards for destination entered USPS Marketing Mail will be updated to reflect the redesigned network” *Id.* at 46. Otherwise, witness Hagenstein testifies, “[t]he service standards for destination entered Package Services will not . . . change.” *Id.*

Finally, regarding competitive products, witness Hagenstein testifies that the service standards for USPS Ground Advantage “will be 5-digit to 5-digit standards predicated on the same operational leg approach as described above for FCM.” *Id.* Witness Hagenstein testifies that an additional service expectation day will “be added to USPS Ground Advantage entered at retail locations impacted by RTO, and Leg 2 bands will apply that are specific to USPS Ground Advantage and accelerated compared to the bands for FCM.” *Id.* Thus, witness Hagenstein testifies, “the current service standard ranges for this product will remain the same” at 2-5 days. *Id.*

Regarding Priority Mail and Priority Mail Express and their “unique service standards, an extra day will be added for volume that is entered in a 5-Digit ZIP Code subject to RTO.” *Id.* at 47. Witness Hagenstein testifies that the Postal Service “is currently assessing operational strategies and network capabilities with respect to these products,” but “intends for Priority Mail to remain a 1-3 day product, while Priority Mail Express would also be a 1-3 day product with a money-back guarantee.” *Id.*

Witness Hagenstein then details the “[i]mpacts of the revised service standards on origin-destination pair service expectations for each market dominant product” and notes that this information “pertains to service standard expectations assigned to particular lanes, not to impacted volume percentages,” which witness Saleem discusses in his testimony. *Id.*

C. Witness Arslan Saleem Testimony

Witness Saleem is the Director of Corporate Performance Reporting and Analytics for the Postal Service. USPS-T-2 at ii. His testimony explains how the proposed operational and service standard changes in the Request will be measured, discusses the exclusion of Sundays and holidays as transit days when entered on Saturdays or days before a holiday, and estimates the impact of the proposed changes on mail volumes. *Id.* at 1. Witness Saleem states that excluding Sundays and holidays as transit days will “ensure consistent service standards across all post offices and

product categories[]” and provide the Postal Service with “greater weekend operational flexibility for processing operations.” *Id.* at 2. Doing so, witness Saleem continues, should enable the Postal Service to obtain greater “flexibility in staffing, processing, and dispatching,” which would allow the Postal Service to process on Saturday nights “where appropriate,” or reduce processing on weekends “where appropriate to capture workhours.” *Id.* Witness Saleem testifies that this proposed change would align it with the “many foreign postal operators and the Postal Service’s national competitors” who already exclude Sundays and holidays as transit days. *Id.*

Based on FY 2023 data, witness Saleem testifies “about 14% of market dominant volume is expected to be impacted by this proposal.” *Id.* at 3. Turning to the Postal Service’s SPM Plan changes under the proposal, witness Saleem testifies that “minor changes” are necessary to reflect the proposed changes, including:

- (1) the proposed revisions to the Postal Service’s service standards for market dominant products on 5-digit ZIP Codes within the redesigned network and related references to service standards based on delivery Legs 1, 2, and 3; (2) the Postal Service’s proposed exclusion of Sundays and holidays as transit days for mail and packages entered on Saturday or the day before a holiday; and (3) the renaming of certain destinating entry points.

Id. at 4. Witness Saleem further testifies that the Postal Service is currently “developing a method for measuring service performance at the new 5-digit to 5-digit service standard level.” *Id.* This, according to witness Saleem, will permit the Postal Service “to collect, process, and display service performance measurement at a more granular level,” which will in turn provide additional levels of performance visibility for its customers. *Id.* Witness Saleem then describes the updates to the Methodology Documents it uses to “determine the sampling methodology and the estimation methodology for calculating service performance scores and their margins of error when implementing its SPM Plan” *Id.* at 5. Based on the changes to the SPM Plan,

witness Saleem testifies that “certain changes will also need to be made to the Methodology Documents[]” and details those changes in his testimony. *Id.* at 6.

Finally, witness Saleem testifies that the Postal Service evaluated the potential volume impacts on both Market Dominant and competitive products of the proposed move to the 5-digit to 5-digit ZIP Code service standard. *Id.* at 6-7. Witness Saleem explains the methodology used to study those impacts. *Id.* at 7-8. Overall, according to witness Saleem, the Postal Service estimates that approximately 17 percent of Market Dominant volume will experience an upgrade or a downgrade, with approximately 11 percent upgraded, and 6 percent downgraded. *Id.* at 9. Witness Saleem testifies that “the percentage of volume that is anticipated to be unchanged . . . is the vast majority. . .” *Id.* at 9-10.

Additionally, witness Saleem testifies that “the anticipated impacts on all [First-Class Mail] will be minor, as 75 percent of volume is anticipated to be unchanged, 14 percent is anticipated to be upgraded, and only 11 percent is anticipated to be downgraded.” *Id.* at 10. Witness Saleem next testifies that the Postal Service looked at the anticipated impacts of the proposed revised service standards on both rural and urban communities. *Id.* at 13. He testifies that for this specific analysis, the Postal Service used urban and rural classifications defined by the United States Census Bureau. *Id.* According to witness Saleem, the results of this analysis “show that a majority of the impacts will be for urban communities.” *Id.* at 14. Based on the Postal Service’s estimates, “only about 8 percent is attributed to rural communities.” *Id.* In terms of First-Class Mail, USPS Marketing Mail, and Periodicals Mail volume that the Postal Service expects to be upgraded, witness Saleem estimates that “about 3 percent is attributed to rural communities.” *Id.* at 15. He further testifies that in terms of First-Class Mail, USPS Marketing Mail, and Periodicals Mail expected to be downgraded, “the Postal Service anticipates that about 20 percent is attributed to rural communities.” *Id.*

Witness Saleem then testifies about the percentages of Single-Piece First-Class Mail, USPS Marketing Mail, and Periodicals Mail attributable to rural communities. *Id.* at 14-17. The Postal Service estimates that 15 percent of Single-Piece First-Class Mail is attributable to rural communities. *Id.* at 14. Witness Saleem testifies that of the total Single-Piece First-Class Mail volume expected to be upgraded, about 4 percent is attributed to rural communities while 25 percent of the volume expected to be downgraded is attributed to rural communities. *Id.* at 14-15.

The Postal Service next estimates that five percent of USPS Marketing Mail is attributable to rural communities. *Id.* at 15. Of the total volume of USPS Market Mail the Postal Service anticipates being upgraded as a result of the proposal, witness Saleem estimates that about 3 percent is attributable to rural communities, while about 3 percent of total USPS Marketing Mail that will experience a downgrade is attributable to rural communities. *Id.*

Finally, witness Saleem testifies that the Postal Service estimates that 70 percent of Periodicals Mail volume is attributable to rural communities. *Id.* at 16. Witness Saleem estimates that about 1 percent of the total amount of Periodicals Mail volume that the Postal Service expects will be upgraded as a result of the proposed changes is attributed to rural communities, while approximately 4 percent of the total Periodicals Mail volume that the Postal Service anticipates will be downgraded is attributable to rural communities. *Id.* at 16.

Regarding pharmaceutical mail volume, witness Saleem estimates that “the vast majority of pharmaceuticals volume will remain unaffected by the proposed changes.” *Id.* at 17. Additionally, witness Saleem testifies that, regarding competitive mail volume, “the overall impact of these proposed changes is that the majority of packages will either have the same service standard or a better standard, consistent with the fact that a majority of package volume is entered in ZIP Codes that are within 50 miles of our processing network.” *Id.* Finally, witness Saleem testifies that along with these

proposed changes, “the Postal Service will roll out applications” so that customers are “able to look up their service standards.” *Id.* at 18.

D. Witness Leslie Johnson-Frick Testimony

Witness Johnson-Frick serves as Executive Director for Sorting and Delivery Center (S&DC) Implementation at the United States Postal Service and her responsibilities include evaluating and recommending “candidate S&DC locations,” aligning “related operations and processes,” facilitating “interior and exterior construction[,]” and activating LTO sites. USPS-T-3 at 1. Her testimony discusses how neither the LTO nor the RTO initiatives will change the retail or delivery customer experience. *Id.* at 2. It also discusses the effect of these two initiatives on originating and destinating mail and packages at local Post Offices. *Id.*

Witness Johnson-Frick states that currently, mail and packages generally move twice per day between the Postal Service’s “nearly 32,000 local Post Offices and their associated processing facilities.” *Id.* at 2. In the morning, the Postal Service transports destinating mail and packages from the processing network to local Post Offices for delivery. *Id.* Later in the day, the Postal Service transports originating mail, which is “mail collected from mailboxes on routes, blue collection boxes, lobby drops, and across the retail counter,” to the corresponding processing facility. *Id.*

Witness Johnson-Frick further testifies that the LTO initiative that the Postal Service piloted in a limited area was adjusted based on results from a pilot in Richmond, VA and expanded to additional pilot locations. *Id.* at 3. But, she testifies, “no changes were made to carrier delivery or collection operations because of LTO[.]” and “[n]o changes were made to blue collection box or lobby drop collection times.” *Id.* Now that the Postal Service intends to implement RTO, which “evolved” from the LTO pilot program, she testifies that the Postal Service will “consolidate drop-off of destinating mail from the processing facility and pick-up of originating mail going to the processing facility on the same transportation route, for Post Offices farther than 50 miles from a

RPDC.” *Id.* at 4. Additionally, she testifies that RTO “will not impact carrier collection of originating mail, including mail from blue collection boxes” *Id.* Finally, the retail cut-off time at locations subject to RTO “will be adjusted to 11:59 p.m. on the night before originating collected mail is dispatched.” *Id.* at 4-5.

Regarding election mail, witness Johnson-Frick testifies that “LTO and RTO will not affect election mail in the 2024 general election” because it will not be implemented until 2025. *Id.* at 5. And for LTO pilot locations, the Postal Service “developed a uniform policy that will apply for both primary elections and the general election” where it provides “extra transportation and other resources” to ensure that election mail is processed. *Id.* at 5-6. Finally, to better educate postal customers on the operational and service standard changes in the Request, she testifies that the Postal Service plans to “prominently place notices that will include instructions on how to access specific service expectations” *Id.* at 6.

E. Witness Gregory White Testimony

Gregory White serves as the Executive Director of Operations Integration and Performance Excellence and is responsible for “improving enterprise-wide performance and building a set of Postal Service operating standards” to help meet the goals of the Delivery for America Plan. USPS-T-4 at i. The purpose of witness White’s testimony is to explain how the proposed changes to Postal Service operations and service standards will “improve processing effectiveness and, . . . yield cost savings” *Id.* at iii. Witness White first describes the legacy network, stating that it “developed over multiple decades[]” but “not aligned with any effective strategy or plan, and . . . not sufficiently responsive to shifting demands across the country as the Postal Service’s package volume increased and mail volumes declined.” *Id.* at 1. According to witness White, this resulted in a legacy network that “contains too many facilities that are poorly designed and poorly maintained.” *Id.*

The legacy network, which witness White testifies lacks “regularized processing assignments” prevents the Postal Service from instituting “service and operating standards that would allow the network as a whole to be more effectively managed.” *Id.* at 3. And, witness White continues, the layouts within the legacy network facilities similarly lack standardization. *Id.* at 3. Witness White testifies that a lack of standardization has resulted in facilities that are laid out in suboptimal ways, requiring both employees and mail and package volume to travel “along more congested and inefficient pathways, than what basic engineering design principles would otherwise dictate.” *Id.* According to witness White, processing efficiency is also negatively impacted by the “jumbled placement” of machinery and workstations throughout the network. *Id.* And, witness White continues, the processing equipment currently in place is “neither sufficiently calibrated to emerging processing needs, nor configured to maximize productivity.” *Id.* at 4.

STCs, which “consolidate and dispatch mail and packages within the surface network[,]” and THS, which “load mail and packages into air containers and deliver them to contracted air transportation and unload inbound mail and packages from the containers into mail transport equipment for the Postal Service to pick-up and deliver to designated mail processing facilities[,]” within the legacy network were contracted facilities. *Id.* According to witness White, this network creates “unnecessary transportation trips and handling touches” and can be unpredictable. *Id.* Witness White testifies that insourcing these STC and THS operations into RPDCs will reduce these trips and touches and result in a more stable network.

Finally, with regards to the legacy network, witness White testifies that they are tethered to the current service standards. *Id.* at 4-5. This means that volumes arrive late in the afternoon and into the evening, “and within an overly tight arrival schedule.” *Id.* at 5. Witness White testifies that even if its legacy upstream operations work seamlessly, “the current system nonetheless results in inefficient originating processing operations . . .” that create “negative downstream consequences for processing

operations and imposes unnecessary and counterproductive constraints.” *Id.* According to witness White, the RTO initiative will help the Postal Service to produce arrival profiles “spread more evenly throughout the day, enabling a more effective use of network resources” *Id.*

Witness White next explains that the newly proposed processing network consisting of RPDCs and LPCs “will adopt a standard model of processing assignments.” *Id.* at 5. Legacy operations in the redesigned system will be mapped to either an LPC or RPDC, or in certain instances, both. *Id.* at 6. In redesigning its network, witness White testifies that the Postal Service aims to “reduce the processing sortation workload,” through reducing “outbound sorts to the network through RPDC” and reducing “local sorts to delivery through carrier aggregation in S&DCs.” *Id.* Second, it aims to “create a logical sequence of value-added processing, transportation, and cross-docking functions of mail and package movement” *Id.* at 7. Finally, witness White testifies that the third objective of the redesigned network is to permit it to implement a “best fit” network using its existing infrastructure all while it continues to operate. *Id.*

Witness White also describes how the “inner workings of processing sites will also be revamped,” to replace the inefficient processes currently in place. *Id.* at 8. Instead of the “jumbled” design described above, the new standard layout will be “based on functional blocks, with each block consisting of one or more mail processing machines . . . along with the designed space around the machine.” *Id.* This, according to witness White, will support a more efficient processing operation for mail and packages that “concentrates” similar operations “within self-contained work-cells.” *Id.* at 8-9. Further, witness White testifies that the new layout will permit proper staging by providing more space. *Id.* at 9.

Additionally, witness White states that this redesigned network along with RTO will improve staffing. *Id.* at 9-10. Under the new network plan, witness White testifies that the Postal Service can staff shifts based on planned volume. *Id.* at 9. Additionally,

under the RTO initiative, witness White states that “shifts can be predicated on volumes that have already arrived earlier in the day[]” enabling the Postal Service to pre-plan “shifts based on known volumes, and not on hypothetical volumes subject to multiple contingencies,” which will permit “greater precision” in staffing. *Id.* at 10. Witness White also testifies this standardization will allow it to create and distribute “standard work instructions applicable across the network, leading to more transparent work expectations, more effective work practices, and more actionable standards for plant managers.” *Id.*

Witness White then details the equipment upgrades the Postal Service is currently implementing, including new package sorters with larger dimensions to allow more package volume to be mechanically processed and new machinery capable of more quickly sorting larger quantities of volumes. *Id.* at 11. The new equipment will permit the Postal Service to flexibly allocate “capacity between originating and destinating operations,” and eliminate the current practice of halting operations to switch sort plans. *Id.* It also maximizes container utilization. *Id.* Witness White testifies that upgraded conveyors will replace operations currently performed by forklift or “material handling operators.” *Id.* He testifies that all of these changes will result in safer working conditions and clearer roles for employees that will help the Postal Service retain skilled employees and boost morale. *Id.* at 12.

Next, witness White addresses the RTO initiative and its shifted operating windows and how it will strengthen the Postal Service’s competitive package products. *Id.* at 13. Currently, aside from the piloted LTO locations, witness White testifies that volume from Post Offices and other delivery units arrive at plants in the afternoon into the late evening. *Id.* at 14. Volume originating from the furthest facilities tend to arrive at the end of this window, which causes plants to “choose among undesirable outcomes, either delaying dispatches to other processing facilities while volume processing is finalized, or dispatching transportation on time, but without all of the collected volume.” *Id.* RTO is designed to correct this problem because “a significant

portion of the day's collected volume will arrive in the morning or early afternoon of the following day, creating earlier arrivals (by time of day) into the plant." *Id.* This allows the Postal Service to conduct cancellation and other operations earlier, with "higher throughputs, and condensed operating windows." *Id.* And, according to witness White, it will "lead to more efficient processing operations and minimize the downstream impacts that would otherwise ensue from late or incomplete dispatches" *Id.*

As seen through the LTO pilots in Green Bay and Milwaukee, witness White testifies that the "processing benefits unlocked by RTO" include "a larger percentage of cancellations were processed within a shorter window of time," late-arriving volume no longer hampering processing operations, and "all cancellations were cleared significantly earlier." *Id.* at 15-16. Those LTO pilot locations, according to witness White, "immediately" demonstrated the positive effects of the pilot on "processing outcomes" and efficiency. *Id.* at 15. Thus, according to witness White, RTO "will allow volumes to enter the network earlier." *Id.* at 16.

Given that 70 percent of First-Class Mail containers are ready by midnight, according to witness White, "when supplied with RTO-enabled volume arrival profiles, plants will no longer be obligated to wait for volumes from outlying facilities before dispatching processed volume into the network; such late-arriving volumes will instead arrive the following day." *Id.* at 16-17. Additionally, according to witness White, because RTO-enabled arrival profiles permit the Postal Service to more optimally schedule work, "[v]olumes that clear the dock earlier arrive at their destinating site faster[,] . . . a feature that enables the Leg 2 drive-time expansions" *Id.* at 17-18.

In addition to First-Class Mail, witness White testifies that "[t]he RTO benefits to volume arrival profiles and processing profiles positively impact package operations as well." *Id.* at 18. Under RTO and its "volume arrival profiles including daytime collection arrivals," facilities will no longer have intensely active periods followed by long stretches with idle machinery and may instead "run package volume on one machine with sustained optimal throughput, efficient processing runs, fewer (and fuller) containers,

less material handling, fewer setups and pulldowns, less idle time, and fewer manual operations to clear rejects by the clearance time.” *Id.*

Additionally, witness White states that the Postal Service can adjust “lane-by-lane surface routings between network facilities” in instances “when connections prove difficult” and provides examples of cases where the Postal Service can reduce its travel distance and time under the RPDC and LPC network. *Id.* at 19. Under the proposed changes, “high volume lanes could be routed to move mail and packages together directly to an LPC,” as long as the Postal Service finds it “financially justified and necessary” in order to reach its service commitments. *Id.* at 20. Therefore, according to witness White, the RPDC and LPC initiatives grant the Postal Service more flexibility in routing potential, which in turn permits the “expanded drive-times proposed . . . and that mail assigned an accelerated service standard nevertheless arrives on time at its destination.” *Id.*

Witness White testifies that the RPDC and LPC network and its increased efficiency and improved service will allow it to capture a larger market share for products like USPS Ground Advantage. *Id.* This, according to witness White, is “especially true in regional lanes, where a faster 2-day USPS Ground Advantage service standard, together with the large geographical areas serviced by RPDCs, will lengthen the distances to which a 2-day Ground Advantage service standard applies” *Id.* Witness White testifies that the RPDC initiative along with the newly proposed service standards will “allow for more efficient planning, both on [the Postal Service’s] part and on the part of [its] customers[]” because they provide “greater visibility into individual lanes” *Id.* at 21.

Witness White next testifies about the costs savings that will exist within the new network. First, witness Whiteman states that the Postal Service has “realized more than \$15 million in savings,” through the cessation of lease payments on 17 processing annexes and vacating 80 additional facilities. *Id.* As it continues to progress with the DFA Plan’s network redesign, witness White testifies that “leases for approximately 60

further facilities will be terminated.” *Id.* at 22. Witness White estimates that this will “yield approximately \$81 million in annual cost savings.” *Id.* He also testifies that the Postal Service intends to repurpose or sell existing facilities, permitting additional cost savings and flexibility for the redesigned network, although he testifies that those cost savings “cannot at this time be reliably estimated.” *Id.* at 22-23. Using FY 2023 as a baseline to calculate savings, witness White testifies that insourcing STC facilities will recapture an additional estimated \$35 million dollars in cost savings through facilities costs savings. *Id.* at 23. Finally, using FY 2023 as a baseline, witness White testifies that the Postal Service estimates it will realize an estimated \$167,798,298 in operating costs savings. *Id.* at 24-25. Witness White notes, however, that “the insourcing of STC operations will undoubtedly increase Postal Service workhours in the locations where significant insourcing occurs.” *Id.* at 24. But, he continues, “the financial, operational, and transportation benefits associated with the insourcing will more than offset the cost of added workhours.” *Id.* at 25.

Witness White testifies that “processing efficiencies made possible by the RPDC/LPC network will enable a significant reduction in workhours overall.” *Id.* Witness White explains that direct workhour reductions can be tracked because they involve “volume-tracked operations recorded by scans to which productivity increases can be directly linked,”. *Id.* at 29. Indirect workhour reductions, on the other hand, cannot be tracked by scan-events, and are instead “estimated by the application of percentages (derived from Management Operating Data System (MODS) surveys) to overall volumes” *Id.* at 29. For direct workhour reductions, witness White testifies that the Postal Service aims to reduce workhours by 16.1 percent, or 16,858,820 workhours, across 6 Labor Distribution Codes (LDCs) within Function 1, which encompass “processing-related work assignments.” *Id.* at 25-30, 38-39. Applying that 16.1 percent reduction to indirect workhours, witness White estimates a total of 12,324,630 indirect workhour savings. *Id.* at 39-40.

F. Witness Curtis Whiteman Testimony

Curtis Whiteman serves as the Senior Director, Field Budget and is responsible for “developing and allocating expense budgets to fund field operations and monitoring performance against the financial plan.” USPS-T-5 at ii. His testimony provides “financial contexts” for the proposed operational changes in the Request and lays out the annual savings the Postal Service anticipates will result from both the operational changes and the service standard changes contained in the Request. *Id.* at iii. He explains “how the prevailing economic pressures, regulatory constraints, market conditions, and growing costs continue to put pressure” on the Postal Service. *Id.* He also discusses “the methodology used to estimate Postal Service cost savings potential of the initiatives.” *Id.*

Witness Whiteman first testifies that the Postal Service operates subject to “several legal constraints,” including the universal service obligation, “[m]andatory participation in federal retiree and employee benefits programs,” and “[o]ther constraints” such as its “statutory requirement to engage in collective bargaining against a backdrop of binding arbitration.” *Id.* at 1. Mail volumes, according to witness Whiteman, peaked in 2006 at 213 billion pieces. *Id.* at 2. Since then, according to witness Whiteman, annual volumes have “fallen by about 45 percent.” *Id.* And “for the first time in American postal history,” mail volumes did not rebound after the Great Recession. *Id.* Witness Whiteman testifies that the lost volumes “are largely due to the proliferation of electronic media for bill presentment, payment, correspondence, and other communications,” and “are not expected to return.” *Id.* The product that experienced the greatest decline in volume was First-Class Mail, with USPS Marketing Mail declining by “more than 44 billion pieces (42%) from 2006 to 2023. *Id.* at 3. But, despite this volume decline, witness Whiteman testifies that “the cost to collect the mail has increased due to the addition of millions of delivery points in an expanded geographic territory.” *Id.*

And according to witness Whiteman, the legal framework under which the Postal Service is required to operate and “[s]tructural forces in the marketplace,” including the decline in mail volume and the “rigid system of market-dominant rate regulation” that limited the Postal Service’s “ability to raise prices to offset the revenue impact of volume declines[,]” resulted in over a dozen years of consecutive net losses “totaling \$87.0 billion, with a \$9.2 billion net loss in 2020 alone.” *Id.* at 4. The only way the Postal Service could “maintain positive liquidity[,]” according to witness Whiteman, was to default on its retiree health benefit prefunding obligations and pension amortization obligations. *Id.* Although the Postal Service Reform Act of 2022 repealed the requirement that the Postal Service prefund “future retiree health benefits and canceled all past-due prefunding obligations[,]” witness Whiteman testifies that it “did not help [the Postal Service’s] liquidity position[]” because it “represented a one-time, non-cash adjustment” *Id.* at 4-5.

According to witness Whiteman, through the DFA, “[t]he Postal Service is growing revenue through optimization of [its] pricing strategies and effective use of pricing authority” *Id.* at 5. “A significant mitigating factor to volume declines in recent years has been growth in the e-commerce marketplace, leading to dramatically increased demand for package shipping services.” *Id.* Those services, which are satisfied mostly by competitive products, “constituted 40 percent of operating revenues, compared to 11 percent in 2007 – an increase in revenue share of 264 percent.” *Id.* According to witness Whiteman, “market forces” and competition constrain the Postal Service’s “ability to increase prices and revenues in this sector.” *Id.* But, according to witness Whiteman, volatile global markets impacted by inflation, customer demand, increased competition in the shipping and package business, all impact the Postal Service’s operating results. *Id.* at 5-6.

Under the DFA Plan, witness Whiteman testifies that the Postal Service’s cost saving measures “have shown major success in FY 2024.” *Id.* at 6. Through the migration of mail transportation from air to ground, increased plant productivity, and the

cost savings realized by insourcing STC contracts and facility costs saved, according to witness Whiteman, the Postal Service has saved approximately \$1.5 billion in FY 2024. *Id.* at 6-7. According to witness Whiteman, these “[p]ast successes” give the Postal Service “confidence to project additional savings in these areas.” *Id.* at 7. He then projects cost savings across five categories: Leg 1, Leg 2 surface transportation, Leg 2 air transportation, mail processing, and real estate, while recognizing that the total projected savings “are predicted based on full implementation, and implementation will take place over time.” *Id.* at 7-8. Because the timeframe to reach full implementation could involve “unpredictable macroeconomic shifts[,]” witness Whiteman testifies that the Postal Service applied “reasonably prudent capture rates[]” that are “unique to its own category, based on the varying degrees of uncertainty separately pertaining to Leg 1, Leg 2 surface transportation, Leg 2 air transportation, mail processing, and real estate.” *Id.* at 8.

The Postal Service used FY 2023 transportation costs, which totaled \$11,953,418,015, as its baseline. *Id.* at 9. Witness Whiteman testifies that for Leg 1, “[t]he Postal Service conservatively anticipates that, at full implementation, aggregate savings nationwide from implementation of [RTO] will roughly approximate the average percentage cost reductions at the 23 model sites.” *Id.* at 10. According to witness Whiteman, the mean cost savings percentage for those locations was 33 percent. *Id.* Therefore, “[a]pplying that 33% cost savings to the FY2023 spending baseline . . . yields approximately \$930 million in modeled savings.” *Id.* Witness Whiteman testifies that the Postal Service believes “that a capture rate of 70% reasonably reflects the real-world uncertainty in this realm.” *Id.* Therefore, according to witness Whiteman, applying the capture rate results in “a final projected savings of around \$651 million.” *Id.*

For Leg 2 surface transportation, the Postal Service again used its FY 2023 ground transportation costs, which were “around \$4,007 million[,]” for a baseline. *Id.* at 11. With full deployment of the RPDC/LPC network, witness Whiteman testifies that its

“nationwide model projects ground transportation would have cost . . . around \$2,489 million[]” in FY 2023. *Id.* Witness Whiteman testifies that based on this modeling, the Postal Service calculates “a modeled Leg 2 surface transportation savings of approximately \$1,518 million.” *Id.* According to witness Whiteman, applying the 70% capture rate, which it again determined “reasonably reflects the real-world uncertainty in this realm[,]” yields a “cost savings of approximately \$1,062 million” *Id.*

For Leg 2 air transportation, witness Whiteman again testifies that the Postal Service compared its “FY 2023 air transportation baseline of around \$3,073 million to what the nationwide model projects air transportation would have cost in FY2023 under full deployment of the RPDC/LPC network, around \$2,072 million.” *Id.* at 12. The difference between those two figures, according to witness Whiteman, results in “a modeled air savings of approximately \$1,001 million.” *Id.* The Postal Service again determined that “a capture rate of 70% reasonably reflects the real-world uncertainty in this realm.” *Id.* Therefore, witness Whiteman testifies that “the efficiencies in air transportation will yield a cost savings of approximately \$701 million” *Id.*

Regarding mail processing, witness Whiteman testifies that “[t]he Postal Service believes mail processing is where [it has] the most room for improvement.” *Id.* at 13. And, according to witness Whiteman, “[i]t is where [it] is making the most investments – in machines, and in overhaul of facility layouts, which can lead to a significant reduction in work hours.” *Id.* Witness Whiteman testifies that improving mail processing productivity by 15 percent, which is what the Postal Service seeks to do, will “yield a projected savings of approximately \$1,356 million[]” in decreased work hours and “nearly \$168 million[]” based on insourcing of STC operations “for a total potential savings of approximately \$1,523 million.” *Id.* at 12-13. For mail processing, the Postal Service estimates a range of capture rates. *Id.* at 13. Witness Whiteman testifies that “[a] 70% capture rate yields a projected savings of approximately \$1,066 million, while an 80% capture rate yields a projected savings of approximately \$1,219 million.” *Id.*

Therefore, according to witness Whiteman, “the range of projected savings from mail processing improvements is approximately \$1,066 million to \$1,219 million” *Id.*

Finally, regarding the estimated cost savings on real estate, witness Whiteman testifies that insourcing STC contracts into Postal Service owned facilities results in “approximately \$116 million in potential savings.” *Id.* at 14-15. The Postal Service again estimates that a capture rate of 70 percent is appropriate. *Id.* at 15. According to witness Whiteman, this results in “a projected real estate cost savings of nearly \$81 million.” *Id.* Taken together, witness Whiteman estimates that the total projected savings is “in the range of approximately \$3,562 million to \$3,714 million” *Id.*

V. SUMMARY OF REBUTTAL CASES

A. American Postal Workers Union, AFL-CIO

American Postal Workers Union, AFL-CIO (APWU) submits the testimony of Stephen DeMatteo in support of its rebuttal case.²⁵ DeMatteo is the Executive Assistant to the President of the APWU where he directs several of APWU’s strategic campaigns. APWU-RT-2 at 1. Regarding the Postal Service’s proposed changes, he testifies that APWU educated its constituency and the public on the opportunity to submit comments on the Request to the Postal Service, the Board of Governors, and members of Congress, with copies to APWU. *Id.* at 2. APWU collaborated with public interest organizations also focused on postal issues. *Id.* at 2-3. In total, he testifies that APWU received more than 62,000 unique comments addressing the Postal Service’s proposed

²⁵ Rebuttal Testimony of Stephen DeMatteo on Behalf of The American Postal Workers Union, AFL-CIO (APWU RT-2), December 4, 2024 (APWU-RT-2). APWU originally submitted the rebuttal testimony of Anita Morrison (APWU-RT-1), but later withdrew her testimony. See Motion of American Postal Workers Union, AFL-CIO to Withdraw Rebuttal Testimony of Witness Anita Morrison (APWU RT-1), December 17, 2024; Presiding Officer’s Ruling Noticing Filing of Transcript, Designating Additional Materials for the Evidentiary Record, and Disposing of Outstanding Motions, December 18, 2024 (POR No. N2024-1/6).

changes. *Id.* at 3. He testifies that these comments came from every state, the District of Columbia, Puerto Rico, and Guam. *Id.* at 4.

DeMatteo testifies that “the comments [APWU] received were nearly unanimous in urging the proposed service standard changes not be implemented.” *Id.* at 5. He further testifies that the comments “reflect a general dissatisfaction with ongoing service-related issues facing postal customers, and an eagerness to see the Postal Service return to providing the quality and reliable service upon which so many people depend.” *Id.* at 5-6. He then breaks down comments into specific themes.

First, DeMatteo testifies that “[a] number of” comments stated that delays in mail service caused them “personal or commercial hardship” including difficulty in sending checks, meeting payment deadlines, or concerns about receiving prescription drugs through the mail. *Id.* at 6. He testifies that some rural commenters expressed concerns that additional slow downs “would make it more difficult or expensive to do business, or to keep in touch with family and friends.” *Id.* He testifies that commenters expressed concerns over whether they would be forced to change their practices or begin using more expensive alternatives to the Postal Service. *Id.* at 6-7.

DeMatteo testifies that small business owners commented that they rely on the Postal Service to “receive orders, pay bills, send invoices, and ship goods” to customers. *Id.* at 7. He states that these small business owners commented that “time is money, and slower and less reliable mail service is likely to diminish their business, especially in this time of rising costs.” *Id.* Some small business owners stated that setting up an online billing system would be cost prohibitive, while others stated that their customer base is in rural America in areas not served by private carriers and do not have reliable high-speed Internet access. *Id.* Thus, he testifies, these small business owners rely on the Postal Service to do business. *Id.*

Next, DeMatteo testifies that another theme from the comments APWU received was the “sense from many that further slowing mail service is an affront to civic pride and our shared institutions.” *Id.* These commenters expressed concerns that the

proposed service standard changes would erode the public's view of the Postal Service as an institution. *Id.* at 8. He testifies that these commenters also expressed the belief that the Postal Service was “out of step” with competitors, who continue to promise faster service. *Id.*

According to DeMatteo, another theme that emerged from the comments was the belief that customers were losing a “lifeline.” *Id.* These customers lacked viable alternatives to the Postal Service because they lacked reliable high-speed Internet and therefore depend on the Postal Service for making bill payments or staying in touch with friends and family around the country. *Id.* at 8-9. He testifies that others suggested that while they have reliable Internet service, they prefer to use the Postal Service because they feel they are better protected from identity theft, and they find that the Postal Service is a more reliable and trusted way to conduct their business. *Id.* at 9. Finally, these commenters also expressed the fact that many shippers around the country still rely on the Postal Service to conduct last-mile delivery. *Id.*

The last theme that DeMatteo testifies emerged from the comments was a sense of inequality, with rural commenters stating that they believe they are being punished with worse service simply because of where they live. *Id.* According to DeMatteo, these commenters express frustration that they have little time to pay bills by the time they receive them in the mail, or experience long waits to receive medical or other important paperwork. *Id.* Some expressed the belief that additional changes to the service standards would require them to spend more money to conduct their business than their urban counterparts. *Id.* at 10.

B. Douglas F. Carlson

Douglas F. Carlson provides testimony as an individual citizen and it is based on “many years of observation.” See DFC-RT-1 at i. His testimony explains that updating the service standards will not properly inform customers about the level of service they will receive, and instead, the Postal Service should update collection time labels to

reflect whether mail deposited at a location will be postmarked and processed on the same day. *Id.* at 1. His testimony explains why the Postal Service should “post early morning collections at RTO post offices to maximize the number of mailing hours . . . and allow for some same-day processing of outgoing mail.” *Id.* Finally, his testimony explains why some of the proposed changes might not provide customers with adequate service. *Id.*

Carlson first testifies that 39 U.S.C. §§ 101(e) and 3661 govern postal collection operations and, taken together, require the Postal Service to “develop and promote adequate and efficient postal services[]” and, in particular, give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” *Id.* at 2. He states that “unnecessarily early collection time[s]” not only create efficiency issues for businesses that produce mail until 5:00 PM, but also “slow the collection, transportation, and delivery of important letter mail by delaying the collection of mail by one day on weekdays and two days on Saturdays.” *Id.* at 3.

Carlson testifies that a prior complaint case that he filed, Docket No. C2001-1, provides “a framework for evaluating the Postal Service’s plan to implement RTO without changing the information posted on collection boxes[]” and might aid the Commission’s evaluation of the Postal Service’s plan to not process mail it collects on Saturdays and the day before a holiday. *Id.* at 3-4. In that complaint case, the Commission, which was then the Postal Rate Commission, found that “collection box time decals must be clear, concise, and not deceptive to the mailing public to comply with the requirements of the Act.” *Id.* at 4-5. He testifies that the Commission’s order in Docket No. C2001-1 “call[s] into serious question” the Postal Service’s proposals in this case, in particular its decision to not provide “any information on collection times labels indicating whether mail will be postmarked and dispatched on the day of collection.” *Id.* at 5.

Carlson states that from the Postal Service's testimonies, he understands the Postal Service's position to be that changing the service standards themselves "reflects the extent of its responsibility to inform the public of service changes in RTO areas." *Id.* But he continues, this is insufficient to adequately inform postal customers, "particularly at the point of service." *Id.* According to him, the Postal Service's "proposed shift to service standards expressed from origin five-digit ZIP Code to destination five-digit ZIP Code, while laudable and necessary, will only further complicate the service standards, reducing the ability of even people most knowledgeable about postal services to know the service standards without consulting an online resource." *Id.* at 7. Instead, he testifies, the Postal Service could provide a far more simple and "insightful" piece of information to customers, especially those who live near the boundaries of RTO facilities. *Id.* He testifies that the Postal Service should simply inform customers "whether they are sending mail from an RTO post office or a non-RTO post office." *Id.* He testifies that he does not believe that the Postal Service is currently planning to provide this information to customers "in a readily accessible location or manner or to explain the concept to the public generally." *Id.* Further, according to him, service standards do not correspond or "accurately communicate information about service levels, . . . because a large gap exists between" the two. *Id.* at 8.

Next, Carlson testifies that the general public has three understandings of the postal system: (1) "mailing sooner is likely to achieve quicker delivery[;]" (2) "a letter is more likely to be delivered sooner if [a customer] mail[s] it prior to the posted collection time on a collection box than after the posted collection time[;]" and (3) "mail deposited prior to the posted collection time on a collection box will be postmarked and inducted into the processing and transportation system on the day of deposit." *Id.* at 9. Therefore, according to him, one of the most important pieces of information the Postal Service can convey to a customer is "when their mail will begin its journey" *Id.* He testifies that RTO will complicate this information. *Id.* at 10.

Carlson testifies that while he is “deeply concerned” of the delays RTO will cause rural areas, “RTO also will diminish mail service in large metropolitan areas.” *Id.* He details the effects RTO will have on the San Jose area. *Id.* Despite it being the 3rd largest city in California and 13th largest city in the country, “19 of the 24 ZIP Codes in San Jose will be subject to RTO, while only five will not be.” *Id.* Carlson testifies that the knowledge about the areas subject to RTO would be important to these customers because it could change the way they act, such as driving to a different part of the city. *Id.* at 10-11. According to him, “some customers’ main objective in depositing mail is to obtain a timely postmark.” *Id.* at 11. Thus, to ensure that the Postal Service provides adequate and accurate information to customers, he suggests that the Postal Service be required to inform customers at the point of service whether it will be subject to RTO and provides examples of collection boxes with an asterisk notifying customers whether the collection is subject to RTO. *Id.* at 11-15.

Carlson next testifies that at Post Offices subject to the RTO initiative and that will dispatch mail in the morning, “the Postal Service could, and should,” collect mail “from blue collection boxes at post offices, lobby drops, and Self-Service Kiosk parcel receptacles in post office lobbies before the morning dispatch.” *Id.* at 16. This, according to him, would avoid requiring customers to deposit mail by the final collection at the end of the business day, only to have the mail “sit for many hours – likely 12 hours or more – awaiting dispatch.” *Id.* at 15. Carlson suggests a one hour cut off for collection times before dispatch. *Id.* at 16. He testifies that “doing so would be efficient, and therefore 39 U.S.C. § 3661(a) would require it.” *Id.*

Carlson estimates that it would take “15 to 20 minutes” for “morning employees” to process the “few hundred pieces[]” of mail that would arrive overnight. *Id.* at 17. He states that “[t]he net increase in work-minutes should be zero.” *Id.* He testifies, it would be even more beneficial as it relates to weekends. *Id.* at 18-19. He testifies that collection times on Saturday are “often earlier in the day than weekday collection times.” *Id.* at 18. Rather than collect mail “and store it until Monday morning,” he testifies that

under his proposal, “customers would have the entire weekend to prepare and deposit mail for a Monday postmark.” *Id.* at 19. He testifies that collection boxes could also be updated with this information. *Id.* at 20.

Finally, Carlson testifies regarding the Postal Service’s proposal to “extend delivery times for mail deposited at non-RTO post offices on Saturdays and . . . on the day before a holiday.” *Id.* at 20. He testifies that the Postal Service’s plans in this regard are too vague and fail to account for “the needs of customers for Saturday collection service” *Id.* at 21. He testifies that the Commission previously rejected the argument for greater flexibility to support reduction in service in Docket No. C2001-1. *Id.* He states that “[i]f the Postal Service extends service standards and continues to process outgoing mail, the Postal Service will be doing exactly what the Commission found in Docket No. C2001-1 did not meet the statutory requirements” of 39 U.S.C. § 3661(a). *Id.* He further testifies that it potentially violates 39 U.S.C. § 101(b) because “[t]he public debate that led to the explicit requirement to deliver mail six days a week conflated delivery and collections.” *Id.* at 22. He testifies that the Postal Service has not presented a plan to notify postal customers that mail may not be postmarked and processed on the “eves of holidays” *Id.* at 23. He testifies that this failure results in a failure to meet statutory requirements. *Id.*

VI. BRIEFS AND STATEMENTS OF POSITION

Initial briefs were filed by APWU, Carlson, GCA, the Public Representative, and the Postal Service. See Section III n.22. Eight statements of positions were filed and one letter was received. See Section III n.24. The Public Representative and the Postal Service filed reply briefs. See Section III n.23.

A. Briefs/Reply Briefs

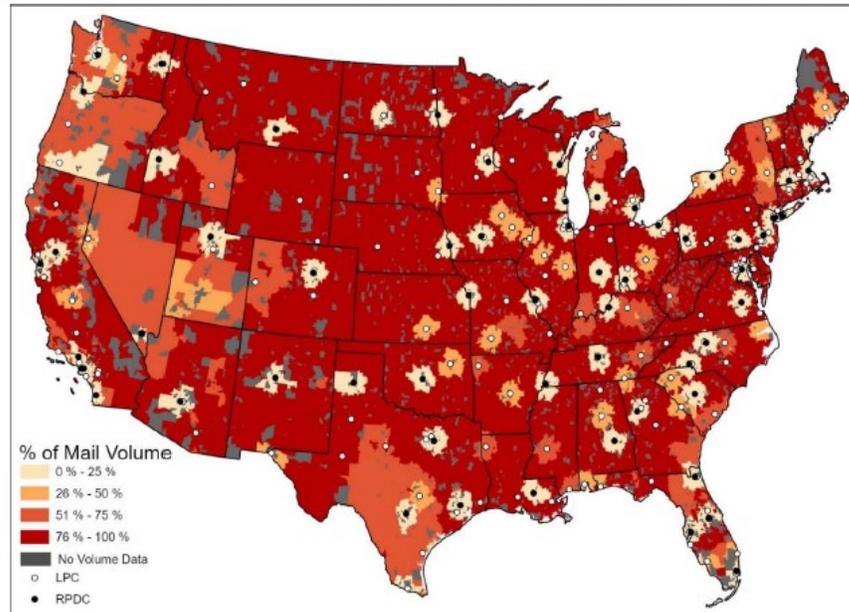
1. American Postal Workers Union, AFL-CIO

APWU partially opposes the Postal Service's proposed changes. APWU Brief at 2. APWU argues that the Postal Service's proposed changes will slow mail delivery. *Id.* at 3. These changes, according to APWU, mean that areas that have already seen slower mail, will see even further degradation of service. *Id.* at 4. And "most of the United States will be touched by the change[]" because "most post offices are more than 50 miles from an RPDC." *Id.* at 4-5. APWU further questions the Postal Service's transparency on the financial savings produced by these changes. *Id.* at 5.

APWU analyzed the data provided by the Postal Service to determine the "breadth of the change to Leg 1." *Id.* at 6. In doing so, it found that "much of the country is beyond 50 miles of an RPDC and therefore could be impacted[]" by the changes:

Figure VI-A1
Map 1. Percent of Mail Volume Delayed with the RTO Initiative
by 5-Digit ZIP Code Area

Map 1. Percent of Mail Volume Delayed with the RTO Initiative by 5-Digit ZIP Code Area



Source: APWU Brief at 7.

Id. at 6-7. According to APWU, the data provided further shows an overall negative impact on rural communities, which APWU states will suffer the “greatest impact . . .” *Id.* at 7. Over two-thirds of Single-Piece First-Class Mail originating in rural ZIP Codes will be subject to the RTO initiative, while just over one-third of Single-Piece First-Class Mail that originates in urban ZIP Codes will be subject to RTO. *Id.* at 7-8. Additionally, although APWU cautions that it was unable to “complete its analysis for purposes of the Commission’s review,” it “initially appeared that adding a day to the processing of First-Class Mail may have a disproportionately negative impact on elderly households and may also negatively impact non-white and impoverished communities.” *Id.* at 10. APWU argues that it did not appear as though the Postal Service undertook a review of these potential effects. *Id.*

APWU also discusses the education and awareness program that it launched and detailed DeMatteo's testimony. *Id.* at 10-12. The results of DeMatteo's work showed the near unanimous opposition of participants to the service standard changes. *Id.* at 12. They also produced several trends, including: (1) commenters experienced "personal or commercial hardship" based on service delays; (2) commenters who also ran businesses expressed concerns that a lack of speedy mail service would have a detrimental effect on their businesses; (3) commenters expressed a sense of "civic concern" that the Postal Service is failing and expressed a desire for faster, more reliable service; (4) commenters, particularly those in rural areas, consider the Postal Service a "lifeline" for which they lacked a viable alternative; and (5) rural commenters expressed a feeling that they are "second class citizens" and the Postal Service is not fulfilling its commitment to universal service. *Id.* at 12-14.

APWU argues that the Postal Service's proposed changes do not comport with its mission and purpose. *Id.* at 15-16. Further, APWU argues that the proposed service standards do not meet the statutory objectives and factors in 39 U.S.C. § 3691(b) and (c), which it is legally required to meet. *Id.* APWU cautions the Commission that while it is not a court of law, it has a duty and responsibility to consider the lawfulness of the Postal Service's proposed changes. *Id.* at 16. It argues that the proposed changes do not meet the requirements of 39 U.S.C. § 101(a), because it results in "slower service for mostly rural communities" *Id.* at 17. Additionally, APWU argues, the Postal Service is not meeting its statutory obligation under 39 U.S.C. § 101(e), because it is not giving the "highest consideration" to providing "expeditious collection, transportation, and delivery of important letter mail." *Id.* Instead, according to APWU, the Postal Service is instituting policies to intentionally slow mail, mostly in rural communities. *Id.*

APWU also argues that the Postal Service is failing to meet its obligations regarding 39 U.S.C. § 101(f), because holding mail for certain ZIP Codes for an additional day "cannot be squared with the 'primary goal' of achieving overnight transportation of 'important letter mail'" *Id.* Instead, the Postal Service's plans

prioritize “moving packages faster than the corresponding First-Class letters.” *Id.* Nor do the proposed changes comply with the objectives outlined in 39 U.S.C. § 3691(b)(1). *Id.* at 18. Slowing mail does not “enhance the value of that mail to either senders or recipients[,]” is not designed to “meet the needs of mailers[,]” and it elevates the Postal Service’s strategic plan over the “speed and frequency of First-Class Mail” *Id.* APWU also argues that because the Postal Service did not consider the needs of its customers, who are unwilling to “trade quality for consistency[,]” it failed to comply with the factors contained in 39 U.S.C. § 3691(c), too. *Id.*

APWU also argues that the greater risk is “the risk that the Postal Service’s changes will irretrievably damage the Postal Service brand.” *Id.* at 19. APWU cautions the Commission from ignoring this potential. *Id.* It argues that the Postal Service failed to consider that there is a “connection between First-Class Mail and packages” *Id.* APWU questions the Postal Service’s conclusion that “customers distinguish between the quality of service their mail gets from the quality of service for their packages.” *Id.* But, according to APWU, the “[t]housands of comments submitted in the regulatory proceedings show . . . that the public does make this connection” *Id.* APWU argues that it fears those who have alternatives to the Postal Service “will leave the mail and never return.” *Id.* at 20. APWU urges the Commission to require the Postal Service to “periodically update the Commission on its implementation plan, . . . provide the Commission and the public updates on operations and service performance as it implements the RTO initiative[,] . . . increase local turnaround delivery[,]” review the use of other options, such as “drive time, mail volume, population, and businesses rather than the rigid 50-mile rule to determine where the standard changes should be implemented[,] and” mandates that the Postal Service studies the impacts to rural or other negatively-impacted communities and “ameliorate” any negative effects to those communities. *Id.* at 21.

2. Douglas F. Carlson

Carlson opposes “the Postal Service’s RTO plan and the unrelated plans to eliminate postmarks and outgoing mail processing in non-RTO areas on Saturdays and the eves of holidays.” Carlson Brief at 2. He states that the proposal represents three major reductions in Single-Piece First-Class Mail service that will further degrade the current service received by postal customers. *Id.* at 1. First, it would first “slow the service standard for 39 percent of single-piece First-Class Mail, on top of four other slowdowns implemented over the past 12 years.” *Id.* Second, it “would eliminate same-day postmarks and outgoing mail processing on Saturdays for customers in areas not otherwise burdened by the [RTO] initiative.” *Id.* Third, and finally, it “would eliminate same-day postmarks and outgoing mail processing on the normal weekday working day before holidays that do not normally fall on Mondays.” *Id.*

Carlson first argues that the proposed service changes do not comport with the requirements of 39 U.S.C. § 101(e), which require the Postal Service to “give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” *Id.* at 3. But, according to him, the Postal Service’s proposals deemphasize speed because they add “a day to delivery for 39 percent of single-piece First-Class Mail” *Id.* at 4. He argues, there is “no redeeming positive benefit to customers that might somehow offset the mandates in section 101(e)” *Id.*

Further, Carlson argues, postal customers value postmarks, which the RTO initiative will delay by a day. *Id.* As discussed in his testimony, when postal consumers must meet a deadline, they rely on the postmark as “the single most important event.” *Id.* As for the Postal Service’s explanation that eliminating Saturdays and the days before holidays as transit days provide it greater flexibility, he argues that the Postal Service fails to discuss when it will keep Saturday night processing as “appropriate,” and the proposed service changes failed to consider the needs of the public. *Id.* at 5. The testimony from Postal Service witnesses, according to him, provided no relevant

details as to how the Postal Service considered the needs of its customers. *Id.* at 5-6. He also argues that the Postal Service provides even less of a rationale for “cutting service at non-RTO post offices on the day before a holiday.” *Id.* at 6. And importantly, he states, the Postal Service’s proposed service standard changes “would affect 7.9 percent of single-piece First-Class Mail volume[]” despite not being “necessary to implement RTO.” *Id.* at 6-7. He argues that this does not “give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail[,]” as required by 39 U.S.C. § 101(e). *Id.* at 7.

Additionally, Carlson argues that Congressional approval may be required for the Postal Service to eliminate Saturday collections. *Id.* In his testimony, he stated that in 2010, when the Postal Service sought to eliminate Saturday collection and processing of outgoing mail, Congress codified 6-day delivery. *Id.* He argues that during the debate leading up to this codification, the concepts of delivery and collections were conflated. *Id.* Since that is the case, according to Carlson, “[t]he Postal Service should seek congressional authorization or consent to eliminate collection and processing of outgoing mail from non-RTO offices on Saturdays and eves of holidays.” *Id.*

Next, Carlson argues that because the Postal Service failed to provide evidence that it “considered the needs of customers for any aspects of RTO or the elimination of postmarks and processing of outgoing mail collected from non-RTO post offices on Saturdays and eves of holidays[]” it failed to comply with 39 U.S.C. §§ 403(a), 403(b)(2), and 3661(a). *Id.* at 6-8. He argues that for the RTO initiative to comply with title 39, the Postal Service would first need to implement two changes. *Id.* at 7. First, he argues that locations subject to RTO should collect mail deposited in “blue collection boxes at post offices, lobby drops, and Self-Service Kiosk parcel receptacles in post offices lobbies before the morning dispatch.” *Id.* at 9. This would result in efficiency gains and benefit postal customers because it would give them additional time to prepare and send mail the way they do now. *Id.* at 10.

Second, Carlson argues that the Postal Service should be required to update collection time labels to indicate a location is subject to RTO. *Id.* at 11. He argues that customers have a right to know whether a collection is subject to RTO and updating of service standards themselves does nothing to inform customers when their mail will be postmarked or processed. *Id.* In that sense, he argues, this set of facts is similar to the complaint filed in Docket No. C2001-1, where the Commission (then known as the Postal Rate Commission) concluded that postal customers were being “denied holiday collection and/or processing service as a result of the Postal Service’s policy of not indicating holiday collection times when they in fact occur.” *Id.* at 12-13. He points to his proposed labels from his testimony as a suggested redesign for the current collection box labels, which he argues would better inform customers of the collection and processing times they are subject to. *Id.* at 13-14.

3. Greeting Card Association

The Greeting Card Association (GCA) believes that the proposed service changes should not receive a favorable advisory opinion from the Commission. GCA Brief at 4. First, GCA argues that the proposed changes ignore the fact that the “Postal Service is not an ordinary logistics company.” *Id.* at 5. The policies contained in 39 U.S.C. §§ 101(e) and 3691(b)(1)(B) are both implicated by the proposed changes, and GCA argues that the Postal Service is violating these requirements by ignoring them. *Id.* at 6. According to GCA, because the Postal Service is a public service, it is required to operate both efficiently so as not to waste money it receives from postage, and it must provide services that are adequate to meet the needs of the public. *Id.* at 7. GCA argues that in these proposed changes, “the Postal Service has designed a set of reductions in service quality entirely in reliance on a plan to improve its own operational efficiency.” *Id.* The proposed changes and supporting testimonies from Postal Service witnesses reflect a failure to balance efficient operation with the needs of the public, instead only reflecting the Postal Service’s desire to change service standards to facilitate an operational plan that “is still in a somewhat fluid state.” *Id.* at 7-8.

Further, GCA argues, the proposed changes disproportionately affect Single-Piece First-Class Mail. *Id.* at 8. The Postal Service’s evidence demonstrates that “[t]hirty-nine percent of Single-Piece First Class would experience a downgrading of service; about five percent would be upgraded.” *Id.* But “[t]he prediction for Presort First Class is very different: one percent of it would be downgraded and seventeen percent upgraded.” *Id.* GCA argues that this shows how disproportionate the impact will be on Single-Piece First-Class Mail. *Id.* at 7-8. These impacts will affect both customers mailing letters from their homes as well as business customers. *Id.* at 9. But, according to GCA, 39 U.S.C. § 101(e), requires that the Postal Service “give the highest consideration” to the “expeditious collection, transportation, and delivery of important letter mail[]” and the Postal Service’s statements that it will do so “when it is economical . . .,” fail to match this statutory requirement. *Id.* at 8-9. Instead, it is an indication that the Postal Service is making changes to its service standards “in the hope of making the [Delivering for America] plan work as projected.” *Id.* at 10. GCA urges the Commission to reject the Postal Service’s rewriting of the requirement in 39 U.S.C. § 101(e). *Id.*

GCA similarly questions the Postal Service’s decision to subject all mail from a 5-Digit ZIP Code area to the RTO initiative if one branch, station, or community Post Office (CPO) within that 5-Digit ZIP Code is beyond 50 miles from the servicing RPDC. *Id.* GCA further questions how uniformly applying the 50-mile rule aids in customer understanding. *Id.* at 11. This is especially true, according to GCA, when it seems as though the Postal Service failed to consider the possibility that a customer needing to mail a time-sensitive piece might drive to an entry point not subject to RTO to avoid having an extra service day applied. *Id.*

Additionally, one aspect of the proposal that will affect all mail is the Postal Service’s decision to modify how it counts transit days for pieces entered on Saturdays or the days before holidays. *Id.* To GCA, it is of no moment that the service standard itself for those pieces will not change, because [i]t is clear that such mail would

experience an additional day until delivery” *Id.* And it is unclear to GCA from the testimonies and evidence whether the Postal Service investigates whether this delay “would harm the various class of mailers.” *Id.* at 12. While the testimony from Postal Service witnesses describe the flexibility that this change will give to it, the lack of specific detail and requirement that “reducing workhours is dependent on future conditions and management-union negotiations[]” reflects the fact that “the Commission is being asked to approve service changes meant to accommodate a still inchoate plan of operations.” *Id.* at 12-13.

Further, GCA cautions the Commission on relying on the Postal Service’s cost savings estimates because the testimony in support of those savings “reveals a number of gaps.” *Id.* at 13. First, GCA points out that “the Postal Service does not expect that every dollar of the projected savings will be obtained.” *Id.* Instead, the Postal Service used a “judgmental” capture rate that did not “emerge from a modeling exercise[]” and “presuppose[s] full implementation” of the DFA Plan, and the Postal Service has not indicated when that will happen. *Id.* Further, the cost savings “are completely internal to the Postal Service.” *Id.* GCA argues that the Postal Service has failed to indicate whether it considered the loss of utility to postal customers, nor has it indicated “that any of the projected savings would be applied to moderating its prices.” *Id.* at 13-14.

Finally, GCA argues that the proposed changes will disproportionately affect rural areas. *Id.* at 14. This, according to GCA, is in violation of 39 U.S.C. § 101(b), which requires the Postal Service to provide “a maximum degree of effective and regular postal services to rural areas” *Id.* (quoting 39 U.S.C. § 101(b)). From the proposed changes, it “seems evident” to GCA that a rural and urban customer wishing to send a birthday card or bill payment are “similarly situated” such that the proposed changes might violate 39 U.S.C. § 403(c). *Id.*

GCA concludes by requesting the Commission issue an unfavorable advisory opinion, declare the proposed changes “irremediably premature” and not provide a favorable advisory opinion, conclude that the proposal, including the changes to the

transit day calculations, rests on either clear or probable violations of 39 U.S.C. §§ 101(a), (b), and (e), and 3652. *Id.* at 16.

4. Public Representative

The Public Representative does not support the Postal Service's proposal and opposes its implementation at this stage. PR Brief at 2. She concludes that the proposal is "almost unrecognizable as a plan[]" because the Postal Service's proposed changes "are subject to changes of unknown scope." *Id.* at 12. Since the variabilities "are not minor," and include acquisition of additional equipment, changing how facilities perform, and changing locations of facilities, among other things, she is concerned with "the adjustments called for as a result of the lessons learned through the proposal's implementation." *Id.* at 13. She argues that "[t]his indicates that the Postal Service's proposal is more of an experiment than it is a plan." *Id.*

The Public Representative argues that there is a lack of evidence that the Postal Service conducted a risk assessment of the proposal, and cannot now do so because it incorporated "flexibilities to the proposed changes that are going to be informed by future developments, effectively building in a mechanism to absorb deviations it failed to account for at the planning stages, and treat them as anticipated adjustments." *Id.* at 14. Instead, she argues, the Postal Service should have prioritized a determination of the extent to which it could absorb an adverse outcome "without threatening its existence" *Id.* All told, she argues that the Postal Service "failed to demonstrate that the proposal is well thought out and will not compromise its obligation to provide effective postal services, and do so in a financially self-sufficient manner." *Id.*

The Public Representative further argues that because the proposed changes in collections are not final, but are nonetheless the "main input for the modeled mail processing network[,]" which is "in turn what informed modeling of the transportation network[,]" it cannot be said that "the operational efficiencies, cost savings, and enhancements in service quality claimed by the Postal Service are guaranteed." *Id.*

Additionally, she anticipates the service standards to be subject to change “as long as the network continues to morph from its current state toward an unknown version of a modeled state.” *Id.* at 15. Using the Postal Service’s design process language, she argues that the plan surrounding the proposed changes “is equivalent to a ‘10 percent design’ stage,” relying on “preliminary data” and producing “rough estimates.” *Id.*

Thus, according to the Public Representative, because of these unknowns, she is unable to form a cogent argument to support or reject the proposed changes to the transportation network, and instead offers “a few points of caution” *Id.* at 16. First, she questions whether the added service expectation day in Leg 1 is temporary. *Id.* at 17. In the redesigned RPDC network, Leg 1 “will extend into what represents travel along Leg 2 in the legacy network” *Id.* If the distances between RPDCs in the redesigned network are shorter than the legacy network inter-P&DC distances, Leg 1 distances “will account for a greater proportion of total end-to-end mail travel” and become “a more prominent portion of” the distance mail travels. *Id.* at 17-18. And she details the potential that the Postal Service’s assumptions regarding travel for locations outside of the 50-mile distance subject to RTO, concluding that “[a]ny time over the modeled . . . hours will cause mail processing and transportation efficiencies that resulted from mail arriving at origin processing facilities . . . to diminish.” *Id.* at 18-20. She cautions that these issues could result in a later request for further service reductions. *Id.* at 21.

Second, the Public Representative questions how well a limited LTO pilot program can inform a nationwide rollout of RTO. *Id.* at 21-25. As a result of analysis performed by the Public Representative, she concludes that there is “inconsistency of cost changes that accompany changes in mileages” that are alone “sufficient reason to request that the Postal Service” provide additional justification for its estimated impacts of RTO nationwide and engage in additional planning. *Id.* at 22. The data also shows that despite the variability in mileage change across sites in the LTO model, “all sites are projected to reduce their transportation costs.” *Id.* at 22-23. The Postal Service

explains that these cost savings are accomplished through the elimination of layover time, but she concludes that if layover time elimination is the sole or significant contributor to the projected cost saving, her confidence in the savings RTO is projected to accomplish is even further undermined based on anticipated adjustments from the implementation of RTO. *Id.* at 23.

Further, the Public Representative questions the LTO modeling provided by the Postal Service to the extent that it “suggests that different types of sites would experience different impacts from LTO implementation” and “the projected RPDC impacts . . . appear to be drawn from an entirely different population.” *Id.* at 24. She also requests that the Postal Service develop mechanisms to track layover time and drive time for PVS transportation given the proposed changes and the shift away from HCR. *Id.* at 24-25.

As for the proposed changes and their impact on service performance, the Public Representative focused on Single-Piece First-Class Mail, which is the product that received the “most significant impact,” and end-to-end Periodicals. *Id.* at 25-26. As the Postal Service admits, “a significant portion of Single-Piece First-Class Mail will have [a] slower service standard under the proposal, despite keeping the overall 2-5 day service standard range.” *Id.* at 26. And, according to the Public Representative, while the Postal Service attempts to demonstrate that “a majority of service impacts will be experienced by urban rather than rural communities[,]” relative to a proportion of total volume, “there is more downgraded volume in rural communities than urban communities for First-Class Mail, USPS Marketing Mail, and Periodicals as a whole . . . and for Single-Piece First-Class Mail in particular.” *Id.* at 27.

The Public Representative argues that this is likely due to the RTO initiative and the fact that “approximately 72 percent of 5-Digit Zip Codes” will likely fall outside of the 50-mile distance from their servicing RPDCs, causing them to be subject to RTO and its additional service day in Leg 1. *Id.* The distribution of 5-Digit ZIP Codes subject to RTO “appears to not be uniformly distributed across the country.” *Id.* at 28. In fact,

according to her, some states will have zero 5-Digit ZIP Codes within the 50 mile distance. *Id.* Many of these states have low broadband Internet penetration rates. *Id.* at 28-29. Given this, she urges the Postal Service to “consider whether it is necessary to apply uniform mileage or whether differing mileages could be adopted in cases where negative service standard impacts could be reduced without increasing costs for the Postal Service.” *Id.* She suggests that other measurements, such as drive time, could be more reliable measures. *Id.* at 28.

Further, the Public Representative states that the proposal to exclude Sundays and federal holidays as transit days for mail and packages that enter the system on Saturdays or day before federal holidays is “merely a way to extend the delivery timeframe without calling it a service standard downgrade.” *Id.* at 29. And she also urges the Commission to consider the Postal Service’s recent history of service standard changes when considering the Postal Service’s statements in support of the proposal. *Id.* at 29-30. In 2021, the Postal Service modified service standards for First-Class Mail from 1-3 days to 1-5 days and for end-to-end Periodicals to 3-6 days. *Id.* At the time, the Postal Service stated that these changes would enable a shift from air transportation to surface transportation and allow it to achieve a 95 percent on-time service performance target. *Id.* at 30. It has failed to do so. *Id.*

Given the issues the Postal Service had when activating RPDCs in Richmond, Virginia, and Atlanta, Georgia, which also had LTO pilot programs, coupled with the fact that the Postal Service describes RTO as an “evolution” of LTO, the Public Representative expresses her concern “that given that LTO contributed to service declines in several piloted locations and that RTO will involve far more transportation consolidation, any imprecise planning or execution of the RTO and the servicing RPDC will result in even more severe negative service impacts that may ripple through the entire network.” *Id.* at 31-32. She also points to the lack of “meaningful answers” to how the Postal Service conducted analysis related to its ability to meet the 5-day service standard as further evidence that the Postal Service’s proposed changes are

“troubling.” *Id.* at 32. Even further troubling to the Public Representative is the Postal Service’s decision to lower service performance targets for First-Class Mail in FY 2025, which appear “to be an implicit recognition by the Postal Service that service performance will deteriorate as a result of the proposal in FY 2025.” *Id.* at 32-33.

Regarding the projected cost savings, the Public Representative states that “the financial impact estimates that the Postal Service presents lack an analytical basis.” *Id.* at 34. She argues that the Postal Service failed to provide any justification for its conclusion that the RTO initiative will result in cost reductions like those obtained from the LTO pilot. *Id.* But she also opines that the lack of financial impact estimates to not be “entirely unreasonable because the operational changes, as currently modeled, are the only inputs on which any cost saving estimates can be predicated.” *Id.* As to the capture rates the Postal Service estimates, she argues that the Postal Service “does not base these capture rates on outcomes of its past cost-saving initiatives, or by assessing expected developments from the” proposed changes. *Id.* at 35. She concludes by stating that she “does not support the Postal Service’s proposal[]” because there is too much uncertainty to properly evaluate the Postal Service’s estimates in any regard, which she argues, demonstrates that the Postal Service’s proposal is not “well thought out and will not compromise its obligation to provide effective postal services in a financially self-sufficient manner.” *Id.* at 35-36.

In her reply brief, the Public Representative addresses two arguments raised by the parties: (1) whether the proposed service standards achieve the factors in 39 U.S.C. § 3691(b)(1), taking into account the objectives in 39 U.S.C. § 3691(c); and (2) whether the proposed changes violate 39 U.S.C. § 403(c) by granting undue or unreasonable preferences to similarly situated users of the mail. PR Reply Brief at 1.

With respect to the first point, the Public Representative states that the Postal Service’s position that the benefits of its proposal, which include “service reliability and consistency, efficiency gains, cost savings, and financial sustainability[,]” outweigh any downgrade in service standards is based on faulty premises that render the “proposal

unreliable.” *Id.* at 4. She argues that the record lacks a solid foundation to evaluate the Postal Service’s claims about the balancing of the statutory factors in light of the statutory objectives because there is too little known about the timeline of the changes and the Postal Service continues to state that it is subject to continual adjustments, changes, and variations. *Id.* Further, she argues that the historical evidence suggests that, based on the LTO and RPDC activations and the findings of audits performed by the United States Postal Service Office of Inspector General (OIG), the Postal Service will not live up to its claims. *Id.* at 4-7. Specifically, the OIG found that in areas where LTO was implemented, service performance declined, expected cost savings were not realized, transportation costs increased, and consumer complaints increased. *Id.* at 7-10. Further, she indicates that “LTO had a disproportionate impact on the rural population” *Id.* at 9.

Regarding the second point, the Public Representative states that “that there is insufficient information on the record to render a definitive determination of whether the Postal Service’s proposal violates 39 U.S.C. § 403(c) at this time.” *Id.* at 13. While she agrees that the Postal Service’s proposed changes mean that some mailers will be offered less favorable terms and conditions than other mailers based on whether they are inside or outside of a ZIP Code subject to RTO, she states that whether two different groups are similarly situated would depend on the specific facts presented to the Commission, and “it is too soon to determine whether the Postal Service has a rational and legitimate basis for discriminating against mail users impacted by RTO.” PR Reply Brief at 13-14.

5. Postal Service

The Postal Service asserts that the proposed network and service standard changes will lead to a more reliable, efficient, and precise postal system. Postal Service Brief at 19. It states that its current network, transportation, and processing networks are outdated, too costly, and not well-suited for the shift in volumes from letter mail to packages. *Id.* at 19-20. It asserts that its goal in this proceeding is to rationalize its

regional transportation network and redesign its processing network to enable the improvements in transportation. *Id.* at 20. By streamlining the drop-off and pickup of mail into one collection, the Postal Service asserts it is correcting the current inefficient practice of morning and evening transportation and processing operations. *Id.* at 20-21. Furthermore, it asserts that its legacy processing network is disjointed, contains too many facilities that are in poor condition, and lack any rational and standard layouts or processing assignments. *Id.* at 22-23. It asserts that the RTO and RPDC/LPC initiatives will cure these deficiencies. *Id.* at 23.

According to the Postal Service, RTO along with the corresponding service standard changes, will create a more rational regional and local transportation network by, in locations outside of a 50-mile radius from a servicing RPDC, conducting drop-off of destinating mail and pickup of originating mail on the same trip. *Id.* at 23-24. In choosing the 50-mile radius, the Postal Service argues that it evaluated other methods, including different mileage or drive-time, but found that most volume is collected from within the 50-mile range of the proposed RPDCs, and therefore, for a host of reasons it was the most desirable approach. *Id.* at 24.

Further, by creating a regional approach to its transportation network, the Postal Service believes that it will be better able to capture greater operational improvements, efficiencies, and cost savings over LTO, which was RTO's predecessor. *Id.* RTO will allow the Postal Service to better schedule processing, creating earlier arrival times into plants, which enables it to process and cancel higher volumes earlier, and in turn create earlier outgoing processing. *Id.* at 25. This enabled it to extend the Leg 2 bands. *Id.* Further, by standardizing the physical layout and operational processes across the network, the Postal Service indicates it will gain productivity and increase the speed that mail and package volumes flow throughout its facilities. *Id.* at 26. It will also achieve cost savings by reducing transportation costs and eliminates excess facilities in the network. *Id.* at 26-27. The Postal Service asserts that "[t]he RTO and RPDC/LPC network initiatives were designed based on robust models and analyses using the

industry standard for transportation and processing modeling and planning, and will be implemented through a methodical and deliberate process.” *Id.* at 27. It states that it used a deterministic modeling approach that meets industry standards and “saw no basis in attempting to run other models that may provide additional insight into some of the variability in the modeled network” *Id.* at 28.

In order to achieve these benefits, the Postal Service also proposes to modify its service standards to better align them with the RTO and RPDC/LPC initiatives. *Id.* at 29. It will transition to a 5-Digit to 5-Digit ZIP Code standard and it will also modify how mail moves through the three segments of the new network. *Id.* at 30. The proposed service standards will now account for three legs, the first from origin Post Office to LPC with one service expectation day added for RTO-covered volumes, the second from origin processing to destination processing, and the third from destination processing to delivery. *Id.* at 31-32. It states that RTO will permit it to expand Leg 2 travel bands by 4 hours for First-Class Mail. *Id.* at 32. Given this acceleration in Leg 2, the Postal Service maintains that the addition of a service expectation day in Leg 1 will not necessarily mean a day of service will be added overall for a specific mail piece. *Id.* The Postal Service states that it will maintain the 2- to 5-day standard for the continental United States. *Id.* at 33. While it recognizes that some mail and packages will have a longer service expectation, it argues that it is a necessity for it to achieve broader cost savings and operational improvements. *Id.* at 34.

Additionally, the Postal Service proposes to exclude Sundays and holidays as transit days for volume entered on Saturdays and the days before a holiday. *Id.* at 35-36. They assert that doing so will offer greater opportunities for operational efficiencies, impact a small volume, but maintain reliability across the network. *Id.* at 36. Finally, it argues that these proposed changes will significantly reduce its costs, or at least those that are under its direct control. *Id.* at 37-38. Further, they permit the Postal Service to provide it additional opportunities to grow its commercial mail and Competitive product offerings. *Id.* at 39-40.

The Postal Service states that by making the operational and service standard changes, it “can better balance and achieve the statutory purpose of tile 39 of providing reasonable high-quality service in a manner that enables the Postal Service to be financially self-sufficient.” *Id.* at 42. The Postal Service explains that the changes, in light of what it views as “precipitous and irreversible” declining First-Class Mail volumes, maintain and enhance the value of Market Dominant products to senders and recipients. *Id.* at 44. The Postal Service states that the proposed changes will maintain service at existing standards for most volume, and for those that will see a change, more Market Dominant volume will receive an upgrade rather than a downgrade, and reliability will improve. *Id.* Further, by lengthening “the distances to which a 2-3-day service standard applies,” entering mail pieces at RPDCs will be “a higher-value proposition for many shippers[]” and enhance the value of mail. *Id.* at 45.

The Postal Services states that these improvements will also “enhance service reliability in the long term[,]” which it considers a key concern to consumers, because RTO, with the added service day for Leg 1 for ZIP Codes that are subject to RTO, “will create evenly distributed volume arrival profiles,” that create greater processing efficiencies. *Id.* at 45-46. It also asserts that the proposed move to 5-Digit to 5-Digit service standards will provide customers “a more transparent, understandable, and workable set of expectation” *Id.* at 46.

The Postal Service maintains that the proposed changes will preserve “existing access to retail services, including in rural areas and where Post Offices are not self-sustaining.” *Id.* Further, most customers will “see the same or faster speeds, with improved service overall” *Id.* It projects significant cost savings, which will ensure the Postal Service can continue to deliver on its mandate to provide universal service. *Id.* at 46-47. It notes that while “many rural ZIP Codes may be subject” to the RTO initiative, which will add an extra day in the service standards, “neither delivery operations, nor Leg 3 service standards, will change.” *Id.* at 47. According to the Postal Service, earlier dispatches that the RTO initiative enables will accelerate Leg 2 service

and will result in customers receiving “the same or faster delivery of mail and packages than they do under the current standards.” *Id.*

Additionally, according to the Postal Service, the service standard changes in this docket would reasonably assure customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices. *Id.* at 48. The service standards permit the Postal Service to implement the RTO initiative on a nationwide basis, which it contends will “allow processing operations to leverage improved volume arrival profiles.” *Id.* at 50. This in turn will improve delivery reliability, reduce the potential for delay, and increase “the velocity of volume through processing and allowing faster, more reliable dispatch of volume into the network.” *Id.*

Further, it asserts that the proposed service standards are also consistent with cost reductions that comply with best business practices. *Id.* at 50-51. While it argues that it has “limited avenues by which to reduce” costs, the Postal Service suggests that the proposed service standards and operational changes that enable them provide it with “a meaningful opportunity” to reduce its costs within its control so that it can obtain “financial integrity,” consistent with the objectives and factors. *Id.* at 51. The Postal Service states that it is committed to “promptly addressing” any temporary disruptions to service and that these temporary disruptions are “far outweighed” by keeping the status quo. *Id.* at 51-52. It makes clear that it considered these potential negative impacts when conducting the balancing and weighing required by 39 U.S.C. § 3691. *Id.* at 52.

Finally, it states that the new standards provide a system of objective external performance measurements for each Market Dominant product to measure its performance. *Id.* at 53. The Postal Service plans to modify the SPM to account for the proposed changes. *Id.* Adjusting its business rules to move to a 5-Digit to 5-Digit ZIP Code service standard level and excluding Sundays and holidays as transit days for mailpieces entered on Saturdays and days before holidays will provide additional granularity for customers, promote transparency, and make the data more understandable and meaningful. *Id.* at 52-53.

The Postal Service also asserts that it considered the statutory provisions in 39 U.S.C. §§ 101, 403, and 3661, and “concluded that by implementing these operational initiatives and the new standards to which they are aligned” that it will “be able to better balance and achieve these statutory purposes.” *Id.* at 55. It states that it gave the highest consideration to the policies set forth in section 101(e) and (f) when selecting the appropriate transportation modes, and concludes that the proposed changes allow it to better achieve the statutory purposes of title 39. *Id.* at 57. It states that while some percentage of Market Dominant mail will receive a downgrade, it balanced this with the goals of title 39 as a whole and concluded that it was “necessary . . . to better achieve the goals of title 39 as a whole.” *Id.*

It projects that these changes will produce cost savings in the amount of \$3.6-\$3.7 billion. *Id.* at 58. Through the greater route efficiency, and increased utilization of its trucks, the Postal Service states that it will improve “the overall efficiency of the postal transportation network” *Id.* The Postal Service states that the changes are necessary for it to maintain its universal service obligation. *Id.* The Postal Service concludes that overall, “the significant financial and operational benefits of these changes,” coupled with the service-related benefits, strike an appropriate balance of the requirements of title 39. *Id.* at 60.

The Postal Service also argues that the changes conform with 39 U.S.C. § 403(c). *Id.* It asserts that the proposed changes “do not single out discrete categories of mail users[,]” and are instead “based on reasonable considerations, and will be uniformly applied[,]” and that therefore, any differences in service expectations are due to the uniform application of the rules rather than discrimination. *Id.* at 61-62. Further, “rural areas [do not] cluster disproportionately” within any downgraded volume percentages, and therefore, “the proposed rules would not have obviously disparate impacts on distinct categories of mail users.” *Id.* at 62. Because, according to the Postal Service, section 403(c) prohibits “undue or unreasonable discrimination among users of the mails” and “[u]sers of the mail do more than send” Single-Piece First-Class

Mail, there is no section 403(c) violation. *Id.* at 62-63. The Postal Service further argues that it does not confer different terms and conditions on similarly situated postal customers, “for the simple reason that the standards differ only among mail users who are not similarly situated.” *Id.* at 64. It also states that this “factor is fact-specific,” nuanced, and complex. *Id.*

Finally, even if the first two prongs of the section 403(c) test are met, since the proposed changes “are rationally related to achieving the Postal Service’s statutory mandate” they do not violate section 403(c). *Id.* at 65. Because, according to the Postal Service, the proposed changes “are amply supported by operational and cost considerations and are objectively reasonable and justified,” according to the Postal Service, the third element is satisfied. *Id.* at 67-68.

In its reply brief, the Postal Service begins by stating that “[t]he contentions raised by other parties in their Briefs and Statements of Position fail to engage meaningfully with the scope of the Postal Service’s current financial and operational problems, [its] statutory responsibilities, or the entirety of [its] proposal.” Postal Service Reply Brief at 1. It points out that no party supports the status quo. *Id.* at 4. The Postal Service argues that it is not fixated on cost savings to the expense of its mission and is instead carefully balancing the statutory policies with nature of the proposed modifications to its network. *Id.* at 5-6. It points out that the revised service standards “preserve the current service-standard day ranges for First-Class Mail (FCM), narrow the service standard day range for other market-dominant products, and result in more service standard upgrades than downgrades across all market-dominant products, including FCM.” *Id.* at 6. Further, the added day to Leg 1 as a part of the RTO initiative enabled the Postal Service to increase speeds in Leg 2. *Id.* Finally, it provides proposed findings and conclusions that it suggests are consistent with the record evidence. *Id.* at 33-34.

The Postal Service states that the interested parties’ focus on cost savings “fail to reflect the careful balancing of the statutory policies” that it performed. Postal Service

Reply Brief at 5. It argues that these parties understate the financial challenges faced by the Postal Service and mischaracterize the proposed changes. It states that the proposed changes will allow it to preserve the current service-standard day ranges for First-Class Mail, narrow it for other Market Dominant products, and result in more upgrades than downgrades across all products. *Id.* at 5-9. It states flatly that it “cannot separate service commitments from cost considerations.” *Id.* at 7. And it maintains that the service standard changes are necessary corollaries to the network and processing changes. *Id.* at 8-9. Further, it argues that parties’ arguments related to past challenges and failures in implementing past service standard changes are misplaced, do not recognize the progress it has made, and do not address the proposed changes on their merits. *Id.* at 9-11.

The Postal Service states that the proposed changes are consistent with its statutory requirements under 39 U.S.C. §§ 101, 403, 3661(a), and 3691. *Id.* at 12-14. It argues that the parties who disagree with this balancing attempt to encroach on its statutory duties by either attempting to turn them into violations of statutes, or simply arguing they would have balanced the factors differently. *Id.* at 13-14. It argues that these alternative courses have “no bearing” on whether the Postal Service performed the balancing required by section 3691 or comply with the remaining statutory provisions. *Id.* at 14. Further, it rebuts the parties’ assertions that financial sustainability should not be considered when determining whether a change to the service standards complies with the statutory requirements. *Id.* at 15. It argues that the statutory scheme grants them three options when designing a system to cover its costs: “raise revenue, cut the costs [it] incur[s] (through improved efficiency or reduced cost of performance), or both.” *Id.* at 15. Because it is a self-funded organization, it must consider financial sustainability when proposing changes. *Id.* at 16.

Further, it maintains that it appropriately balanced the competing priorities contained in title 39. *Id.* at 16-22. It states that the arguments to the contrary are “baseless.” *Id.* at 19. It states regarding Carlson’s claims about collection that, “while

not statutorily required, collections will continue to occur six days per week.” *Id.* Further, it states that it gave the highest consideration to sections 101(e) and 101(f), and although certain volume will move more slowly, that itself is not inconsistent with section 101, especially when balanced with improvements and cost savings that are present in the proposed changes. *Id.* at 20. It argues that the parties read into the statutes “rigid delivery speed requirements” that are not present. *Id.* It maintains that post-Postal Service Reform Act (PSRA) language in these requirements require that it considers cost-effective measures. *Id.* at 21.

The Postal Service maintains that the RTO initiative and the revised service standards, do not impermissibly “single out rural areas; they are instead predicated on a uniform rule that applies equally across urban and rural areas and that affects more urban volume than rural volume overall.” *Id.* at 22-23. They state that the arguments advanced by the parties focus selectively on originating Single-Piece First-Class Mail, while section 403(c) applies to “users of the mail” and encompasses more than originating Single-Piece First-Class Mail. *Id.* at 22. The Postal Service reminds the parties that it projects that there will also be upgrades for products in both rural and urban areas and, therefore, “the proposed standards cannot reasonably be said to single out discrete categories of mail users.” *Id.* at 23. The Postal Service argues that the proposed service standards do not discriminate “any more than” the current service standards do. *Id.* at 24.

Next, it argues that the alternative proposals focus narrowly on problems specific to a group’s interests rather than focus on the problems facing the entirety of the system. *Id.* at 26-27. It argues that Carlson’s proposal “runs counter to RTO’s objectives and could compromise its effectiveness because transportation schedules would still be reliant on collection schedules.” *Id.* at 27. Finally, the Postal Service argues that the Request is properly before the Commission and ripe for review. *Id.* at 28. It argues that the Public Representative’s arguments that the proposal is somehow underdeveloped and not ripe for review ignore the plain language of section 3661(b),

which invests the Postal Service with the authority to determine when to submit a request for an advisory opinion, and lack a basis rooted in the evidentiary record. *Id.* at 29-30. The Postal Service again provides proposed findings and conclusions for the Commission to consider. *Id.* at 33-34.

B. Statements of Position

1. The Association for Postal Commerce

The Association for Postal Commerce (PostCom) states that it “cannot support the proposed changes.” PostCom Statement at 1. PostCom expresses that while it understands that the Postal Service must “address operational and cost inefficiencies in its network,” the proposals in the request will reduce the value of postal services rather than improving performance for the benefit of all its customers. *Id.* PostCom states that while the Postal Service has “significant discretion to design its network and oversee its operations to meet its universal service obligations,” it has “far more limited” discretion in implementing new service standards under 39 U.S.C. §§ 3661(b) and 3691. *Id.* at 2. Additionally, PostCom points out that the Commission, through the complaint provisions in 39 U.S.C. § 3662, has authority to order remedial action where the Postal Service fails to provide adequate and efficient services. *Id.* at 3.

PostCom points out that 39 U.S.C. § 3691 is specific as to how service standards are designed to achieve four factors and account for others. *Id.* It states that “[n]otably absent in any of these statutory provisions – including the ‘broad parameters’ of sections 101(a), 101(f), 403(a), through (c), and 3661(a) – is any mention of the financial self-sufficiency of the Postal Service.” *Id.* While financial self-sufficiency might be the expectation, PostCom cautions that Congress “did not expressly establish [the Postal Service’s] ability to operate in a self-sufficient manner as one of the criteria the Commission must consider when evaluating proposals to change service standards.” *Id.* PostCom maintains that any contrary assertion in the Postal Service’s request is “the primary conceptual flaw” *Id.* PostCom expresses that the Postal Service’s

financial health should not be placed above the needs of customers when the Commission considers the proposed changes to the service standards. *Id.* at 4.

Regarding the changes to the network, PostCom states that because the Postal Service ties the network changes to the service standards, should the Commission find the network changes unnecessary, it would remove the necessity to modify the service standards. *Id.* at 5. PostCom indicates that although it understands the Postal Service must improve its network and cut its costs, “in light of past experience [it] finds these cost savings estimates optimistic at best, and likely unrealistic.” *Id.* Further, while the Postal Service applied capture rates to develop its estimates, “the rates it applied were not based on past experience with the [LTO] initiative or other projects, but on finding a balance between conservatism and pessimism.” *Id.* at 6.

Finally, PostCom comments that in light of the recently downgraded performance targets for FY 2025, testimony from Postal Service witnesses regarding its performance targets, and issues that occurred “with RPDC implementation in Richmond and Atlanta . . . [h]istory provides no reason to believe the Postal Service’s projections that service for the majority of its customers will improve after its changes are implemented” *Id.* at 7-8. Even if they are correct, PostCom observes that the Postal Service itself “acknowledges that a significant number of customers will receive worse service after the changes – primarily those using single piece First-Class Mail products.” *Id.* at 8. The removal of Sundays and holidays as transit days “does not improve service, it simply allows the Postal Service to avoid performing . . . processing and potentially still transport the mail within the service standard.” *Id.* at 9. These combined, according to PostCom, demonstrate that “the proposed changes are unlikely to ‘enhance the value of postal services to both senders and recipients’ or ‘preserve regular and effective access to postal services in all communities[.]’” or assure the Commission that the changes will “reasonably assure . . . customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices.” *Id.* Therefore, PostCom asserts

the Postal Service failed to meet its burden and requests that the Commission advise against implementing the changes. *Id.* at 9-10.

2. Joel A. Black

Joel A. Black states that he is opposed to the Postal Service's proposed changes because they are based on "reliance on inefficient transportation resources, flawed volume models, unverified data, and imprecise witness testimony" Black Statement at 1. He points to the failure of prior initiatives such as Dynamic Route Optimization, the impacts that its unreliable volume estimates had on contractors, and the Postal Service's failure to demonstrate that it has corrected these historical failings, as evidence that the proposal should be rejected. *Id.* at 1. He further states that the Postal Service failed to address the risks inherent in performing once-daily routes for locations that are more than 50 miles from a RPDC, such as what it will do if its volume estimates are inaccurate or whether it has contingency plans in place in the event of unforeseen surges or contractor issues. *Id.* at 2. Next, Black states that the Postal Service's overreliance on "freight brokers due to lower costs . . . exacerbates the risks associated with its inaccurate data and poor financial practices[.]" *Id.* Further, he argues that the Postal Service's assumptions regarding transportation and workforce capacity are contradicted by driver shortages across the country and the Postal Service has not explained how it will address these shortages in light of the proposed changes. *Id.* Additionally, he argues that the Postal Service's "financial projections are overly optimistic and fail to account for critical risks[.]" such as failing to achieve high capture rates and operational efficiencies. *Id.* at 3.

3. Steve Hutkins

Steve Hutkins states that, regarding the Postal Service's proposed initiatives and service standard changes, "[t]he most concerning aspect of the RTO initiative and the proposed changes in service standards is that, for the first time, they do not apply uniformly to the entire country." Hutkins Statement at 1. He opposes the RTO initiative

and proposed changes to the service standards for several reasons. *Id.* at 2. First, he argues that they violate 39 U.S.C. § 403(c), because under RTO, some mailers will be subject to a different set of service standards than others, could be similarly situated because they could live only a few miles away, but be subject to RTO based on which ZIP Code they live in, and “[c]utting costs in itself cannot be a legitimate rationale for discriminatory practices.” *Id.* at 3-4. He asserts that “[m]ailers at RTO post offices will in [a] sense pay a higher quality-adjusted price than mailers at non-RTO offices.” *Id.* at 5. He states, “[e]ven worse, the upgraded service standards that will be enjoyed by non-RTO single-piece mailers and presort mailers are *made possible* by the downgrades suffered by RTO mailers.” *Id.* (emphasis in original). Additionally, the Postal Service has determined that at least 36 LPCs will retain cancellation operations despite the fact that they are beyond 50 miles from a RPDC creating a three-tiered system for First-Class Mail. *Id.* at 6.

Second, Hutkins states that the proposal will disproportionately impact rural areas. *Id.* at 7. He argues that most RPDCs, LPCs, and S&DCs will be in large cities. *Id.* So, he argues, while the Postal Service asserts that both urban and rural communities will be subject to RTO and therefore rural communities are not disproportionately affected, because locations of RPDCs, LPCs, and sorting and delivery centers (S&DCs) were selected in part based on originating volume and urban areas tend to have greater volumes, “such an effect was almost inevitable.” *Id.* at 7-8. Further, he states that the fact that the Postal Service has accelerated Leg 2 bands, is of no moment because the acceleration would only apply to incoming mail. *Id.* at 8. The Postal Service’s volume statistics “do not tell the whole story” *Id.* at 8-9. Based on the Postal Service’s numbers regarding First-Class Mail, in rural areas, approximately 68 percent of Single-Piece First-Class Mail will be downgraded while in urban areas, approximately 34 percent will receive a downgrade. *Id.* at 9. According to Hutkins, the disparity is similar for origin-destination pairs. *Id.* Approximately “nine in ten” of the approximately 17,800 rural Post Offices “will lose their afternoon collections.” *Id.* at 11.

Third, he argues that what statistical evidence the Postal Service did produce, did not sufficiently factor in the Post Offices and ZIP Codes exempted from RTO. *Id.* at 12. The Postal Service has yet to provide the specific criteria it will use to determine which facilities it might exempt from RTO. *Id.* But the Postal Service has stated that it expects certain “designated LPCs with cancellation capacity” to dispatch outgoing volumes on the day or evening of collection or the day after if the location is subject to RTO. *Id.* at 13. Without additional information about the specific criteria the Postal Service will use to determine which facilities will get exemptions, Hutkins states that it is “impossible to know how many RTO offices there will actually be and how much of the downgraded volume will originate at rural offices.” *Id.* It is therefore “impossible to determine” how many urban versus rural offices will be exempted. *Id.* at 13-14.

Fourth, Hutkins points out that the Postal Service failed to conduct econometric analysis to study the effect of its proposed changes on volumes, revenue, and contribution as it did in Docket No. N2021-1. *Id.* at 14. While witness statements indicate that the Postal Service does not “anticipate a material negative impact to revenue,” Hutkins states that without any econometric analysis, this testimony is mere speculation. *Id.* He argues that downgrading service standards has historically led to revenue declines, and it remains to be seen whether improving service standards for some will lead to revenue growth. *Id.* Hutkins also echoes the statements made by the National Rural Electric Cooperation Association (NRECA), which conclude that given the lack of outreach and engagement, the Postal Service has demonstrated that it is unserious about considering feedback from the users of mail. *Id.* at 15. He further states that the Postal Service has done “virtually nothing” to notify customers subject to the LTO pilot program that their mail and packages were held overnight at Post Offices nor did the Postal Service investigate whether customers behavior would change if properly educated. *Id.*

Finally, Hutkins posits that the Postal Service’s change to a 5-Digit to 5-Digit ZIP Code approach “might be useful later, should the Postal Service decide to add days

under Leg 3 such that delivery frequency will vary ZIP5 to ZIP5, just as leg 1 collection will vary ZIP5 to ZIP5 under RTO.” *Id.* at 17-18.

4. Members of Congress

Thirteen Members of Congress urge the Commission to “take into careful consideration the negative implications these changes will pose for rural communities across America” Congressional Letter at 1. While these Members of Congress support the Postal Service’s stated goal of achieving financial sustainability and provide service excellence, they express concerns that certain elements of the proposed changes, including facility consolidation and service standard changes, “if enacted, will sacrifice reliable service to cut costs.” *Id.* They question the Postal Service’s assertion that moving processing to the RPDC/LPC network model will improve on-time delivery rates. *Id.* Additionally, they identify the fact that the Postal Service failed to provide evidence that it considered “the individual and unique challenges that come with varying regions, including hazardous weather, infrastructure constraints, exceptional driving distances,” or, especially in the Mountain West, the fact that “major transportation corridors are frequently shut down for long periods due to these hazardous conditions.” *Id.*

After discussing the issues the Postal Service faced when activating the Richmond, Virginia and Atlanta, Georgia RPDCs, including the fact that the Postal Service was found to “not build on lessons learned from the launch of the Richmond [RPDC]” they find that it is “simply unacceptable,” that in the Request, the Postal Service admits that “there could very well be future service impacts in regions where significant modernization efforts are implemented” *Id.* at 2. They also urge the Commission to consider the effects of the proposed changes on election mail. *Id.* Given the rise of voting by mail and the importance that every American’s vote be counted, the Members of Congress point to concerning findings from an August 2024 OIG report on Election Mail Readiness for the 2024 General Election, as well as statements from state election directors, about whether the Postal Service’s

disorganization or “disruptive consolidation” could lead to miscounted ballots or disenfranchisement of voters. *Id.*

Finally, the Members of Congress address the RTO initiative and its disproportionate effect on rural America. *Id.* at 3. They point out that these rural Americans “arguably rely on the [Postal Service] the most for timely delivery.” *Id.* They argue that the changes the Postal Service are seeking to make “are overlooking our rural communities as part of a broader agency cost-cutting measure.” *Id.* They are steadfast in their belief that “the impacted communities and constituents of our states who rely upon the mail for essential items should [not] be penalized for bureaucratic management.” *Id.*

5. The News/Media Alliance

The News/Media Alliance (N/MA) states that Periodicals mailers in particular “in recent years have suffered from excessive costs, service performance far short of the approved standards, and soaring rates.” N/MA Statement at 2. According to N/MA, the proposal here fails to specifically address these issues, instead opting to focus on a new network design and service standard changes. *Id.* N/MA argues that the proposed service standards do not “enhance the value of Periodicals mail or assure[] delivery reliability or speed” as required by 39 U.S.C. § 3691(b)(1). *Id.* Additionally, N/MA points out that the DFA Plan “calls for 95 percent on-time delivery of Periodicals,” which is 8 percentage points better than the Postal Service performed in FY 2023. *Id.* at 3.

Further, N/MA points out that the overall performance numbers advanced by the Postal Service “mask material differences in the details.” *Id.* at 4. For example, without factoring in RTO, which might add an extra day, N/MA states that for end-to-end Periodicals Mail delivery, “while the nominal service standards improve, because volumes will shift within those standards the net impact is to slow the delivery speed for about 10 percent of the volume.” *Id.* On the other hand, service standards for

destination entered Periodicals Mail remain unchanged and are not directly affected by the RTO initiative. *Id.* at 5.

Additionally, the Postal Service's proposal to not count Sundays and holidays as transit days for mailpieces entering the system on a Saturday or day before a holiday "threatens to delay a substantial portion of Periodicals mail." *Id.* According to N/MA, destination entered Periodicals Mail fares no better and "[f]or time-sensitive Periodical publications, particularly community newspapers, this is very problematic and will lead to further subscription and advertiser cancellations." *Id.* at 6. N/MA asserts that the Postal Service's proposal is not in line with the requirements of 39 U.S.C. § 3691(c), because they do not demonstrate how the Postal Service will "improve the speed by which Periodicals are delivered," and fails to consider the needs of customers, who want faster delivery, not additional delays. *Id.* Finally, N/MA questions how the proposal aligns with the Congressional mandate that the Postal Service implement operational reforms to address its problems in handling flats. *Id.* at 7-8.

6. National Postal Policy Council

The National Postal Policy Council (NPPC) states that if the Postal Service can handle the mail in a more prompt and cost-effective manner through new or better organized facilities, it should. NPCC Statement at 3-4. But, NPPC states, it has concerns that "unless the conversion to a network based on [RPDCs/LPCs] is managed wisely and cost-effectively within the financial constraints set by law and regulation[,] that problems will arise. *Id.* at 4. NPPC states that when evaluating the Postal Service's proposals, the Commission should not only evaluate whether they comply with 39 U.S.C. § 3691, but also whether they reflect the "highest consideration to the prompt, economical, consistent, and reliable delivery of all mail." *Id.* at 4-5.

NPPC cautions that while it is "desirable" for the Postal Service to improve its processing network, it hopes that the Postal Service learned from recent "mishaps with the first RPDCs" in Richmond, Virginia and Atlanta, Georgia. *Id.* at 5-6. Further, NPPC

points to the unexplained disconnect between the Postal Service's statements in its Request that promise enhanced service or greater operational precision and efficiency with the recent announcement that it will reduce its service performance targets for FY 2025. *Id.* at 6.

NPPC also recognizes that the RTO initiative will not generally affect First-Class Presort Mail, improve overall First-Class Mail performance "slightly," but will also "reduce service for a substantial amount of remittance mail" *Id.* at 4, 7. Additionally, NPPC states that the Postal Service should consult closely with stakeholders before proposing any CET changes. *Id.* at 7. While RTO may not greatly affect Presort Mail, NPPC recognizes that once it is fully implemented, it "will have a substantial effect on First-Class Single-Piece [M]ail, slowing the service for as much as 39 percent of Single-Piece mail." *Id.* NPPC questions the lack of consideration the Postal Service gave to the effect slower service will have on businesses. *Id.* at 7-8. It also states that it is difficult to appropriately assess RTO at this stage given the Postal Service's numerous statements that RTO is a work in progress that will require refining, and it is unclear at this time how the Postal Service will roll out RTO. *Id.* at 8. It asks the Commission to examine the Postal Service's decision to subject all collections to RTO if any Post Office is outside of the 50-mile distance. *Id.* at 9.

NPPC also expressed its belief that the move to 5-Digit ZIP to 5-Digit ZIP will provide mailers "with more accurate information." *Id.* at 4, 11. Additionally, it expresses its belief that the Postal Service's increase its service bands in conjunction with the RTO initiative as commendable. *Id.* at 12. But, regarding the Postal Service's decision to no longer count Sundays and holidays as transit days for mail entering the network on the preceding day, NPPC states its belief that despite the Postal Service's statements to the contrary, "in actuality it is a one-day extension of the service standard for the affected piece." *Id.* at 14. This is evident from the Postal Service's admissions during discovery that if it did count Sundays and holidays as transit days, mail entered on those days at offices subject to RTO "would potentially enter the network a day late." *Id.* According to

NPPC, not counting Sundays and holidays as transit days for mail entered on the preceding day “will not improve actual service; at most, it will make service look better than it actually is.” *Id.* NPPC questions the transparency of this part of the proposal, stating that it is unclear that people will understand remittance mail might not move on a Sunday. *Id.* at 16. It also highlights for the Commission that this aspect of the Request is separate from the RTO initiative, which could be implemented even if the Commission rejected the change to transit day counting. *Id.*

Finally, NPPC urges the Commission to closely evaluate the cost savings presented by the Postal Service to determine whether they are feasible. *Id.* at 4, 16-17. It points out that “the Postal Service does not know when the plan will be fully implemented[.]” and therefore, in light of past overly optimistic representations from the Postal Service, the Commission should cautiously review the projections. *Id.* at 16-18. The Postal Service projections also assume no layoffs, all “necessary transportation is available and employees are available[.]” and LTO savings understate the savings that will result from RTO. *Id.* at 17-18. It questions whether the changes proposed in this docket would be justifiable if those savings did not materialize. *Id.* 18.

7. National Rural Electric Cooperative Association

NRECA urges the Commission to oppose the Postal Service’s plan “to end evening mail pickups at post offices located more than 50 miles from newly designated” RPDCs and urges the Commission to oppose the proposal. NRECA Statement at 1. NRECA argues that the proposal will cause those who live or work in areas served by Post Offices that are more than 50 miles from a RPDC to receive lesser service than other Americans. *Id.* at 2. It asserts that the Postal Service has not provided sufficient information or detail to assuage its concerns about the impact on rural America. *Id.* While NRECA does not dispute the Postal Service’s financial state, it states that the Postal Service “glosses over the problems that have occurred during the pilot stage of implementing this plan in the Atlanta and Richmond regions and asserts they have addressed these issues so they will not occur when implemented on a nationwide

basis.” *Id.* It observes that much of rural America depends on the Postal Service given the lack of reliable broadband Internet options available to rural consumers. *Id.*

It further states that the Postal Service’s plan will “exacerbate poverty in rural America[,]” and disproportionately affect small business entities, which are already disproportionately burdened by regulation. *Id.* at 2-3. Finally, NRECA asserts that the Postal Service should have spent more time engaging with stakeholders and listening to feedback before moving forward with its proposal. *Id.* at 3. It closes by cautioning that moving forward with the proposal would compromise the Postal Service’s universal service obligation “at the expense of commercial mail and package business, which is” inconsistent with the Postal Service’s mandate to provide “prompt, reliable, and efficient services to patrons in all areas and . . . all communities.” *Id.* (quoting 39 U.S.C. § 101(a)).

8. The Package Shippers Association

The Package Shippers Association (PSA) focus its statement on the Postal Service’s proposed RTO initiative, which it opposes. PSA Statement at 1. First, PSA points out that the estimated cost savings, which amount to \$651 million, “are inconsequential in comparison to the likely harm the RTO initiative will impose on mailers, shippers, and end customers who live in remote and rural communities across America.” *Id.* The harm identified by PSA is downgraded service and “a two-tier system of service standards[]” where those within 50 miles of RPDCs receive the promise of improved service, while those outside of the 50 mile distance “receive degraded service.” *Id.* at 2. PSA urges the Commission to illustrate this harm and “illuminate the speculative nature of the asserted estimated cost savings.” *Id.*

PSA also discusses recent legislative actions to highlight for the Commission the fact “that Congress is looking to the Commission for expert guidance on how these proposals will affect real Americans.” *Id.* It asserts that the Postal Service fails to demonstrate how the RTO initiative comports with 39 U.S.C. §§ 101(a)-(b), (e), or 3691.

Id. at 3. PSA states that these “statutory mandates protecting rural communities are unambiguous” and the Postal Service “makes no attempt to meaningfully explain how the RTO initiative complies with these policies” and cites instead to prior Commission orders stating that the Postal Service must use its discretion when balancing any competing policy provisions. *Id.* at 3-4. PSA continues that the RTO initiative illustrates why the Postal Service should not “determine the scope of its own responsibilities” under these statutes because it “represents a fundamental shift in U.S. postal policy masquerading as an operational change[]” and will only lead to further downgrades in service. *Id.* at 4.

Furthermore, according to PSA, the Postal Service’s discussion of 39 U.S.C. § 403(c), “is equally unsatisfactory.” *Id.* at 5. PSA challenges the Postal Service’s statement that the proposed changes do not unreasonably differentiate between similarly situated customers by arguing that customers in remote or rural locations, or 50 miles from a RPDC, might be similarly situated to postal customers in urban areas or within 50 miles of a RPDC. *Id.* PSA argues that the Postal Service’s business judgment in drawing a line at 50 miles is insufficient to outweigh legitimate consideration under 403(c). *Id.* According to PSA, the decision to draw the line at 50 miles also ignores “relevant timing and cost considerations caused by variable geography, population density, or other factors unique to various RPDC locations.” *Id.* at 6.

Additionally, PSA questions whether the Postal Service considered how these initiatives “may negatively affect future [C]ompetitive products volume and contribution.” *Id.* PSA expresses its concerns that the proposed changes might accelerate the trend of volume losses for certain Competitive products. *Id.* at 6-7. It also questions whether the Postal Service’s proposed policy of price increases “on [destination delivery unit] DDU-entered Parcel Select” units and simultaneous abandonment of “its workshare partnership model on last mile entry” serves its stated goal of growing its package business. *Id.* at 7.

Finally, PSA expresses its concern that the “minimal estimated cost savings associated with the RTO initiative may not materialize.” *Id.* This concern is buttressed by PSA’s observation that prior Commission advisory opinions “cautioned that the Postal Service’s estimated cost savings were overly optimistic.” *Id.* at 7-8. Additionally, PSA points to “numerous instances” where the United States Postal Service Office of Inspector General concluded that the Postal Service’s planned changes did not achieve projected cost savings. *Id.* at 8.

9. VA, MD & DE Association of Electric Cooperatives

The Virginia, Maryland & Delaware Association of Electric Cooperatives (VMDAEC) supports the statement of position filed by the NRECA. VMDAEC Statement at 1. The VMDAEC also expresses its concern that the Postal Service’s proposed changes will disproportionately impact rural customers and urges the Postal Service to consider options that would not “inequitably and unduly burden rural areas.” *Id.*

VII. COMMISSION ANALYSIS

A. Roadmap of Analysis

1. Overarching Conclusion

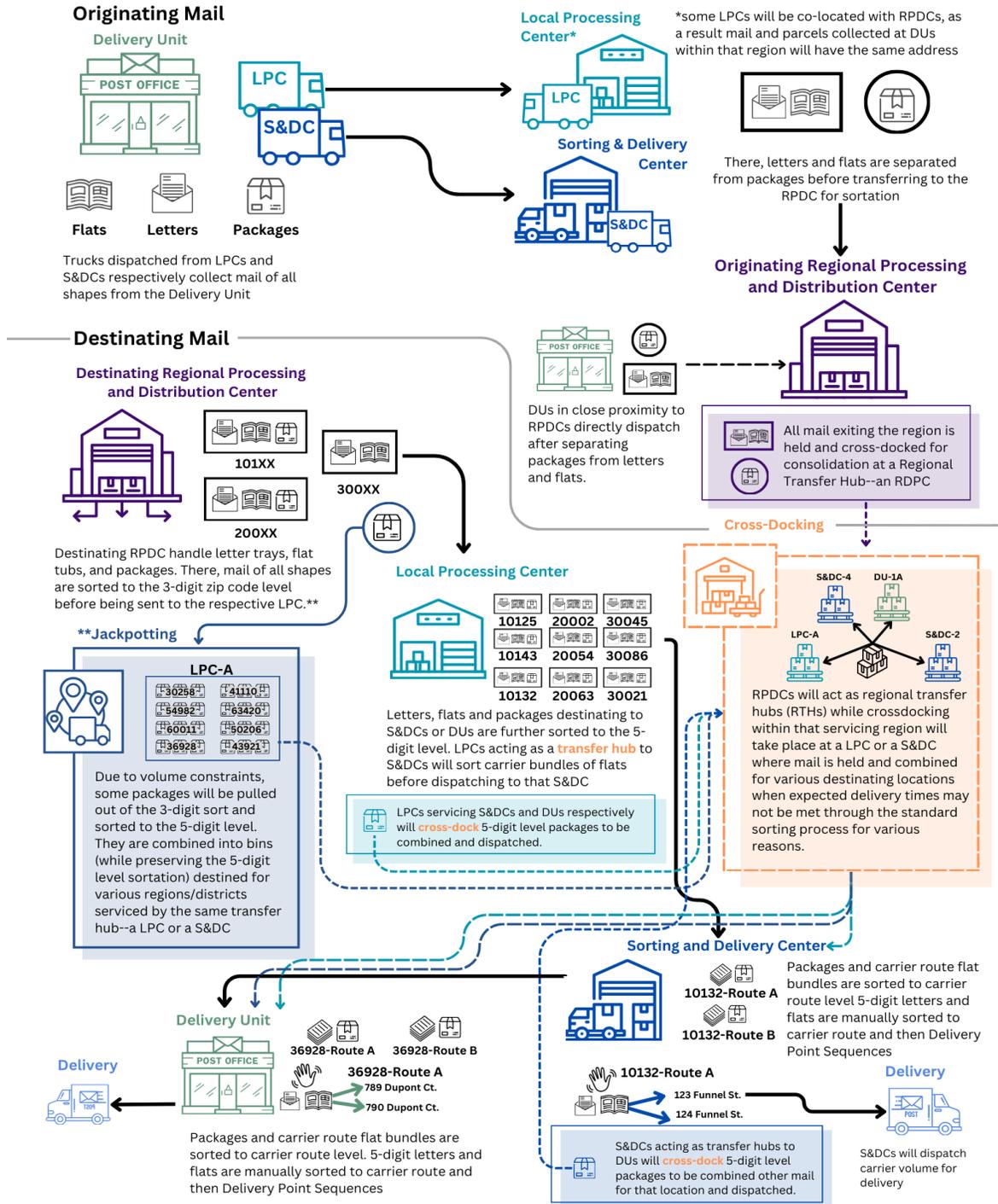
As discussed in detail in Section VII.B. through Section VII.H., the Commission agrees that changes are necessary to improve the Postal Service’s financial and operational standings to ensure it can meet its mission to provide universal service. While certain aspects of the proposal do not raise significant concerns, the Commission finds that overall, the proposal lacks adequate preparation for implementation and consideration of complex trade-offs. In light of that, the Commission makes three major findings. First, the Postal Service’s proposed changes rely on defective modeling and, at this time, does not appear to be ready for implementation. Second, the Postal Service presents overly optimistic and unsubstantiated financial projections for cost

savings. And third, the Postal Service's proposal fails to fully acknowledge the significant negative impacts on rural communities throughout the United States.

The Postal Service proposes transformational changes to the structure and operations of its mail processing, transportation, and delivery networks. The RTO initiative will create RPDCs as the regional hubs and LPCs as the local spokes. The Postal Service has selected 59 RPDC campuses and 170 LPC facilities for its future network. The RTO initiative creates 50-mile circles around the RPDCs and designates 24,413 Post Offices outside of these circles for reduced transportation frequency and longer service standards.

Figure VII-A1 illustrates the end-to-end mail flow for the RPDC/LPC network. This illustration shows many variable paths that mail can take in this network design.

**Figure VII-A1
End-to-End Material Flows in the New Network**



Source: USPS-T-1 at 23-26.

Section VII.B. through Section VII.H. of the Advisory Opinion provide the analysis of different aspects of the proposed changes. Section VII.B. and Section VII.C. provide an overview and evaluation of the RTO initiative and the RPDC/LPC network initiative, respectively. In Section VII.B., the Commission concludes that the Postal Service has not justified the 50-mile RPDC service areas, in part because it has not run a model to determine that the 50-mile radius is a necessary balance of cost and service in each region. In Section VII.C., the Commission concludes that the Postal Service has not justified the hub and spoke inter-facility transportation approach because it has not developed a model to illustrate that this approach provides a necessary balance of cost and service in each region, and nationwide. Section VII.D. evaluates potential mail processing efficiencies. In this section, the Commission concludes that the Postal Service has not justified or explained its mail processing changes because it has not run a model to show that it has the mail processing equipment, floor space, and operating windows available to operate its new network efficiently and effectively. Other than saying “trust us,” the Postal Service offers little convincing evidence or testimony to reasonably support its claims that its proposed actions will turn out the way it estimates. Section VII.E. analyzes the effects of the proposed service standard changes, and Section VII.F. discusses the planned changes to the Service Performance Measurement system. The effect of the proposed changes at the local level, on customer communication, and on election mail are the subjects of Section VII.G. and Section

VII.H. evaluates the financial and cost savings projections.²⁶ Based on the Commission's analysis, the Commission provides recommendations for the Postal Service to consider if it moves forward with the implementation of its proposal.

As the Commission explains, the Postal Service uses a deterministic approach²⁷ to the redesign of its mail processing, transportation, and delivery networks. The Postal Service chooses the RTO concept and the specific locations for the RPDC campuses without developing a comprehensive model to determine if such an approach, with its concomitant service degradation, is necessary. The Commission is also concerned that the lack of a comprehensive and integrated analytical model will not allow identifying the maximum, optimal savings for the network overhaul.

It is theoretically possible that an overhaul of the Postal Service's processing, transportation, and delivery networks based on a regional concept and relying heavily on surface transportation is the most logical step to permit the Postal Service to meet its universal service obligation. It is also possible to assume that the corresponding service standard changes will help the Postal Service create a more logical,

²⁶ The Commission notes that prior financial projections from the Postal Service related to the DFA Plan have proved wildly inaccurate, and the Postal Service's OIG has already released several audits criticizing the implementation of DFA related pilots, specifically regarding RPDC activations in Richmond, Virginia and Atlanta, Georgia, as well as the LTO pilot program. See Docket No. N2021-1, Advisory Opinion on Service Changes Associated with First-Class Mail and Periodicals, July 20, 2021, at 103-09 (Docket No. N2021-1, Advisory Opinion); United States Postal Service, Office of Inspector General, Report No. 23-161-R24, Effectiveness of the New Regional Processing and Distribution Center in Richmond, VA, March 28, 2024, available at <https://www.uspsoig.gov/reports/audit-reports/effectiveness-new-regional-processing-and-distribution-center-richmond-va> (OIG Report No. 23-161-R24); United States Postal Service, Office of Inspector General, Report No. 23-161-1-R24, Impacts Associated with Local Transportation Optimization in Richmond, Virginia, April 12, 2024, available at <https://www.uspsoig.gov/reports/audit-reports/impacts-associated-local-transportation-optimization-richmond-virginia>; OIG Report No. 24-074-R24; United States Postal Service, Office of Inspector General, Report No. 24-142-R25, Network Changes: Local Transportation Optimization, December 18, 2024, available at <https://www.uspsoig.gov/reports/audit-reports/network-changes-local-transportation-optimization> (OIG Report No. 24-142-R25). This heightens the Commission's concerns related to the projections presented in this docket.

²⁷ Generally speaking, a deterministic model predicts an outcome from a given set of circumstances. See, e.g., Howard M. Taylor & Samuel Karlin (Taylor and Samuel), *An Introduction to Stochastic Modeling*, at 2 (3rd ed. 1998). The deterministic modeling approach does not allow for variation in volume, facility locations, or network design.

understandable, and reliable service expectation for its customers. However, the Commission finds that the success of the Postal Service's proposal is hindered by multiple shortcomings, including, but not limited to, defective modeling, overly optimistic cost savings projections, a lack of clarity regarding timeframes of the rollouts of all aspects of the proposed changes, and a level of uncertainty unbecoming of a network redesign of this size. The Commission also finds that the Postal Service fails to fully consider – or communicate – the disproportionate impacts of the proposed changes on rural communities across the country. For these reasons, the Commission cannot provide a favorable review of the proposal.

2. The Regional Transportation Optimization Initiative Findings

The Postal Service plans to implement RTO to change the collection process in Leg 1 Transportation. See Section VII.B. Post Offices located in 5-Digit ZIP Codes where at least one Post Office is more than 50 miles (driving distance) from the servicing RPDC will be subject to RTO. The Postal Service's RTO initiative will impact the daily transportation for 72.4 percent of Post Offices (i.e., 24,413 Post Offices). The Commission finds that because the scope of the RTO initiative exceeds that of the LTO pilot programs, the Postal Service's lack of preparation and readiness to implement the initiative is concerning. The Postal Service has not presented a dedicated model for the RTO initiative, opting instead to use as a proxy an LTO model, which is not directly applicable to the RTO. The Commission's concern is heightened by the speed at which the Postal Service plans to implement the proposed changes. The way the Postal Service proposes to roll out the changes in this proposal means that it could implement changes to service standards and RTO even before it activates a corresponding RPDC, which is concerning because it could lead to service downgrades potentially months prior to when the full benefits of the network optimization could be realized. Considering this, the Commission recommends that the Postal Service better prepare for its announced changes, including by creating RTO-specific plans and models, before rolling out the RTO initiative on a nationwide basis.

3. The RPDC/LPC Network Findings

The Postal Service seeks to transform its legacy mail processing and transportation networks into a “regional concept” (hub-and-spoke network).²⁸ The Postal Service intends to perform the inter-facility transportation using RPDCs as the regional hubs and LPCs as the local spokes. The Commission finds that the models the Postal Service uses to develop new mail processing and transportation networks (that are based around RPDCs and LPCs) are defective and, therefore, not appropriate for a redesign of the scope proposed. See Section VII.C. The Postal Service has not performed an optimization analysis to determine the facility nodes that would result in the highest efficiency and the ability to achieve service performance targets reliably. The purpose of the transportation modeling developed by the Postal Service is to estimate the cost of transportation, with the location of facilities and the service standards operating as constraints. The Commission analysis in this section explains that if the Postal Service had chosen a different modeling approach, it may have reached a different conclusion regarding either the optimal locations of facilities or the changes necessary to achieve the correct balance of cost and service levels. The Commission concludes that in the current proceeding, the Postal Service provides a broad concept of a potential plan for transformative change without performing the fundamental and foundational work necessary to project, with reasonable confidence, that this generational change is likely to result in a more efficient, effective, and robust network. The Commission also concludes that the Postal Service has not operationally tested the underlying transportation model, and the proposed facility location selection process can result in inefficient, circuitous routing.

²⁸ The Postal Service’s “regional concept” is a variation of a “hub-and-spoke network.” A pure “hub-and-spoke network connects every location through a single intermediary location called a hub.” See *The Geography of Transport Systems, Point-to-Point versus Hub-and-Spoke Networks*, available at <https://transportgeography.org/contents/chapter2/geography-of-transportation-networks/point-to-point-versus-hub-and-spoke-network>. A hub-and-spoke network is opposite to a point-to-point network in which each facility has a direct connection to other facilities. *Id.*

Additionally, when selecting facility locations and designing its processing and transportation models, the Postal Service relies on a deterministic optimization process that does not permit the Postal Service to account for variability in the network. The stochastic optimization process, if used by the Postal Service, would account for such variability and therefore could have better informed placement of the RPDCs and LPCs. The Commission is also concerned that the Postal Service failed to take into consideration regional differences when designing the new network, which is evidenced by its decision to use a deterministic model rather than a stochastic model. The Commission suggests that a stochastic model would have permitted the Postal Service to account for regional differences when designing the network.

The Postal Service develops its estimate of Leg 2 Transportation cost savings by comparing an optimized mileage estimate (that it models for its new network) with the recorded FY 2023 mileage. The Commission determines that this approach is unrealistic because the Postal Service's model is missing important data that would make the results more accurate. It has not provided the mileage estimate that the model would produce for the legacy network, and the results of a modeling exercise to real world data is not an apples-to-apples comparison, which limits the interpretation of the estimated reduced mileage, and thus costs. The Commission provided similar feedback in the Advisory Opinion in Docket No. N2021-1 on the transportation model used in that Request.²⁹

4. Processing Efficiencies Findings

The Postal Service proposes reducing the number of mail processing facilities from more than 400 units to 229, largely by closing annexes. See Section VII.D. The

²⁹ See *generally* Docket No. N2021-1, Advisory Opinion. The Commission stated that “[b]ecause the Postal Service ha[d] not effectively shown that the baseline model meshes with the current operational reality, it [was] infeasible to compare the modeled routings with the current costs, and inaccurate to develop a numerical estimate of the cost savings from the potential new surface transportation network.” *Id.* at 3. The Postal Service used a similar “directional” modeling approach without specific real-world inputs. *Id.* at 133-43.

Postal Service states that it will streamline and standardize facility layouts and mail processing equipment as part of its mail processing network transportation, but it has not provided any specific layouts, equipment sets, and operating windows. While the Commission recognizes that the Postal Service's proposed changes might improve mail processing, it also finds that the support for its projections is insufficient and imprecise. The Commission finds that rather than developing its projections regarding productivity improvements and cost savings on quantifiable methods or models, the Postal Service employs business judgment and problematic assumptions which lead to uncertainty about whether the Postal Service can achieve its productivity improvements. The Commission determines that the Postal Service has not used a productivity improvement model that would enable it to properly measure the success of the initiatives to determine whether additional change is necessary during the implementation process. Among the assumptions that the Commission concludes might lead to inaccurate cost reduction estimates are the Postal Service's reliance on the ability of all facilities to replicate high-productivity site performance and its application of a workhour reduction rate taken from direct operations and applied to indirect operations. The Commission also finds concerning the lack of a consolidated model incorporating local variations and lack of clarity regarding timeframes in which the Postal Service intends to complete the insourcing of STC operations and terminate annex leases. Considering the shortcomings of the Postal Service's proposal, the Commission finds that the overall projected cost savings might be misleading. Finally, the Commission strongly recommends that the Postal Service use more rigorous methods or models to prove its estimates instead of just relying on its business judgment when adjusting how RPDCs and LPCs function.

5. Lack of a Comprehensive Consolidated Model

Despite the close connections between RTO, the postal network redesign, and their impact on mail processing, transportation and level of service, the Postal Service does not use a unified network model to determine facility locations, transportation

lanes, or where mail processing operations would occur. See Tr. 1/364-65, 369-70. Instead, it first determines the features of the mail processing network that it deems necessary improvements (e.g., earlier arrival profiles, facility space for larger package sorting equipment, consolidating cancellation, etc.) and designs the facility types to reflect these desired features (i.e., RPDCs and LPCs). The Postal Service takes these RPDC and LPC functions as fixed while determining facility locations in the redesigned network and then creates three separate transportation models (RTO model for local transportation, inter-RPDC and intra-RPDC models for network transportation). Information between the mail processing design and transportation network models flows only in one direction: transportation models do not inform the mail processing operations or costs. For example, for each route, the inter-RPDC model designates intermediate consolidation hubs, known as Regional Transfer Hubs (RTHs), but the model does not account for the operational costs of cross-docking at the RTH when selecting the routes. As another example, the Postal Service decides to use RTO rather than LTO because moving cancellations to RPDCs means LTO cannot produce the desired arrival profiles and cost savings at the cancellation facility, but the LTO model does not inform the facility designs.

The Commission strongly recommends that the Postal Service develop a comprehensive and integrated model to capture and analyze the interaction of all elements of the network (e.g., facility location selection, Leg 1 Transportation, Leg 2 Transportation, and mail processing) to observe and understand the overall impact on performance and cost savings. The Commission is concerned that without an integrated network-wide model that captures the interaction between the facility, transportation, and mail processing models, the overall results lack predictive power which increases the uncertainty and risk of the outcome of the proposed changes. When 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.” Tr. 1/371. In this application, the Postal Service has determined that it

will design the basic network using business judgment and separate deterministic models and then make as many adjustments and exceptions as necessary later in the implementation process if and when the design begins to fail.

This method for planning and implementing the network will likely have grave financial consequences. The Postal Service's local transportation cost savings rely entirely on the RTO model and its network transportation cost savings rely entirely on the inter- and intra-RPDC models. See USPS-T-5 at 10, 16. In addition, approximately 90 percent of the Postal Service's mail processing cost savings rely on improved productivity at facilities. See USPS-T-5 at 13-14. These combined cost savings amount to approximately 75 percent of the overall projected cost savings. See USPS-T-5 at 16. The Commission's findings in Sections VII.B., VII.C., and VII.D. cast doubt on the achievability of these cost savings.

6. Effects on Service Findings

The Commission finds that the Postal Service presents an overly rosy – if not incomplete and misleading -- description of how the proposed service standard changes will impact the American public. See Section VII.E. The Commission finds that in doing so, the Postal Service downplays significant and disproportionate negative effects, particularly on rural communities throughout America, but also on specific categories and classes of products. Single-Piece First-Class Mail will see the most significant negative impact, with 49.5 percent of 5-Digit origin to 3-Digit destination ZIP Code pairs receiving downgraded service. Periodicals and Package Services will also experience large-scale downgrades. The Commission finds that the Postal Service's volume-based approach to analyzing rural versus urban service degradation glosses over the true impacts rural communities will experience. The Commission concludes that if the Postal Service proceeds with implementing these changes, a substantial portion of the country will experience severe degradations in service. Finally, the Commission is concerned that if the Postal Service fails to fully identify and analyze the problems seen in Richmond, Virginia and Atlanta, Georgia that it experienced following RPDC activation

and fully implement the lessons learned from those activations, then the network as a whole might suffer similarly substantial negative impacts on service performance and reliability.

7. Service Performance Measurement Findings

The Commission will consider any specific proposed changes to the Postal Service's internal SPM system related to the proposed changes raised in this proceeding in Docket No. RM2024-9. In this docket, the Commission considers the proposed changes in its capacity as an advisory body. See Section VII.F. There are two primary categories of substantive change to SPM that the Postal Service puts forward to effectuate the service standard and operation changes proposed in this proceeding: (1) excluding Sundays and holidays as transit days for volume entered into the network on Saturdays or the day before a holiday; and (2) measuring service performance at a 5-Digit to 5-Digit service standard level.

The Commission finds that the first proposed change will result in substantial portions of Market Dominant mail taking an extra day (or more) to be delivered. While the Postal Service maintains that it will retain the current 2- to 5-day service standard range, the Commission concludes that the expected delivery for a portion of Single-Piece First-Class Mail will extend to 6 or more days, and the Commission recommends that the Postal Service provide clear, widely available, and easily accessible communications about this change to mailers. As it relates to the second change, the Commission concludes that the Postal Service has not demonstrated that it is operationally or strategically ready to accurately, reliably, and representatively measure service performance under these new proposed service standards. The Commission also concludes that substantial changes to SPM are necessary before it will accurately, reliably, and representatively measure service performance under the new proposed service standards.

8. Local Changes, Customer Communication, and Election Mail Findings

In Section VII.G., the Commission finds mixed results regarding the local changes and customer communications the Postal Service provides in the proposal. On the one hand, the changes at the local level are limited and the largest change will be the requirement for local Post Offices to keep mail volumes overnight, which will require some reorganization to create space. On the other hand, the Commission finds that the Postal Service's proposed communications to educate mailers are woefully lacking in content, breadth, and timeliness. The Commission recommends that the Postal Service put more effort into properly educating mailers on these changes. Regarding election mail, the Commission notes that the future state network will be different from the current state network. While in its current state the proposed initiatives do not present a problem, the Commission questions whether the same will be true when the network is in its final state. The Commission recommends that the Postal Service create a plan for handling future election mail in the network's final state.

9. Financial Savings Findings

The Commission finds that the Postal Service's methodology for estimating costs savings in this request is concerning. See Section VII.H. The Postal Service relies on capture rate assumptions that lack empirical validation and are instead based on estimates rooted in business judgment and untethered to historical performance, scenario testing, or sensitivity analysis. This injects a level of uncertainty into the estimates that prevents the Commission from confirming the Postal Service's projected cost savings. Even more concerning (albeit outside the parameters of its specific request here) is the Postal Service's continual reporting of net losses every year since implementing the DFA Plan in FY 2021. The DFA Plan anticipated achieving positive net income beginning in FY 2023 or FY 2024. See DFA Plan at 7. However, actual

results show net losses of \$6.5 billion in FY 2023 and \$9.5 billion in FY 2024.³⁰ These continued losses underscore the disconnect between the Postal Service's cost-savings projections and actual financial outcomes, further reducing confidence in the reliability of the estimates presented in this proceeding. Further, as discussed in Section VII.B., because the Postal Service has not conducted an RTO pilot, it was unable to obtain a baseline to use to measure performance over time. The Postal Service has also failed to provide a definitive timeline for the realization of these projected cost savings, which impacts the Commission's ability to evaluate the effectiveness of the proposed changes in real time and reduces the accountability and transparency of the proposal. And even if the cost savings were reliable and accurate, the Commission finds that the proposal would not substantially affect the Postal Service's financial condition because even if fully realized, they represent approximately 4.4 percent of the Postal Service's FY 2024 operating expenses of \$81.8 billion. Finally, the Commission is concerned that the disproportionate impact of service reductions on rural communities might result in service degradation, which would also reduce the projected financial benefits of the proposed changes.

B. Regional Transportation Optimization

1. Overview of Request

Leg 1 Transportation refers to the process of transporting mail from a collection point where it enters the postal network to the originating RPDC. See USPS-T-1 at 5. Postal volumes are collected from 33,699 various locations.³¹ The Request details the Postal Service's plan to implement RTO to change the collection process in Leg 1 Transportation. Post Offices in 5-Digit ZIP Codes where at least one Post Office is

³⁰ United States Postal Service, Annual Report on Form 10-K, November 14, 2024, at 48 available at <https://prc.arkcase.com/portal/filings/132790> (FY 2024 Form 10-K).

³¹ See *id.* at 11; Responses of United States Postal Service Witness Hagenstein to Intervenor National Postal Policy Council's Interrogatories NPPC/USPS-T1-1-6, October 31, 2024, question 6 (Hagenstein Response to NPPC/USPS-T1-1-6).

more than 50 miles (driving distance) from the servicing RPDC will be subject to RTO. See USPS-T-1 at 11. Mail at these Post Offices will be collected 12 to 18 hours later than under current operations, and the Postal Service will add an additional day to the service expectation.³² The Postal Service claims that this change will allow for destinating drop-off and collections operations to occur simultaneously, improving transportation utilization and reducing the number of trips and layovers. See *id.* at 9-12.

Prior to settling on RTO, the Postal Service implemented a pilot initiative known as LTO at 19 sites. *Id.* at 10-11; Response to POIR No. 1, question 15. The primary difference between LTO and RTO is that LTO was local in scope while RTO is regional. LTO features a similar concept of delaying collections from facilities that are farther than a 50-mile driving distance from LPCs (as opposed to RPDCs) to consolidate collections and drop-off trips to achieve efficiency gains. See USPS-T-1 at 10. Service performance declines in LTO pilot areas informed the decision to add an extra service expectation day in Leg 1 as a part of the Request. See Response to POIR No. 1, question 10. In addition, the Postal Service increased the scope of the optimization initiative to focus around RPDCs to provide more opportunities to consolidate local transportation. *Id.*

The Postal Service employs a statistical model with 23 LTO sites (LTO Model) as a “conservative” proxy to estimate how the implementation of RTO will reduce mileage and costs in the postal network. USPS-T-1 at 17. It notes that the modeling of LTO “reflects the same operational procedures that RTO would itself deploy and incorporates the same logistical constraints that RTO would itself need to account for.” *Id.* at 17-18. The Postal Service states that it chose 23 sites for the LTO Model in order to isolate the impact of LTO from coinciding network changes. Response to POIR No. 3, question 10. The Postal Service claims that the LTO Model suggests that RTO will yield a net

³² See *id.* at 9-11. RTO will not impact destination entry for Periodicals Mail, USPS Marketing Mail, or Package Services. *Id.* at 11. RTO will also not impact Presort First-Class Mail. *Id.*

reduction in mileage of approximately 7 to 8 percent and a reduction in costs of 33 percent. Response to POIR No. 1, question 14; USPS-T-1 at 17.

The Postal Service argues that the changes proposed in the Request, including RTO, are necessary because the current status quo is unsustainable. See USPS-T-1 at 52. It states that collection volumes have steadily been declining since FY 2018.³³ At the same time, the Postal Service claims that processing facilities must wait for all collections mail to arrive before processing mail because current service standards do not consider the proximity of the origin Post Offices to the originating RPDC. See USPS-T-1 at 7; Response to POIR No. 3, question 3. The Postal Service maintains that the results of these conditions are financially unsustainable and lead to lower timeliness, productivity, and precision in mail processing. See USPS-T-1 at 7-10; Response to POIR No. 1, question 1.

2. Commission Analysis

a. Rationale and Potential Benefits of the RTO

RTO represents a change to service standards. Request at 41. In establishing or revising such standards, the Postal Service must take into account the policies of title 39 and other factors it deems appropriate. See 39 U.S.C. § 3691(c)(8). For example, the Postal Service is tasked to provide adequate, reliable, and efficient postal services across the Nation. See 39 U.S.C. § 3661(a). The Postal Service also deems it appropriate to consider financial self-sufficiency as a factor in proposing new service standards associated with RTO.³⁴ The Commission finds that RTO in theory has the potential to modestly improve the efficiency and financial self-sufficiency of postal services. However, as discussed below in detail, the Postal Service has failed to

³³ See Response of United States Postal Service Witness Hagenstein to Intervenor Greeting Card Association's Interrogatories GCA/USPS-T1-1-7, October 29, 2024, question 1 (Hagenstein Response to GCA/USPS-T1-1-7).

³⁴ See Request at 41; Postal Service Brief at 41; Postal Service Reply Brief at 14-16.

demonstrate that through these proposed initiatives it will become more efficient or that its financial situation will improve.

Transportation efficiency. Transportation accounted for more than 11 percent of total expenses in both FY 2022 and FY 2023.³⁵ The Commission, therefore, agrees with the Postal Service that transportation is a relevant area to explore cost-saving opportunities. The Postal Service explains that its existing transportation is inefficient because many Post Offices require two or more transportation trips each day—a mail drop-off in the morning and an afternoon collection pickup trip—at low utilizations³⁶ and high costs. Response to POIR No. 1, questions 7-8. The Postal Service states that 52 percent of Post Offices receive a morning trip and an afternoon collection trip, and 33 percent of Post Offices receive more than two trips per day. Response to POIR No. 2, question 2.b. The Postal Service claims that this business practice results in higher costs because of excess trips, low utilization, and sometimes unnecessary layovers. See USPS-T-1 at 3. As an example, the Postal Service notes that local transportation operated at 21.4 percent utilization in FY 2023.³⁷ Inefficient transportation also results in excess carbon emissions. Response to POIR No. 1, question 20.

The Postal Service provides an example of Wisconsin LTO pilot campuses to demonstrate how optimization may increase transportation efficiency. See USPS-T-1 at 8. The estimated transportation utilization was between 35 and 45 percent prior to LTO implementation but after LTO was implemented, utilization increased to approximately 65 percent, which also resulted in transportation-related cost savings. USPS-T-1 at 8;

³⁵ Docket No. ACR2023, Library Reference USPS-FY23-17, December 29, 2023, ZIP folder “USPS.FY23.17_ARC.Files,” PDF file “FY2023.Annual.Report.to.Congress.pdf,” at 54, available at <https://prc.arkcase.com/portal/filings/127581> (FY 2023 Annual Report). See also Docket No. ACR2022, Library Reference USPS-FY22-17, December 29, 2022, folder “USPS-FY22-17,” folder “FY22.17.Annual.Report,” PDF file “FY 2022 Annual Report to Congress.pdf,” at 46, available at <https://prc.arkcase.com/portal/filings/59337> (FY 2022 Annual Report).

³⁶ Utilization is defined as the percent of a truck’s capacity that is filled, or used, during trips. See USPS-T-1 at 7.

³⁷ *Id.* at 8-9. The Postal Service confirms that data are not available relating to the national incidence of layovers. Response to POIR No. 1, question 8.

Response to POIR No. 1, question 6.b. Considering the estimated average reduction in mileage of only 7 to 8 percent at LTO sites,³⁸ the Commission highlights that the efficiency gains from the Wisconsin LTO pilots are not reproducible at all LTO locations, and the transportation efficiency gains expected from RTO by the Postal Service are modest in comparison.

The Postal Service claims that even in situations where mileage reductions are modest, there is an opportunity for cost savings from reducing layover costs. See Tr. 1/298-99. The Commission is concerned, however, that the Postal Service could not provide the average number and length of nationwide layovers. See Response to POIR No. 1, question 8. The Commission urges the Postal Service to begin tracking these metrics before implementing RTO so that it has a baseline to which it can compare the success of the initiative. The Commission discusses transportation cost savings of RTO in greater detail in Section VII.H.

Timeliness, precision, and productivity of mail processing. The Postal Service has failed to meet its stated, overarching on-time goal of 95 percent for any of its High-Quality Service performance indicators since FY 2020. FY 2023 *Annual Report* at 39. One of the Postal Service's contentions is that its speed of service is held back by the need to wait for small volumes of mail from distant locations to arrive before conducting processing.³⁹ The Commission notes that currently, volume within a 3-Digit ZIP Code has the same service standard from the origin, no matter how far the origin office is from the originating plant (i.e., regardless of the intensity of Leg 1 Transportation). See Response to POIR No. 1, question 3. Sections VII.D. and VII.E. provide details on the Postal Service's service and mail processing productivity.

³⁸ The Postal Service estimated the reduction from its LTO Model. See Response to POIR No. 1, question 14.a.

³⁹ See Response of United States Postal Service Witness Hagenstein to Intervenor Mailers Hub's Interrogatories MH/USPS-T1-1-17, November 5, 2024, question 5 (Hagenstein Response to MH/USPS-T1-1-17); Postal Service Brief at 21.

Intervenor Douglas Carlson suggests that to further improve the timeliness of postal services, the Postal Service should consider opportunities to push collections at blue collection boxes at Post Offices, lobby drops, and Self-Service Kiosk parcel receptacles until shortly before the morning dispatch at RTO-eligible Post Offices.⁴⁰ Carlson and Hutkins suggest, and the Commission agrees, that this practice could grant customers more time to deposit their mail at these locations, while not affecting dispatch times at Post Offices and mail arrival profiles at RPDCs. *See id.* The Commission also agrees that this practice would improve the efficiency and speed of the postal network from a customer perspective. *See id.* The Postal Service, however, disagrees, claiming that this practice, if it were a requirement, could negatively affect the Postal Service's ability to schedule transportation (if collections were to become a bottleneck to dispatch at some Post Offices or if mail dropped off after-hours needed to be moved). Postal Service Reply Brief at 27. The Commission finds that these concerns may not be valid at all RTO-eligible offices as these Post Offices will generally have low collection volumes at these receptacles, such that pushing collection is unlikely to cause bottlenecks. *See, e.g.,* Johnson-Frick Response to DFC/USPS-T3-1-6. The Commission recommends the Postal Service identify Post Offices where these concerns are not as relevant (i.e., locations where collections could occur sufficiently before dispatch such that bottlenecks are unlikely to arise and locations where mail need not be moved after collection), and it should implement delayed collections to increase the timeliness of its network.

b. The Postal Service Appears Unprepared to Implement RTO Successfully

Poor justification for a 50-mile threshold. The Commission finds that the Postal Service has not adequately explained its rationale for a 50-mile threshold for RTO. The

⁴⁰ See Carlson Brief at 9. Steve Hutkins also agrees with this suggestion. See Hutkins Statement at 11-12.

Postal Service confirms that it tested 100-mile radii and 25-mile radii in its LTO pilot in Richmond, but eventually opted for a 50-mile radius. Response to POIR No. 1, question 10.b.i.; Tr. 1/335-36. The Postal Service states that the decision in favor of a 50-mile threshold was a result of “business judgment” based “on the need for an earlier arrival profile of volume and the overall office eligibility analyses, and that most volume is collected from within the 50-mile range[.]” Response to POIR No. 1, question 11.a. The Postal Service specifically notes that it “did not determine that 50 miles was the optimal radius.” Tr. 1/323. Parties in the proceeding share the Commission’s concern regarding the Postal Service’s determination of the 50-mile threshold.⁴¹

It is also not clear why the Postal Service chose mileage rather than travel time, volume profile, or some combination of these factors as the catalyst for RTO. For example, a 50-mile driving distance will correspond with different travel times around different RPDCs. See Tr. 1/317. Earlier arrival profiles would be achievable outside the 50-mile threshold depending on travel times around different RPDCs. See Response to POIR No. 1, question 11.a. Using travel time rather than mileage could reduce the number of service downgrades.

In addition, the Commission finds that a uniform threshold across all regions may not be appropriate since RPDC campuses vary in terms of travel time to Post Offices, volume, operating plans, mail arrival profiles, and other factors. See Response to POIR No. 3, question 9; Tr. 1/316. The Commission notes that to maximize cost savings, instead of static thresholds, the Postal Service could leverage its extensive facility-level data to develop and rely on thresholds for specific RPDCs or even develop non-threshold methods for determining RTO designations. The Postal Service concedes that using thresholds specific to individual RPDCs could lead to further optimization and cost savings from RTO. Response to POIR No. 3, question 9. The Commission finds

⁴¹ See Notice of Interrogatories, October 22, 2024, PDF file “N2024-1_GCA_Interr_Hagenstein A.pdf,” question 3; Mailers Hub Interrogatories to United States Postal Service Witness Stephen B. Hagenstein (USPS-T-1), October 29, 2024, question 2; APWU Brief at 21.

that pursuing such an approach could result in substantial savings with fewer service downgrades.

The Postal Service, however, argues that a more customized approach would complicate operational execution and service standards. Response to POIR No. 2, question 3.c. While the rollout of RTO requires successful implementation, the Commission recommends the Postal Service explore ways to categorize RPDC facilities and apply category-based thresholds to potentially increase the benefits of optimization and reduce the scope of downgrades without complicating implementation.

The Commission finds that modeling the RTO prior to implementation could offer valuable insights into the issues discussed above. The Commission therefore recommends that the Postal Service supplement its business judgment regarding a 50-mile threshold with more data-based analysis to explore different thresholds and measure the benefits of RTO against the service impacts. One of the possible options is to employ the Blue Yonder TMOD logistics modeling software to investigate how transportation and processing cost savings achievable with a 50-mile threshold compares to cost savings for other similar “round number” thresholds, including, but not limited to, 40 miles or 60 miles. See *id.*; Hagenstein Response to NPPC/USPS-T1-1-6, question 4. The Postal Service could also explore using variations of previously employed optimization models, such as the Yezer Model, that could identify facilities for inclusion in the RTO initiative based on factors such as size of collection areas and other local characteristics.⁴²

The Commission finds it is important for the Postal Service to systematically weigh transportation and processing cost savings against the amount of mail affected by service downgrades in various scenarios to inform the Postal Service’s ultimate decision of an identification method for RTO. The Postal Service claims to have

⁴² Docket No. N2011-1, Advisory Opinion on Retail Access Optimization Initiative, December 23, 2011, at 72.

considered service impact, volume impact, and cost savings at a “high level.” Tr. 1/335. However, the Postal Service provides no description of the results of such analyses, and the analyses appear to have been restricted to case studies of the Richmond area. *Id.* at 336. The Commission concludes that in the absence of a detailed trade-off analysis, the Postal Service is not able to adequately fulfill its statutory and regulatory mandates. In failing to consider the service impact of various thresholds, the Postal Service also fails to “preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining.” See 39 U.S.C. § 3691(b)(1)(B). In failing to consider the cost savings associated with various thresholds, the Postal Service also fails to “give highest consideration to the prompt, economical, consistent, and reliable delivery of all mail in a manner that increases operational efficiency and reduces complexity” in selecting modes of transport. See 39 U.S.C. § 101(f). For the Commission’s discussion on the potential disproportionate ramifications of RTO and network changes, see Section VII.E.

Furthermore, it is unclear whether the RTO approach, rather than the LTO approach, is necessary to achieve processing improvements and cost savings in Leg 2. See Response to POIR No. 1, question 10.b.; Response to POIR No. 2, question 4.a. The Postal Service itself claims that “RTO constitutes [the] same basic operational exercise as LTO”⁴³ In addition, the Postal Service has decided to permanently maintain cancellation operations at approximately 36 LPC facilities.⁴⁴ However, Post Offices serviced by LPCs that retain cancellation operations will still be subject to the service standard degradations related to RTO if they are located within 50 miles of the servicing LPC instead of the RPDC. Tr. 1/80, 361. While the Postal Service claims that processing improvements in Leg 2 will only be available using a regional approach, it

⁴³ Response of United States Postal Service Witness Hagenstein to Public Representative’s Second Set of Interrogatories and Requests for Production of Documents, November 12, 2024, question 1.b.

⁴⁴ Tr. 1/313. See *also* USPS-T-1 at 26-27; Response to POIR No. 1, question 43.b.; Response to POIR No. 4, question 5.a.

has not explained how, when determining which LPCs will retain cancellation operations, it weighs cost savings potential with other factors, such as operational considerations, physical attributes of the receiving and destinating facilities, volume growth, and service impact. See Response to POIR No. 1, question 43.b.; Response to POIR No. 2, question 4.

As for the notion that RTO offers more opportunities for consolidation of transportation than LTO, the Commission's calculations show that with a threshold of 26.5 miles using a LPC-centric approach, the Postal Service could have nearly the same number of Post Offices delaying their mail collections as with the proposed 50-mile RPDC-centric approach.⁴⁵ The Commission finds that a regional approach is not strictly necessary to achieve scale in terms of the number of Post Offices affected by optimization.

The Commission recommends that the Postal Service resolve the contradiction of advocating for a regional approach while still allowing certain LPCs to retain cancellation operations. The requirements for LPCs to retain cancellation operations must be transparent and based on optimization techniques to avoid the appearance of being arbitrary.⁴⁶ The Commission concludes that regardless of whether the Postal Service uses a regional or local approach to optimization, the method for determining eligibility for RTO should be based on a data-driven, analytical analysis of the trade-off between cost savings and service impact.

Errors in scoping RTO. The Postal Service provides the list of facilities that collect mail in its network, their distance from servicing LPCs and RPDCs, and their

⁴⁵ See Library Reference PRC-LR-N2024-1-1, January 31, 2025, Excel file "Section B. RTO.xlsx," tab "Data GOALSEEK."

⁴⁶ Hutkins expresses concern that the "criteria for determining which LPCs qualify to retain cancellation are not entirely clear" and that this aspect may potentially be "discriminatory." Hutkins Statement at 6.

eligibility for RTO.⁴⁷ Although identification of facilities within the scope of the initiative is the preliminary crucial step in implementing RTO, upon which all subsequent service and cost impact analyses depend, the Commission review of the available data shows that the Postal Service has made several errors in this identification.

It is unclear how many collection locations will be eligible for RTO. The Postal Service noted initially that 24,390 of 33,699 collection locations would be eligible for RTO. USPS-T-1 at 11. In its filings, on two separate occasions, the Postal Service neglected to classify Post Offices that were less than 50 miles from a servicing RPDC but in a 5-Digit ZIP Code where at least one Post Office was farther than 50 miles as eligible for RTO. See Response to POIR No. 1, question 11.f.; Response to POIR No. 3, question 11.b. The Postal Service filed revisions, but it appears that errors remain in the final list of RTO-eligible Post Offices.⁴⁸ The Postal Service admits that its error in this preliminary step of omitting “105 sites that would be subject to RTO . . . may have cascading impacts on other library references with dependencies on this data.” November 12 USPS-LR-N2024-1-1 Errata at 1. The fact that small discrepancies in the number of RTO-eligible locations in the Postal Service’s lists cause “cascading impacts” on the filed data threatens the credibility of the analysis the Postal Service provided in this proceeding. For example, the Postal Service has not updated the volume-related information for RTO-eligible Post Offices. See Hagenstein Response to MH/USPS-T1-1-17, question 4. In addition, as the Postal Service’s OIG found, the Postal Service management’s failure to keep track of its list of optimized offices has already impeded accurate cost savings tracking for LTO pilots. See OIG Report No. 24-142-R25 at 13.

⁴⁷ Library Reference USPS-LR-N2024-1-1, Excel file “RTO Facilities.xlsx;” Notice of the United States Postal Service of Revisions to USPS-LR-N2024-1 – Errata, October 29, 2024 (October 29 USPS-LR-N2024-1-1 Errata); Notice of the United States Postal Service of Revisions to USPS-LR-N2024-1 – Errata, November 12, 2024 (November 12 USPS-LR-N2024-1-1 Errata).

⁴⁸ The Postal Service filed multiple revisions. See October 29 USPS-LR-N2024-1-1 Errata; November 12 USPS-LR-N2024-1-1 Errata.

Table VII-B1 includes summary statistics calculated by the Commission and correcting errors identified above.

Table VII-B1
Summary Statistics for RTO-Eligible Post Offices

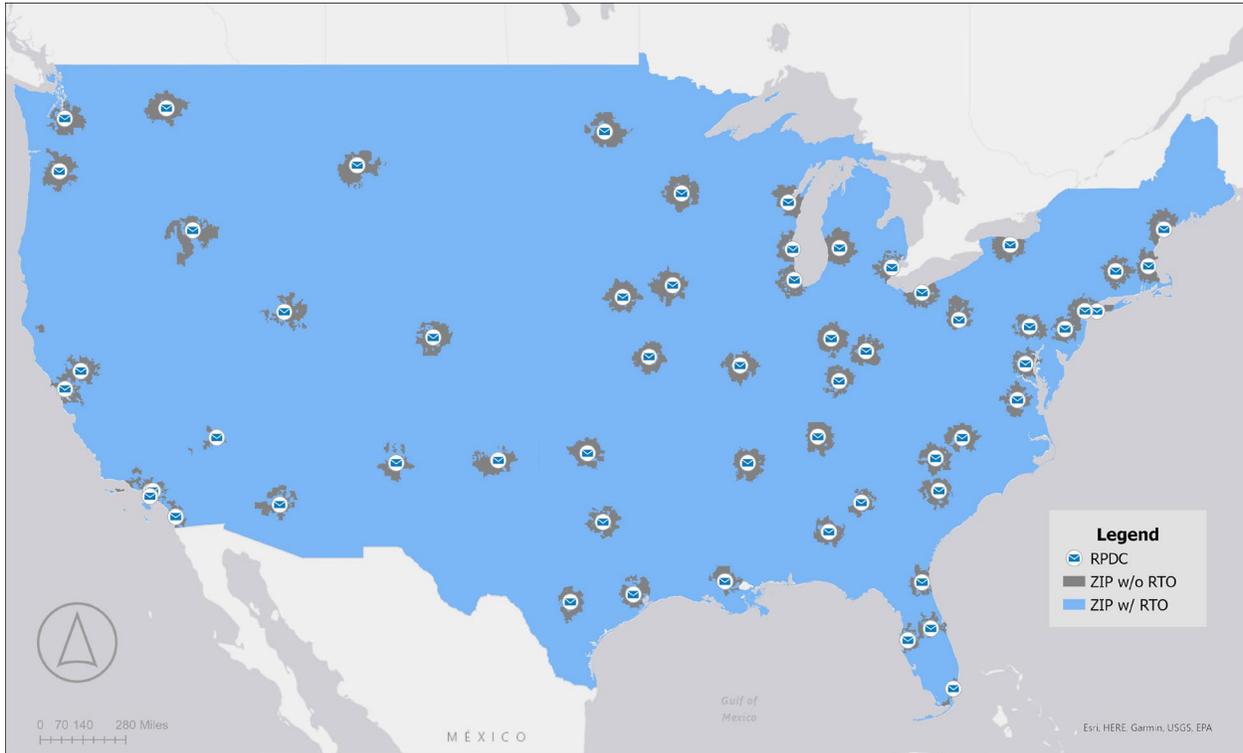
Category	Number of Post Offices	Number of Unique 5-Digit ZIP Codes with Collection Facilities	Avg. Miles from LPC	Avg. Miles from RPDC
Non-RTO Offices	9,286	7,637	21.69	24.98
<i>% of Total</i>	<i>27.56%</i>	<i>25.10%</i>		
RTO Offices	24,413	22,787	80.61	137.38
<i>% of Total</i>	<i>72.44%</i>	<i>74.90%</i>		
Total	33,699	30,424	64.38	106.41

Source: Library Reference PRC-LR-N2024-1-1, Excel file "Section B. RTO.xlsx," tab "Table VII-B1."

The Commission notes that the scope of RTO, the way the Postal Service is proposing it, is immense. It could potentially affect 72.4 percent of all Post Offices that currently collect mail and 74.9 percent of 5-Digit ZIP Codes in which the Postal Service has collection facilities. See Table VII-B1. In comparison, a nationwide implementation of the LTO initiative, had it been proposed, would have impacted 51.9 percent of collection sites.⁴⁹ The Commission demonstrates the vast scope geospatially in Figure VII-B1. The Commission is concerned that given the immense scope of the initiative, its poor execution would have negative nationwide consequences.

⁴⁹ See Library Reference PRC-LR-N2024-1-1, Excel file "Section B. RTO.xlsx," tab "Data."

Figure VII-B1
RTO-Eligible 5-Digit ZIP Codes



Source: Library Reference PRC-LR-N2024-1-1, Excel file “Section B. RTO.xlsx,” tab “Export GIS.”

Undemonstrated execution preparedness. The Commission is also concerned that the Postal Service has not demonstrated that it is fully prepared and ready to implement the RTO initiative. The Commission finds it important to reiterate that the scope of the initiative is extensive, and Leg 1 changes will coincide with Leg 2 network changes. See Section VII.C., *supra*. Stakeholder communication will be an additional challenge given the number of stakeholders affected. See USPS-T-1 at 20. RTO is also highly customized with each RPDC campus including different inputs and requiring different constraints. See *id.* at 14-16. For example, campus-specific critical entry time (CET) changes must be planned for each RPDC campus. See Hagenstein Response to NPPC/USPS-T1-1-6, question 2.

The Commission finds that the complexity of the initiative amidst other network changes will lead to challenges in the execution of RTO. The Postal Service concedes that it expects “some bumps in the road with implementation” as the network changes roll out. Tr. 1/306. However, instead of addressing complexity by conducting analysis to create robust business rules for the RTO initiative at the network level, the Postal Service plans to address issues that come up with “exceptions.”⁵⁰ For example, the Postal Service explains that its network design is not “execution-ready.” Tr. 1/324. It intends to plan transportation schedules closer to the time of implementing specific RPDCs. *Id.* at 326. The Postal Service remarks that it could potentially make changes to the 50-mile threshold rule. *Id.* at 337-38. The Commission finds such an approach will likely be sub-optimal as it will lead to ad-hoc and fragmented implementation plans, and it conflicts with the Postal Service’s rationale in choosing the 50-mile static threshold to avoid “unnecessary complexity.” Response to POIR No. 2, question 3.c. The Commission recommends the Postal Service minimize the use of exceptions in implementing its initiatives by developing and implementing a systematic approach to capture the interactions between RTO and the network design.

Despite the complexities of the RTO initiative and the onus on operational execution, the Postal Service does not have preliminary implementation plans and timelines prepared for RTO. See Response to POIR No. 1, question 17. The Postal Service states that implementing RTO and network changes “will not take place all at once and will be implemented campus by campus.”⁵¹ Elsewhere, the Postal Service notes that it was exploring an “expedited national rollout” approach to implementing

⁵⁰ *Id.* at 337-38. See also USPS-T-1 at 10, 11 n.3; Hagenstein Response to GCA/USPS-T1-1-7, question 7; Hagenstein Response to MH/USPS-T1-1-17, question 4; Response to POIR No. 1, question 11.c.; Response to POIR No. 2, questions 1.b., 2.a., 2.d., 3.c., 7; Response to POIR No. 3, questions 9.a.-9.b., 18; Response to POIR No. 4, question 6; Response of United States Postal Service Witness Hagenstein to Public Representative’s First Set of Interrogatories and Requests for Production of Documents, November 4, 2024, question 3.a.; Hutkins Statement at 13-14.

⁵¹ Response of the United States Postal Service Witness Hagenstein to Intervenor National Postal Policy Council’s Interrogatory NPPC/USPS-T1-7, November 12, 2024, question 7.a. (Hagenstein Response to NPPC/USPS-T1-7).

RTO. Tr. 1/351. As discussed below, the Commission recommends a more gradual approach. In particular, the Commission agrees with NPPC's recommendations to tie RTO implementation to the operational launch of the servicing RPDC into operation in a specific region, and not nationwide all at once. See NPPC Statement at 9-10; Hagenstein Response to NPPC/USPS-T1-1-6, question 1.

Moreover, the Commission and other parties are concerned by the preliminary stages of implementation planning. See PR Brief at 15-16; NPPC Statement at 8. The Commission recognizes the need for decisive action, and that creating an extremely detailed implementation plan may be infeasible given the Postal Service's need to "continue to operate while implementing systemic change" and respond to changing business conditions. See Postal Service Reply Brief at 32. However, the Commission still finds that careful planning is necessary for successful execution.

It is also important to note that the Postal Service has not had a strong historical record of achieving stated goals in large-scale network transformation situations. As discussed by one of the parties, a previous transportation-related initiative, Dynamic Routing Optimization, failed to achieve planned cost savings because of management failures in its national rollout.⁵² The Commission recommends that the Postal Service learn from its negative experience implementing Dynamic Route Optimization to inform its preparation for implementing RTO. In addition, in implementing the service standard change for First-Class Mail and Periodicals in 2021, "several network changes and operational changes" impeded the Postal Service from achieving a 95 percent on-time target despite the Postal Service's assessment that it was an appropriate standard and achievable goal. Tr. 1/305; Docket No. N2021-1, Advisory Opinion at 100. In seeking to evaluate the instant proposal on its merits, the Commission must consider the Postal

⁵² See Black Statement at 1; see also United States Postal Service, Office of Inspector General, Report No. NL-AR-19-004, *Postal Service Dynamic Route Optimization and Cost Savings Initiative*, September 27, 2019, at 1, available at <https://www.uspsaig.gov/reports/audit-reports/postal-service-dynamic-route-optimization-and-cost-savings-initiative>.

Service's institutional competency to set operational targets, execute, and achieve nationwide transformation.⁵³

With regard to LTO pilot implementations, the Postal Service emphasizes the importance of "thorough execution" and the adjustment of project timelines. USPS-T-1 at 19-20. The Postal Service asserts that there is a "need to establish proper timelines to execute all [project] objectives." Response to POIR No. 1, question 16.a. The Commission encourages the Postal Service to create a thorough implementation plan to facilitate the strong execution of its RTO initiative and set up relevant timelines. The Commission also recommends a more measured approach to implementation strategy based on the Postal Service's experience with LTO pilots where "compressed" timelines created issues. See Tr. 1/349. As explained below, this might include a testing period with RTO pilots.

As with many of the LTO pilots, RTO will be, for the most part, implemented in tandem with many other network changes. See Response to POIR No. 2, question 1.e. This aspect of the initiative will also amplify the execution risk of RTO. The Commission is concerned that the actual experience of the LTO pilots in 15 regions was characterized by management's inability to correctly track optimized offices, transportation cost increases compared to the same period last year, and service declines for the first six LTO-implemented regions. See OIG Report No. 24-142-R25 at 1-10. The Public Representative also expresses concern regarding the implementation risks of RTO, arguing that the Postal Service's "*actual* recent experience of implementing LTO and activating RPDCs in certain regions shows that the risk of declined service performance as a result of [RTO] is very real, while the likelihood that the Postal Service will realize its projected cost savings is low." PR Reply Brief at 10.

⁵³ The Commission disagrees with the Postal Service's claim that its historic failure to deliver on goals of its past nationwide changes to service is irrelevant to the Commission's advisory opinion on the instant proposal. See Postal Service Reply Brief at 10-11.

Despite its initial failing to achieve project cost savings with LTO, the Postal Service claims that the insights it gained to refine the LTO initiative will help it in implementation, including achieving modeled cost savings, as RTO is scaled to the contiguous 48 states. USPS-T-1 at 20. Some of these insights include allotting more time for negotiations with suppliers, strengthening stakeholder communication, and implementing Go/No-Go meetings, where leadership reviews key operational metrics (i.e., miles, legs, layover hours, driver hours). Response to POIR No. 1, question 10.a.; Response to POIR No. 3, question 16. The Commission supports the Postal Service's plan to continue to leverage these insights as it prepares for RTO implementation, but it appears to the Commission that these insights alone have not resulted in the successful implementation of the most recent LTO pilots.

The Commission concludes that the Postal Service does not present concrete evidence to suggest that it successfully drew on insights to progressively improve LTO pilot implementation efforts as it claims. See USPS-T-1 at 20. The Postal Service faced execution challenges during both the Richmond and Atlanta pilots, which featured RPDC activation and LTO implementation in October of 2023 and February of 2024, respectively. See, e.g., OIG Report No. 23-161-R24 at 8; OIG Report No. 24-074-R24 at 1. Furthermore, as the Postal Service's OIG found, the Postal Service "did not build on lessons learned from the Richmond RPDC to address similar barriers to success when launching the Atlanta RPDC." See, e.g., OIG Report No. 24-074-R24 at 8.

The Postal Service references the Wisconsin region as an LTO implementation success. See USPS-T-1 at 8. The Postal Service also states that execution issues have been resolved as evidenced by the "(1) stability of Atlanta and Richmond today and (2) the materially more successful activations in regions such as Portland." Response to POIR No. 3, question 19.d. The Commission finds it important to note that both the Portland and Wisconsin campus LTO pilots occurred early in the pilot process—in the beginning of 2023. See Table VII-B2. While the Postal Service's OIG found that the Postal Service generally managed service impacts well in Portland, it still

noted that the “lack of updated Integrated Operating Plans (OIPs) contributed to delays in processing and transporting mail.” OIG Report No. 24-071-R24 at 5. Despite the Postal Service’s claims, it appears that the Postal Service was not able to achieve its cost savings compared to its planned cost savings in recent LTO activations.⁵⁴ In fact, the Postal Service failed to achieve any transportation cost savings in five of its last seven LTO region implementations. See Table VII-B2 and Figure VII-B2.

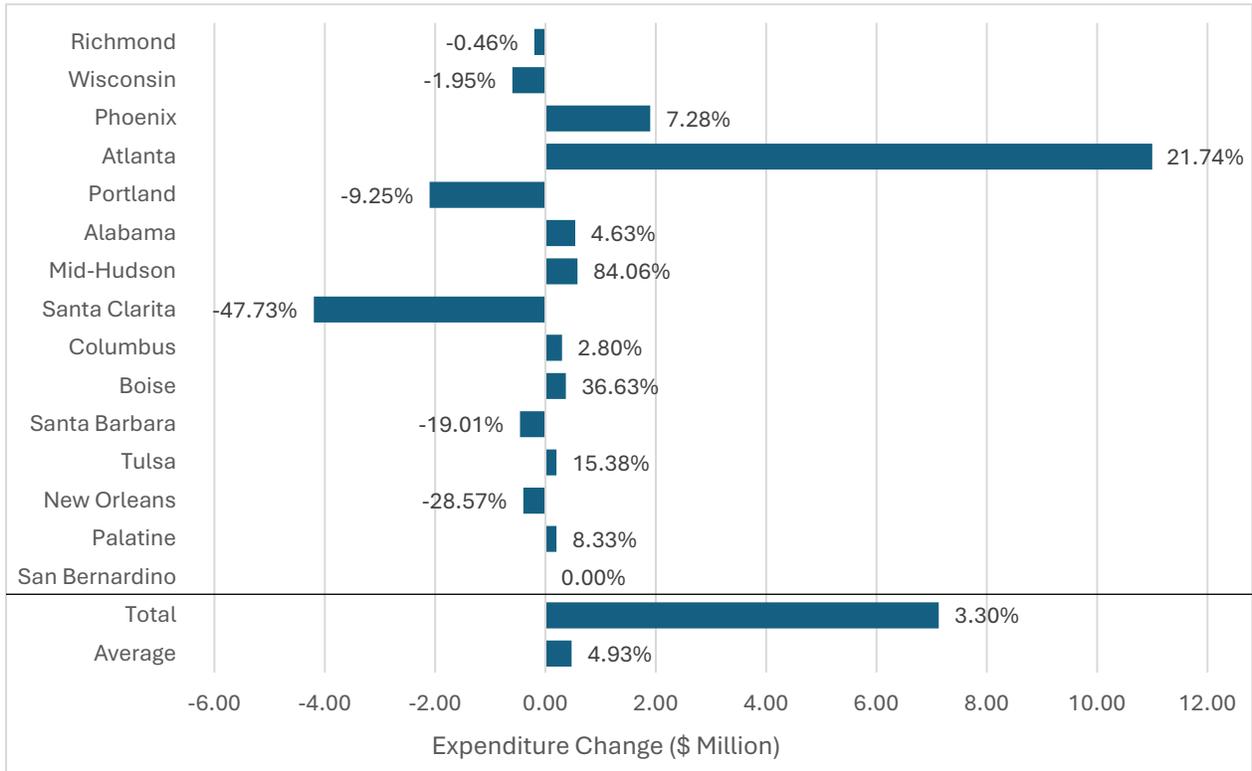
⁵⁴ See Library Reference USPS-LR-N2024-1-NP11, October 28, 2024, Excel file “CLO Summary.xlsx,” tab “Summary v2,” columns AR and AU.

**Table VII-B2
LTO Region Transportation Expenditure SPLY-Comparison**

LTO Region	LTO Date	Pre-LTO- Expenditure – SPLY (\$ Million)	Post-LTO – Expenditure (\$ Million)	Expenditure Change (\$ Million)	Expenditure Change (Percent)
Richmond	10/28/2023	43.30	43.10	-0.20	-0.46%
Wisconsin	1/8/2024	30.80	30.20	-0.60	-1.95%
Phoenix	2/20/2024	26.10	28.00	1.90	7.28%
Atlanta	2/24/2024	50.60	61.60	11.00	21.74%
Portland	2/24/2024	22.70	20.60	-2.10	-9.25%
Alabama	3/11/2024	11.67	12.21	0.54	4.63%
Mid-Hudson	5/6/2024	0.69	1.27	0.58	84.06%
Santa Clarita	6/3/2024	8.80	4.60	-4.20	-47.73%
Columbus	6/24/2024	10.70	11.00	0.30	2.80%
Boise	7/15/2024	1.01	1.38	0.37	36.63%
Santa Barbara	7/29/2024	2.42	1.96	-0.46	-19.01%
Tulsa	7/29/2024	1.30	1.50	0.20	15.38%
New Orleans	8/12/2024	1.40	1.00	-0.40	-28.57%
Palatine	8/26/2024	2.40	2.60	0.20	8.33%
San Bernardino	8/26/2024	2.00	2.00	0.00	0.00%
Total		215.89	223.02	7.13	3.30%
Average		14.39	14.87	0.48	4.93%

Source: OIG Report No. 24-142-R25 at 3, 14.

Figure VII-B2
LTO Region Pre-LTO and Post-LTO Expenditure Change
(\$ Million and Percentage Change)



Source: Library Reference PRC-LR-N2024-1-1, Excel file "Section B. RTO.xlsx," tab "Figure VII-B2."

Nevertheless, the Postal Service concludes that the LTO pilots provide sufficient experience to guide the execution of RTO. Response to POIR No. 1, question 16.b. It states that an RTO pilot would be unnecessary, delaying local transportation and processing savings at other locations and rendering the proposed 5-digit ZIP Code service standards infeasible. Response to POIR No. 2, question 6. The Commission disagrees because it can neither rely on the Postal Service’s track record with its LTO pilots nor fully trust the results of the LTO Model to judge the potential of the RTO initiative. In the case of the former, and as the Commission has discussed above, the execution of the LTO pilots does not inspire confidence. In the case of the latter, as discussed in detail below, the Commission finds that the proposed LTO Model is inadequate to justify the proposed changes.

Without a suitable reference for the impact of RTO, the Commission finds that RTO pilots are necessary to prove the value of RTO. The Postal Service presents the LTO pilots as “extremely valuable” actions, and the Commission finds RTO pilots would prove to be as well. USPS-T-1 at 18. While an RTO pilot could delay potential cost savings from a nationwide rollout, the stakes of RTO are sufficiently high, as discussed above, to warrant caution and the utmost preparation to facilitate successful implementation. Insofar as 5-Digit ZIP Code service standards proposed in this proceeding by the Postal Service would be infeasible without a nationwide rollout of RTO,⁵⁵ the Commission notes that nationwide service standards do not need to be changed immediately. In order to establish an accurate representation for the potential impacts of RTO, the Commission recommends that the Postal Service initiate an RTO pilot before rolling the initiative out nationwide.

Inadequate transportation model. The Commission concludes that the proposed LTO Model is not adequate to serve as a reference for the potential transportation cost savings or mileage reductions⁵⁶ to be expected from a nationwide rollout of RTO primarily due to issues with the model itself and extrapolation concerns. Specifically, the Commission is concerned that the Postal Service has not created the RTO-based transportation schedules upon which to estimate mileage reduction and transportation cost savings of the RTO initiative. Instead, the Postal Service uses the LTO Model as a proxy for an RTO model “to conservatively estimate the cost savings from RTO” Response to POIR No. 1, question 13.

The Commission also has analytical concerns relating to the LTO Model. The Postal Service did not correct an error in its cost per hour input in its Highway Contract

⁵⁵ See Response to POIR No. 2, question 6.

⁵⁶ The Postal Service filed under seal cost and mileage reduction projections from the LTO Model in Library Reference USPS-LR-N2024-1-NP13, October 22, 2024. See *also* Section VII.H.

Route transportation cost methodology prior to submitting the request for an Advisory Opinion despite identifying the error.⁵⁷

The Postal Service uses outdated source data to inform its relative trucking cost inputs. See Response to POIR No. 1, question 13.f.; Library Reference USPS-LR-N2024-1-NP14. The practice of not revisiting source data shows a lack of attention to accuracy, especially when updated data are available and the last few years have been characterized by high inflation and changes to cost structures in the trucking industry. See Response to POIR No. 2, question 13.f.; Library Reference USPS-LR-N2024-1-NP19. Notably, the Postal Service mentioned inflationary pressures and fuel expenses in the trucking industry as reasons for higher than planned costs in FY 2022 and FY 2023. *FY 2023 Annual Report* at 56; *FY 2022 Annual Report* at 48.

The Postal Service chooses actual data from a single site's LTO activation to inform a cost-per-mile assumption in the LTO Model. See Response to POIR No. 2, question 13.b.; Library Reference USPS-LR-N2024-1-NP19. The selected site was one of the LTO pilot sites that was not included in the LTO Model because it was not conducted in a controlled LTO environment. See Response to POIR No. 3, question 10.c.; Response to POIR No. 1, question 15. Thus, the costs from the selected site are not appropriate to model transportation costs of the 23 modeled sites because modeled sites were chosen to isolate the impact of LTO specifically. Response to POIR No. 3, question 10.b. The Commission recommends that the Postal Service address these concerns to improve the internal validity of the LTO Model going forward.

The Commission finds that the LTO Model does not provide a proper tool to conservatively estimate the transportation cost savings from a rollout of LTO. As the

⁵⁷ See Response to POIR No. 1, question 31.a.; Library Reference USPS-LR-N2024-1-NP14. The Postal Service claims the impact of this error is negligible. See *id.*

Postal Service admits, LTO pilots failed to achieve projected cost savings.⁵⁸ The Postal Service's OIG found that transportation expenditures increased by 4.93 percent (on average) for the 15 LTO-implemented regions when compared to the same period last year, whereas the LTO Model would suggest a 33-percent reduction in costs.⁵⁹

Despite the failure of the LTO Model to yield realistic results for projected cost savings during LTO pilots, the Postal Service still maintains that it is possible to use the LTO Model as a conservative proxy for RTO transportation cost savings because having the RPDCs as centroids provides more opportunities to consolidate local transportation than LTO. Response to POIR No. 1, question 10.b. The Commission is, however, concerned that the Postal Service has not conducted any research to justify this claim and illustrate how these additional opportunities for consolidation could lead to additional transportation efficiencies and cost savings. There are more Post Offices affected by RTO compared to LTO, and these Post Offices will tend to be farther away from the servicing facility. See Table VII-B1. Therefore, the Commission finds it implausible that there may be further mileage reductions available via RTO compared to LTO. Even if there might be some additional transportation efficiencies and cost savings from a regional approach, the magnitudes are entirely unknown. It is also unclear whether the unknown efficiency gains and cost savings from RTO as compared to LTO, if any, would outweigh the historic tendency of the LTO Model to overestimate cost savings. The notion that the LTO Model would then provide a conservative proxy for RTO cost savings is therefore unsubstantiated.

The Commission concludes that the LTO Model is an imperfect proxy for RTO transportation. There are material distinctions between the modeling of LTO and RTO in terms of transportation. For example, some adjustments to CET for Presort First-

⁵⁸ See USPS-T-1 at 18; Response to POIR No. 1, question 16.a. The LTO Model is derived from Blue Yonder TMOD, which is used to support current transportation planning and would have been used to create cost projections for the LTO pilots. Response to POIR No. 3, question 6.b.ii.

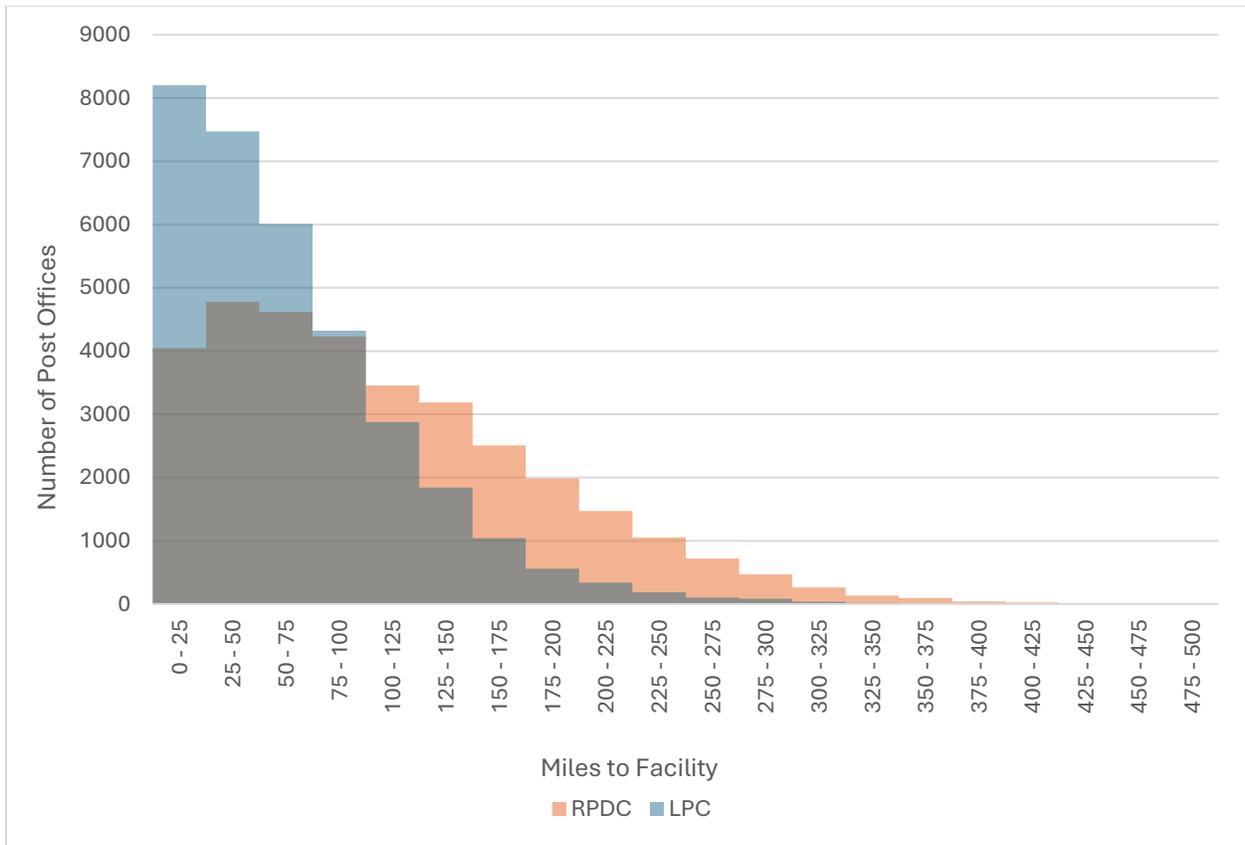
⁵⁹ See Figure VII-B2; see also OIG Report No. 24-142-R25 at 14; USPS-T-1 at 17; Response to POIR No. 1, question 14.

Class Mail volumes in RTO will be required to enable timely transport to the RPDCs after acceptance. Response to POIR No. 2, question 4.a.; Hagenstein Response to NPPC/USPS-T1-1-6, question 2. As a model for short-term pilots, the LTO Model does not need to factor any volume impact of the LTO initiative. However, a model for RTO should consider the expected impact of RTO on volumes in a postal network (but since it is the same as the LTO Model, it does not).⁶⁰ Next, the distances optimized mail must travel under RTO will be materially greater than under LTO. For Post Offices eligible for RTO, the average distance to its servicing RPDC is 56.8 miles farther than to the servicing LPC.⁶¹ Figure VII-B3 shows the distribution of distances from Post Offices to RPDCs compared to distances from Post Offices to LPCs. These distributions show that the travel distances under LTO and RTO are fundamentally different, which will ultimately affect the travel times as well. Distances to RPDCs are generally longer than distances to LPCs, with two times as many trips needing to travel more than 100 miles. See Figure VII-B3.

⁶⁰ See Tr. 1/66-67; Hutkins Statement at 14-16; PSA Statement at 6-7.

⁶¹ See Table VII-B1. The Public Representative also questions whether “the distances between POs and RPDCs in the RPDC network, subject to RTO, and distances between POs and LTO pilot sites, are sufficiently comparable” PR Brief at 20.

Figure VII-B3
Distribution of Distances from Post Offices to LPCs Compared to RPDCs



Source: Library Reference PRC-LR-N2024-1-1, Excel file "Section B. RTO.xlsx," tab "Figure VII-B3."

The Commission is concerned that these longer distances and travel times may introduce operational constraints outside of the LTO Model, such as an additional need for breaks, arrival profiles that are too late, and increased likelihood of delays. See Response to POIR No. 1, question 11; see *also* PR Brief at 18-19. These differences are not reflected in the LTO Model but may still materially affect estimated cost savings. In addition, longer distances and travel times may introduce different processing implications of RTO as compared to LTO. The Commission recommends that the Postal Service consider whether an LTO-based model can extrapolate to RTO because the arrival profiles may be different than predicted. See Section VII.D.

In addition, the LTO Model cannot serve as a proxy for nationwide transportation cost savings under RTO because this model chose its 23 sites to isolate the impact of LTO. Response to POIR No. 3, question 10.b. As a part of the DFA plan, RTO will be implemented with RPDC and LPC activations and other network changes.⁶² While RTO may be initially implemented independently and in advance of RPDC activations, long-term cost savings will be based on how the Leg 1 changes through RTO interact with RPDC activations and other network changes. See Hagenstein Response to NPPC/USPS-T1-7, question 7.b. Therefore, the Commission finds that cost savings estimated by the LTO Model will not be applicable to the long-term cost savings available under RTO. The LTO Model explicitly excludes the metrics from pilot sites, which use “different models and methods, or included other initiatives and factors, such as RPDC activation, that would have affected the ability to isolate the impact of LTO.” Response to POIR No. 3, question 10.c. The Postal Service admits that when RTO and RPDC/LPCs are activated together, it would expect more challenges. *Id.* question 19.d. Thus, the Commission concludes that the LTO Model likely overestimates the

⁶² Response of United States Postal Service Witness Hagenstein to Intervenor National Postal Policy Council’s Interrogatory NPPC/USPS-T2-5(b) (Redirected from Witness Saleem), November 12, 2024, question 5(b).

achievable cost savings from the nationwide implementation of RTO. See Section VII.H.

The Commission recommends that the Postal Service develop a model that accurately reflects the nature of transportation under RTO as the LTO Model results cannot serve as an adequate proxy. Such a model should ideally include cost and service impact data from RTO pilots in which RPDC activations and other network changes are introduced along with RTO. This will allow the Postal Service to receive a more accurate measure of how much transportation savings will be achievable with RTO. This measure is crucial for understanding the strategic trade-offs of optimization relating to cost savings and service level that the Postal Service is seeking to reach with RTO.

3. Conclusion

The scope of RTO is nationwide and far exceeds that of LTO. The Postal Service, however, has not demonstrated commensurate preparation and readiness for such an initiative. Although one of the key insights taken from LTO pilots by the Postal Service was to allot enough time for various steps in the process, many aspects of the proposed RTO initiative are rushed and unresearched. The Postal Service makes several errors at the basic step of identifying the offices within the scope of the initiative. It has not developed a dedicated model for an initiative even though it would affect almost three quarters of postal offices nationwide. Instead, it opted to use the LTO Model that is not appropriate for extrapolating to the potential nationwide impacts of RTO. Despite these shortcomings, the Postal Service maintains that it has the implementation competency to succeed while it has a questionable record with Dynamic Route Optimization and LTO pilots.

The Commission's concern regarding proper planning is exacerbated by the Postal Service's haste to implement proposed changes. The Postal Service could implement Leg 1 service standard updates and RTO even if RPDC activation has not

yet occurred or as soon as models are finalized for campuses, potentially downgrading service months before the full benefits from optimization could materialize. The Commission recommends the Postal Service conduct further preparation before beginning the RTO initiative to improve its likelihood of achieving implementation success, including finalizing the list of Post Offices eligible for RTO, creating a detailed project implementation plan for RTO beginning with a RTO pilot, and creating a model to estimate RTO transportation cost savings specifically.

C. Leg 2 Transportation

1. Overview of Request

Leg 2 Transportation refers to the process of transporting mail from the origin facility to the destination facility.⁶³ See USPS-T-1 at 5. The Postal Service seeks to transform its legacy mail processing and transportation networks into a “regional concept” (hub-and-spoke network).⁶⁴ The Postal Service intends to perform the inter-facility transportation using RPDCs as the regional hubs and LPCs as the local spokes. The Postal Service also plans to reduce the number of mail processing facilities, largely by eliminating accessory annexes and contracted facilities that have been deployed in a piecemeal and ad hoc fashion. Request at 3.

The Postal Service maintains that the new network will enable more efficient and integrated processing and transportation operations. USPS-T-1 at 22. It broadly states that each RPDC and LPC will have a common set of standardized operational processes to support the logical sequence of processing, transportation, and cross-

⁶³ The originating facility can be an originating LPC or an originating RPDC.

⁶⁴ *Id.* at 22. The Postal Service’s “regional concept” is a variation of a “hub-and-spoke network.” A pure “hub-and-spoke network connects every location through a single intermediary location called a hub.” The Geography of Transport Systems, Point-to-Point versus Hub-and-Spoke Networks, available at <https://transportgeography.org/contents/chapter2/geography-of-transportation-networks/point-to-point-versus-hub-and-spoke-network/>. A hub-and-spoke network is opposite to a point-to-point network in which each facility has a direct connection to other facilities. See, e.g., *id.*

docking functions for mail and packages. *Id.* The Postal Service argues that the simplification of the network will eliminate unnecessary trips and increase utilization, so that it will create a more optimized transportation network through effectively balancing the air and ground network. *Id.* The Postal Service claims that the network changes will result in significant cost savings in processing operations, transportation network and through elimination of excess facilities. Request at 18.

The Postal Service estimates that by implementing the RPDC transportation network, it will reduce Leg 2 transportation costs by \$1.763 billion, which accounts for nearly half of the total anticipated savings from the proposal as a whole. USPS-T-5 at 16. This estimate is a result of a reduced ground transportation usage and a renegotiated air cube unit rate. See USPS-T-1 at 31-32. The Postal Service estimates that with the RPDC network, it can reduce the Leg 2 ground transportation mileage by 31 percent, compared to the FY 2023 mileage for similar activities. *Id.* The Postal Service also estimates that it can reduce the cost of air transportation by 32.6 percent due to a renegotiated air cube unit rate. See USPS-T-5 at 12; see *also* USPS-T-1 at 32.⁶⁵

a. Inter-Facility Transportation Changes

There are two notable differences between the new RPDC/LPC Leg 2 transportation network and the existing (legacy) inter-facility transportation network, one structural and one operational. Structurally, the RPDC/LPC network is a major change because of the reduction in the number of facilities, or transportation network nodes. The current network has more than 400 facilities. USPS-T-4 at 1. The information provided by the Postal Service identifies 229 facilities in the proposed RPDC/LPC network. Library Reference USPS-LR-N2024-1-2. The Postal Service states that the reduction in the number of facilities means that there are fewer links in the network,

⁶⁵ The details supporting the calculation of this estimate are provided under seal. See Library Reference USPS-LR-N2024-1-NP2.

which provides the opportunity to reduce trips and increase capacity utilization. USPS-T-1 at 2. Operationally, the RPDC/LPC network, as a hub-and-spoke network, represents a major change because only certain facility types have direct transportation lanes (i.e., only certain facility types are directly connected). The current network contains more direct connections via a combination of inter-area, inter-cluster, and inter-P&DC transportation.⁶⁶ In the current network, most facilities have direct ground transportation lanes. In the RPDC/LPC network, the RPDCs will generally have direct lanes to other RPDCs for inter-RPDC transportation, and LPCs will generally only have direct transportation to the RPDC in their region for intra-RPC transportation. USPS-T-1 at 27-32.

Structure of RPDC/LPC network. The Postal Service has neither finalized the list of specific locations nor fully determined processing equipment or assignments of its future mail processing network. Request at 16; USPS-T-1 at 22. The Postal Service repeatedly states that the specific locations, mail processing assignments, and transportation lanes of the future network are still being decided. Tr. 1/138, 358, 533, 552. The information the Postal Service has provided to date details 60 RPDCs (on 59 campuses)⁶⁷ and 169 LPCs.⁶⁸ Each of the 59 proposed RPDC campuses will serve a region defined as a distinct set of 3-Digit ZIP Codes. USPS-T-1 at 22. Each RPDC

⁶⁶ See Docket No. ACR2024, Library Reference USPS-LR-FY24-32, December 30, 2024, Excel file "CS14-Public-FY24.xlsx."

⁶⁷ There are 60 RPDCs identified in Library Reference USPS-LR-N2024-1-30, December 17, 2024, Excel file "RPDC-LPC ZIP3.xlsx." There are 59 RPDC campuses identified in USPS-T-1 at 22. The Los Angeles RPDC campus has two facilities, LA N and LA S. This explains the differences between the numbers in two referenced sources (i.e., 60 RPDCs and 59 RPDC campuses, with two RPDCs located in the same RPDC campus).

⁶⁸ There is one minor difference between the facility list originally provided by the Postal Service in this docket in Library Reference USPS-LR-N2024-1-2, Excel file "RPDCs and LPCs.xlsx" (October Facility List) and the most recent facility list provided in Library Reference USPS-LR-N2024-1-30, Excel file "RPDC-LPC ZIP3.xlsx" (December Facility List). Both lists contain 229 facilities. October Facility List contains 59 RPDCs and December Facility List contains 60 RPDCs. December Facility List identifies an RPDC in Dulles, Virginia that is not included in October Facility List. October Facility List contains 170 LPCs, and identifies the Dulles, Virginia facility as an LPC. December Facility List contains 169 LPC, which are the same facilities as in October Facility List excluding the Dulles, Virginia facility, which has been shifted to the RPDC list.

serves as a gateway to the region, handling the originating and destinating mail and package flow. USPS-T-1 at 22. Within each RPDC region, there will be a number of LPCs, which may be independent or co-located with an RPDC or a Sorting & Delivery Center (S&DC). Request at 15. Each RPDC has between 1 and 8 LPCs within their respective RPDC region.⁶⁹ Library Reference USPS-LR-N2024-1-30, Excel file “RPDC-LPC ZIP3.xlsx.” The Postal Service states that RPDCs and LPCs will insource ancillary facilities and consolidate operations, which will contribute to higher utilization, and cost reductions. Request at 18. RPDCs will handle mail processing previously done at Terminal Handling Services (THSs) and serve as consolidation points for mail previously handled at Surface Transfer Centers (STCs). *Id.* The Postal Service intends to vacate 77 ancillary facilities. USPS-T-4 at 22. Through eliminating and consolidating unnecessary facilities, the Postal Service estimates \$81 million in annual savings. *Id.* at 24.

Operation of inter-facility transportation in the RPDC network. As the Postal Service explains, transportation between mail processing facilities in the redesigned RPDC/LPC network will have two distinct components, intra-RPDC transportation and inter-RPDC transportation. USPS-T-1 at 27-34. For the intra-RPDC transportation, each LPC will have a direct lane to the RPDC, but LPCs, however, will not have direct lanes to other LPCs. See USPS-T-1 at 34; Library Reference USPS-LR-N2024-1-NP2. Functionally, this means that the 170 LPCs will transport mail to the RPDC in their region only. *Id.* As detailed below, the Postal Service uses operational models to identify the potential transportation routes and mileage for the inter-RPDC and intra-RPDC networks. The Postal Service’s models identify that operational change will substantially reduce the number of routes in the ground transportation network. See Library Reference USPS-LR-N2024-1-NP2. The Leg 2 transportation operations are intertwined with the facility mail processing assignments. As discussed in Section

⁶⁹ For the Las Vegas RPDC, which has not yet been built, the Postal Service does not plan to have a separate LPC within its assigned region. The RPDC is hypothetically co-located with an LPC.

VII.B., LPCs generally will not have the origination processing assignment to prepare mail to be transported to other LPCs.⁷⁰ With few exceptions, RPDCs will perform the processing of originating mail. USPS-T-1 at 15. This means that all mail that flows from facility to facility will use intra-RPDC transportation to reach the RPDC that will be responsible for originating mail processing.

Mail that needs to be transported from region to region will use inter-RPDC transportation. USPS-T-1 at 27. The Postal Service will either connect RPDCs to other RPDCs through direct ground transportation lanes or use intermediate RPDCs as hubs to consolidate mail that moves across the country. *Id.* Most RPDCs, designated as Regional Transfer Hubs (RTH), will serve as intermediate consolidation points for volume that travels across the country. Request at 15. Through the optimization modeling process, the Postal Service identifies the importance of RTHs, which, in its estimation, would allow for greater consolidation of mail in the new network. *Id.* The inter-RPDC transportation network, as modeled by the Postal Service, uses a combination of direct lanes and consolidation hubs. *Id.* at 27-31. The Postal Service uses the transportation lanes from the inter-RPDC operational model to identify the volumes for origin and destination pairs that need to be transported via the air network because they are “incapable of routing in the surface network model due to service standard constraints.” *Id.* at 29.

b. Postal Service Estimate of Improved Transportation Efficiency

The Postal Service argues that the structural and operational changes to the transportation network will enable it “to achieve significantly improved transportation efficiency and will confer important downstream benefits on processing operations.” *Id.* at 12. The Postal Service does not use a transportation optimization model to identify

⁷⁰ Some LPCs will retain the origin processing equipment and assignments necessary to perform cancellation for local mail also known as turnaround mail. Response to POIR No. 4, question 5. The Postal Service explains that LPCs will transport all of the non-turnaround mail to the RPDCs.

the location of the nodes in the transportation network. Tr. 1/356. Instead, the Postal Service determines the quantity and specific locations of the RPDC centroids in the transportation network outside the scope of any transportation modeling effort. *Id.* at 356, 357. The Postal Service uses a Greenfield approach as part of its process for selecting the locations of RPDCs, which the Commission explains in more detail below in Section VII.B.2.a. See Response to POIR No. 1, question 22. Only after determining the locations of the facilities does the Postal Service use transportation models to estimate the mileage of ground transportation under the new structural and operational approach. USPS-T-1 at 27-31. However, the Postal Service does not separately model the Leg 2 transportation impacts of the two components of proposed changes, the restructuring of the network by reducing facilities and the operational change of hub-and-spoke regional transportation. See Library Reference USPS-LR-N2024-1-NP2.

Because the quantity and location of the 59 RDPC regions are pre-determined, and the volume inputs are fixed to an 85th percentile day,⁷¹ the models the Postal Service uses for the transportation design of the new network are deterministic models.⁷² Response to POIR No. 3, question 6. The Postal Service states that the purpose of these models is to provide a guide for network design. Response to POIR No. 3, question 6.

The Postal Service models the mileage of the transportation network in two phases: inter-RPDC modeling and intra-RPDC modeling, the former being RPDC-to-

⁷¹ The process for identifying the volume of the 85th percentile day is to rank the cubic feet of volume transported each day. Some transportation routes run 307 days per year, and other routes run 355 days per year. Hagenstein Response to MH/USPS-T1-1-17, question 13. For each transportation route running 307 days per year, the 85th percentile day is the day with the 46th highest volume. (307 x 0.85 = 261). The Postal Service states that the volumes for the 85th percentile day “account for above average volume days, while not overplanning for December peak period volumes.” Response to POIR No. 2, question 8.

⁷² Generally speaking, a deterministic model predicts an outcome from a given set of circumstances. See, e.g., Howard M. Taylor & Samuel Karlin (Taylor and Samuel), *An Introduction to Stochastic Modeling*, at 2 (3rd ed. 1998).

RPDC or inter-regional, and the latter being RPDC-LPC - meaning within the RPDC region. USPS-T-1 at 27-31.

The inter-RPDC modeling employs a mixed integer programming (MIP model).⁷³ Through variable constraints and built-in assumptions, the Postal Service uses the MIP model to identify the ideal RTHs for each transportation lane in the new network.⁷⁴ Specifically, the Postal Service uses the MIP model to identify the optimal logistic flows based on the modeled workload and the proposed facilities; then it assigns a RTH for each lane to maximize consolidation opportunities at RPDCs and minimize network transportation costs. Response to POIR No. 1, question 22. The purpose of the MIP model is to identify the optimal RTH for cross-docking and consolidation between the origin RPDC and the destination RPDC for each transportation lane.⁷⁵ See USPS-T-1 at 27.

With the output from the MIP model, the Postal Service employs Blue Yonder's TMOD to determine transportation schedules and trips for the inter-RPDC model. USPS-T-1 at 28. After setting the modeled transportation schedules, the Postal Service inputs an assumed value for the cost-per-mile and applies that value to the modeled mileage to estimate FY 2023 network costs under the redesigned network. See *id.* at 32. The Postal Service then compares modeled costs to actual FY 2023 to project the annual cost savings estimate of the future network. See *id.*; see also Section VII.H.

For the intra-RPDC network the Postal Service uses a 1-step modeling approach to estimate the mileage. For the inter-RPDC network, the Postal Service uses the MIP model to determine how the mail will efficiently flow from origin to destination.

⁷³ MIP model is an optimization model in which some variables are restricted to be integers and others to be non-integers. See, e.g., Stephen P. Bradley *et al.*, *Applied Mathematical Programming*, at 25 (1st ed. 1977).

⁷⁴ See USPS-T-1 at 28 for details including constraints and assumptions.

⁷⁵ The Postal Service selects candidates for RTHs prior to running the model because it identified 14 RPDCs that would not operate as cross-dock sites due to either being terminal locations or close to another RPDC. Response to POIR No. 1, question 23.

Response to POIR No. 1, question 28. For the intra-RPDC network, there is only one lane: the path between the LPC and the RPDC. The Postal Service also utilizes a deterministic approach here because it determines the locations and volumes before running a model. See Response to POIR No. 3, question 6.

The Postal Service represents that a comparison of the intra-RPDC and inter-RPDC models with the actual historical data identifies the opportunity for improvement with implementation of the new transportation structure and operation.

2. Commission Analysis

The Commission emphasizes that the Postal Service is proposing a substantial transformational change to both the structure and operations of its transportation network. While the Postal Service projects significant cost savings and improved service reliability from this network, it has not demonstrated that these projections are reliable. The Postal Service has not performed an optimization analysis to determine the facility nodes that would result in the highest efficiency and the ability to achieve service performance targets reliably. It has not developed a rigorous model to operationalize this transformative change. The Commission finds 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. To estimate the transportation efficiency improvements, the Postal Service again uses a model without testing it against the real-world network. This approach parallels the approach the Commission critiqued in its Advisory Opinion in Docket No. N2021-1 because in that docket, the Postal Service used a similar “directional” modeling approach without specific real-world inputs.⁷⁶ The Commission concludes that in the current proceeding, the Postal Service

⁷⁶ Docket No. N2021-1, Advisory Opinion at 133-43. The Commission concluded that “[b]ecause the Postal Service ha[d] not effectively shown that the baseline model meshe[d] with the current operational reality, it [was] infeasible to compare the modeled routings with the current costs and inaccurate to develop a numerical estimate of the cost savings from the potential new surface transportation network.” See *id.* at 3.

provides a broad concept of a potential plan for transformative change without performing the fundamental and foundational work necessary to project, with confidence, that this generational change is likely to result in a more efficient, effective, and robust network.

a. Analysis of Facility Locations

The Postal Service has not provided a quantitative model that contains a cohesive explanation of how it selects the specific locations for its proposed RPDC/LPC network. Response to POIR No. 1, question 54. In this section, the Commission analyzes the record before it to better understand the process the Postal Service uses for facility selection, and the impact of the facility selection on transportation operations, costs, and level of service.

One stated intent for the selection of the facilities in the redesigned network is to “situate processing capacity in areas where the largest volumes are concentrated.” Tr. 1/591, 592. As detailed below, the Postal Service uses parcel volumes to calculate the geographic areas where “the largest volumes are concentrated.” See Response to POIR No. 5, question 1; Tr. 1/591, 592. As part of this modeling effort, the Postal Service uses a Greenfield approach to ensure that “the starting model was not disadvantaged operationally by current facility locations.” Tr. 1/519.

However, the next step in the facility location selection process is to develop a “best fit” network from the existing infrastructure. USPS-T-4 at 7. As detailed below, 97.8 percent of the facilities in the RPDC/LPC network already exist in the current network. See Figure VII-C2. The Postal Service states that a few locations, such as Atlanta RPDC, required a new facility, but it does not elaborate on the factors that led to this determination. Response to POIR No. 1, question 22.

The Postal Service states that a goal for the RPDC/LPC network is to “ensure that each state had some portion of its population with next day service.” Response to POIR No. 1, question 22. In the proposed RPDC/LPC facility list, however, two states

(Wyoming and South Dakota) have no population that will be eligible for next-day service.⁷⁷ The Postal Service has not explained how it balances the cost of having RPDCs in these two states and the service impact of not having originating processing in these two states.

Finally, the Postal Service does not use historical mail processing costs or productivities in determining where to locate facilities. Tr. 1/618. In fact, the Postal Service has not developed any comprehensive model that includes mail processing costs or productivities. Tr. 1/364, 365. In this section, the Commission discusses why the Postal Service's lack of a holistic and quantitative facility location selection approach may limit its ability to realize projected cost savings. The Commission determines that the Postal Service does not provide evidence that it considered the cost and service trade-off inherent in its facility selection process.

The Postal Service uses package volume as a proxy for population in the RPDC location Greenfield approach. The Postal Service's Greenfield approach employs a Strategically Plotted Locations Over Time (SPLOT) method to create grids of the country to consider where facilities should be targeted. Response to POIR No. 1 question 22. The purpose of the Greenfield approach is to evaluate the location of the facilities in the context of where they are needed. The Postal Service states that "[p]opulation was used in very early models, but that was changed to be focused on package volume. More recent models used package volume as a proxy for population." Response to POIR No. 5, question 1. The Postal Service does not explain why package volume is a reasonable proxy for population, or why it is a better indicator of facility location than total mail volume or actual population. Package volume accounted for approximately 6 percent of total volume in FY 2023.⁷⁸ The Commission therefore

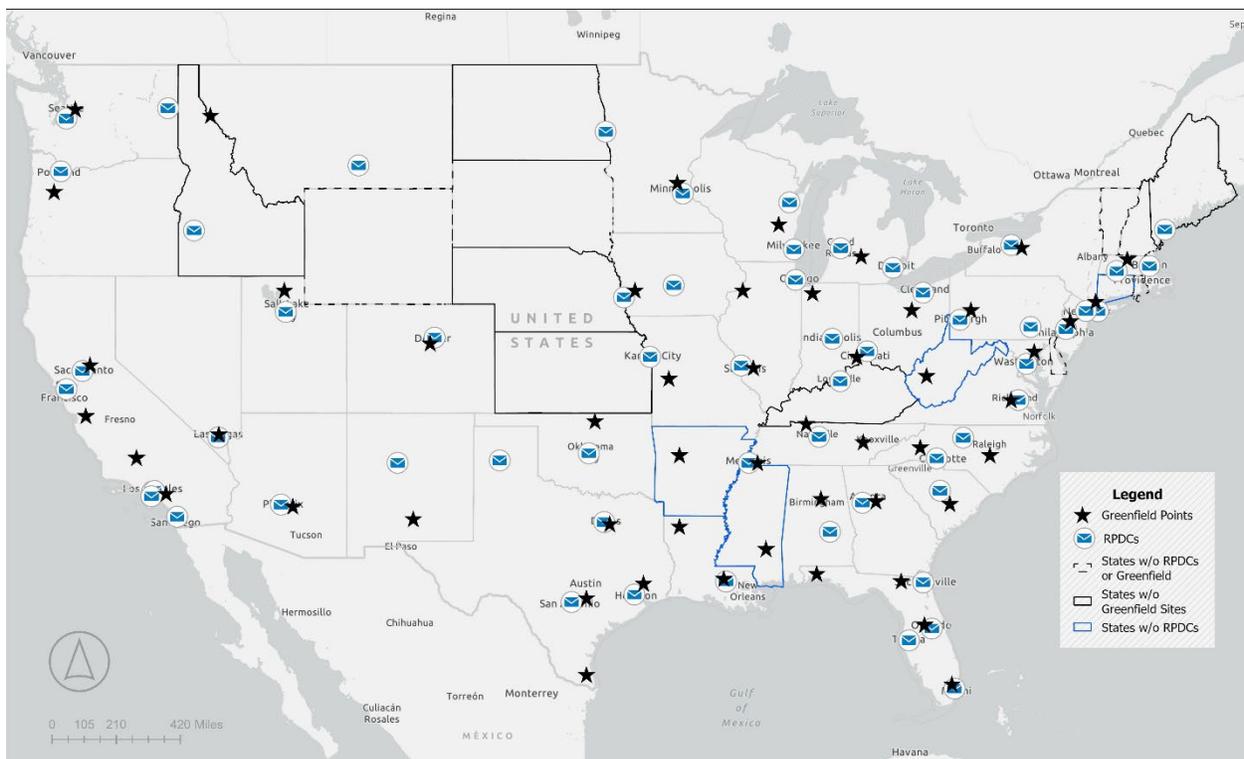
⁷⁷ See Library Reference USPS-LR-N2024-1-3, November 29, 2024 (Revised Library Reference USPS-LR-N2024-1-3).

⁷⁸ Commission calculations using Docket No. ACR2024, Library Reference PRC-LR-ACR2023-1, March 28, 2024.

concludes that the Postal Service does not justify that the package volume input data it uses for this modeling effort is a good indicator of the demand for mail by location.

Understanding the output of the Greenfield approach application is also instructive, and in this instance, the Commission finds helpful to see where the locations determined by the Greenfield approach intersect with the planned RPDC locations selected by the Postal Service. In Figure VII-C1, the blue envelopes display future RPDC locations, and the black stars represent the facility placement determined by the Greenfield approach application.

**Figure VII-C1
RPDC Locations and Locations Determined by
Application of the Greenfield Approach**



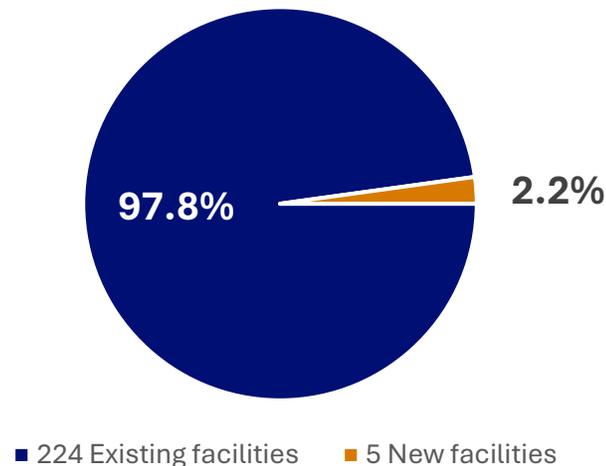
Source: Library Reference USPS-LR-N2024-1-12, October 31, 2024; Library Reference USPS-LR-N2024-1-30, Excel file "GreenfieldLocations.xlsx."

Figure VII-C1 highlights that there are many regions where the results of the Greenfield approach application closely match the RPDC locations chosen by the Postal Service at the end of the process. There are other states (e.g., Louisiana and Arkansas), where the facility selection does not closely align with the results of the Greenfield approach. Figure VII-C1 shows that while the Greenfield approach may have had instructive value at the beginning of the facility location process, the results were not determinative.

The Commission finds two key issues with the Greenfield approach used by the Postal Service. First, the Commission notes that the Greenfield approach may have yielded more reasonable results if a more appropriate volume proxy was used. The use of package volumes, which constitute only 6 percent of total volume, for this network modeling effort suggests that package volumes have an oversized influence in the design of the future network. The second key issue with this approach is that the Postal Service does not substantially use the Greenfield approach to determine where to locate facilities. The Postal Service has not provided any analysis of 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. The Postal Service has not provided a quantitative methodology to identify locations that would be better served by a new facility or can be more cost-effectively served by existing facilities. These two issues may be intertwined, as there may be a tension between the ideal locations for a network built around parcels and a network built around letter- and flat-shaped mail. The Postal Service has not explained how it evaluated these trade-offs to determine that the proposed RPDC/LPC network is the best approach to its future network.

Use of existing facilities in new network. While the Greenfield approach does not factor in existing facilities, the next step in the Postal Service’s facility location process is to determine how to effectively use its existing infrastructure. Response to POIR No. 1, question 22. Figure VII-C2 illustrates that in the new network, the Postal Service plans to use existing facilities for a vast majority (97.8 percent) of RPDCs and LPCs.

Figure VII-C2
Percentage of Existing and New Facilities in the New Network



Source: Library Reference USPS-LR-N2024-1-12, Excel file “PUBLIC POIR No. 2 Q9 Response – RPDCs and LPCs.xlsx.”

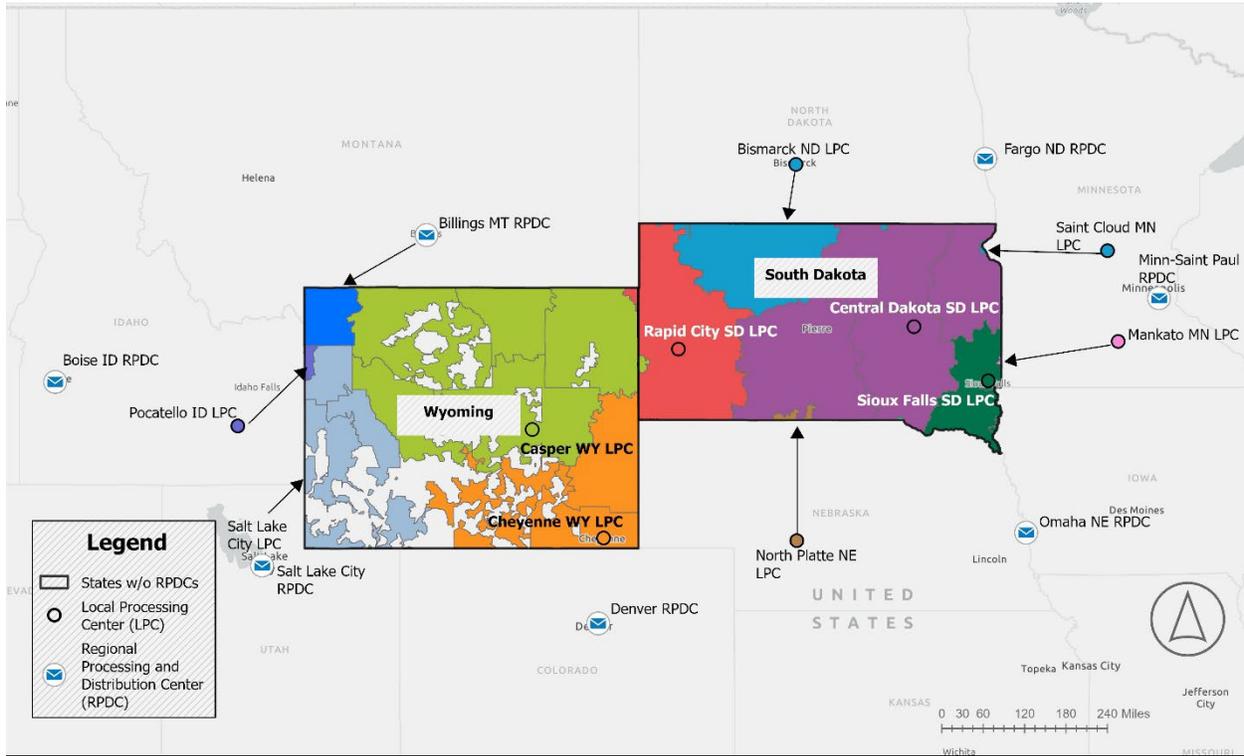
As highlighted in Figure VII-C2, only 2.2 percent (or 5 of the 229 facilities) in the proposed RPDC/LPC network will be new facilities. The Postal Service details a litany of concerns regarding the existing mail processing network, stating that the existing “facilities are generally in poor condition due to years of underinvestment and deferred maintenance.” Request at 13-14. The Postal Service has not explained how these inadequacies 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.

States without Next Day Service. The Postal Service states that a goal for the RPDC/LPC network is to “ensure that each state had some portion of its population with next day service.” Response to POIR No. 1, question 22. There are 10 states that do not have RPDCs,⁷⁹ which means that all mail originating in those states will flow from outside of the state for origin processing, as explained in the Leg 1 Processing Section VII.B. In the proposed RPDC/LPC facility list, two states do not contain 5-Digit ZIP Codes eligible for next-day service.⁸⁰ The Commission analyzes these two states, South Dakota and Wyoming. This analysis highlights the real-world impact of the outcomes of the Postal Service’s facility selection process. Figure VII-C3 shows the 3-Digit ZIP Code service areas for each RPDC and LPC in South Dakota and Wyoming.

⁷⁹ These states: Arkansas, Connecticut, Delaware, Mississippi, New Hampshire, Rhode Island, South Dakota, Vermont, West Virginia, and Wyoming. See Figure 1, Library Reference USPS-LR-N2024-1-12.

⁸⁰ See Revised Library Reference USPS-LR-N2024-1-3, Excel file “USPS-LR-N2024-1-3 Service Standard Changes to Market Dominant Products(REV11.6.24).”

**Figure VII-C3
Wyoming and South Dakota RPDC/LPC Network⁸¹**



Source: Library Reference USPS-LR-2024-1-12; Library Reference USPS-LR-N2024-1-16, November 12, 2024; Response to POIR No. 3, question 17, Excel file "POIR No.3 Question 17_ZIP3 to RPDC and LPC.xlsx."

⁸¹ Billings, MT RPDC is a co-located RPDC-LPC facility. Salt Lake City RPDC is located across the street from Salt Lake City LPC and share a node in the figure for easy readability.

Wyoming contains two LPCs and South Dakota contains three LPCs in the proposed RPDC/LPC facility list. Library Reference USPS-LR-N2024-1-12. There are 5-Digit ZIP Codes in both of these states that are assigned to LPCs located outside the state. The 5-Digit ZIP Codes in western Wyoming (which appear in three shades of blue in Figure VII-C3) are assigned to the Billings, Montana RPDC-LPC, Pocatello, Idaho LPC, and the Salt Lake City, Utah, LPC.⁸² There are 5-Digit ZIP Codes in northern South Dakota (which also appear in blue in Figure VII-C3) that are assigned to the Bismark, North Dakota LPC.

To understand the difference between the current inter-facility transportation network and the RPDC/LPC network, it is important to understand the relationships between LPC assignment, RPDC assignment, Leg 1 transportation and Leg 2 transportation. Table VII-C4 provides RPDCs and LPCs that are connected for processing and transportation in the states of Wyoming and South Dakota.

⁸² The 5-Digit ZIP Codes in the southwest corner of Wyoming are outside of the 50-mile radius of the Salt Lake City RPDC and are therefore subject to RTO. See Library Reference USPS-LR-N2024-1-1, November 12 USPS-LR-N2024-1-1 Errata.

**Table VII-C1
Proposed Service Connections between RPDCs and
LPCs in South Dakota and Wyoming**

States	Future RPDCs	Future LPCs
Wyoming	Boise ID P&DC	Pocatello ID P&DF
	Billings MT P&DC	Casper WY MPF
	Billings MT P&DC	Billings MT P&DC ⁸³
	Salt Lake City UT ASF	Salt Lake City UT P&DC
	Denver NDC	Cheyenne WY P&DC
South Dakota	Fargo ND P&DF	Central Dakota P&DF
	Fargo ND P&DF	Bismarck ND P&DF
	Omaha NE P&DC	Sioux Falls SD P&DF
	Billings MT P&DC	Rapid City SD MPF
	Minneapolis - Saint Paul NDC	Mankato MN P&DF
	Minneapolis - Saint Paul NDC	Saint Cloud MN P&DC
	Denver NDC	North Plate NE MPF

Source: Library Reference USPS-LR-N2024-1-12, Excel file "PUBLIC POIR No. 2 Q9 Response – RPDCs and LPCs.xlsx," USPS-LR-N2024-1-16, Excel file "POIR No.3 Question 17_ZIP3 to RPDC and LPC.xlsx."

Table VII-C1 details that the 5-Digit ZIP Codes in these two states are assigned to 11 LPCs and one RPDC-LPC. In turn, these 11 LPCs and one RPDC-LPC are assigned to the region of 9 different RPDCs. As detailed in Figure VII-C3, the 9 RPDCs are located in a circular shape around these two states. As an example, mail must travel from western Wyoming via Leg 1 transportation for cross-docking at the Pocatello, Idaho LPC and then take Leg 2 intra-RPDC transportation to Boise, Idaho for origin processing at the RPDC. The total distance from western Wyoming to the Boise, Idaho RPDC is roughly 400 miles.⁸⁴ For mail in central Wyoming, the routing is from the Casper, Wyoming LPC to the Billings, Montana RPDC. The total distance from origin LPC to origin RPDC for mail originating in central Wyoming is nearly 300 miles.⁸⁵ This

⁸³ The Billings, MT P&DC facility is to become a co-located RPDC-LPC. Library Reference USPS-LR-N2024-1-12.

⁸⁴ Commission calculations using geospatial software ArcGIS by Esri.

⁸⁵ Commission calculations using geospatial software ArcGIS by Esri.

example is also illustrative of the impact of the hub-and-spoke concept for Leg 2 transportation.

Mail that originates in a 5-Digit ZIP Code in central Wyoming with a destination in western Wyoming served by the Pocatello, Idaho LPC will route through four mail processing facilities. After collection, it will be transported to the Casper, Wyoming LPC to be cross-docked for intra-RPDC transportation to the Billings, Montana RPDC. Because the Pocatello, Idaho LPC is not in the Billings, Montana RPDC service area, the Postal Service does not plan on having a direct transportation lane between these two facilities. This is the effect of the hub-and-spoke network. The mail that receives origin processing at the Billings, Montana RPDC that is destined in the service area of the Pocatello, Idaho LPC will require inter-RPDC transportation to the Boise, Idaho RPDC. In this example, the mail will be transported from Casper, Wyoming LPC to the Billings, Montana RPDC to the Boise, Idaho RPDC to the Pocatello, Idaho LPC.

This example of states without RPDCs and without 5-Digit ZIP Codes within the 50-mile radius of an RPDC highlights how the hub-and-spoke concept can result in circuitous routing. This example also details the results of the Postal Service's multi-step facility location process. The Commission is concerned that when determining RPDC locations, the Postal Service has not considered which location would be the optimal or most cost-effective location for managing volume workloads. As discussed in the next subsection, the mileage the Postal Service's model estimates for the new network is lower than the mileage in the legacy network, and the Postal Service focuses on improved transportation utilization here. However, it has only provided an analysis of the transportation network with the constraints of the specific RPDC and LPC locations. The Commission emphasizes that the facility location optimization process was deterministic rather than stochastic,⁸⁶ and the transportation model is separate from the mail processing design. Employing a stochastic model would have allowed the Postal

⁸⁶ A stochastic model predicts possible outcomes weighted by their probabilities. See, e.g., Taylor and Samuel at 2.

Service to account for variability in the modeled network (such as each facility's processing capabilities in combination with the transportation utilization). Through a combined stochastic processing and transportation model, more detailed outputs could have better informed the placement and designation of RPDCs. Such a process could have better explained the cost and service performance trade-offs for the new network and opened the potential for a more optimal solution. The Commission recommends the Postal Service develop this stochastic network model before a nationwide rollout of network changes.

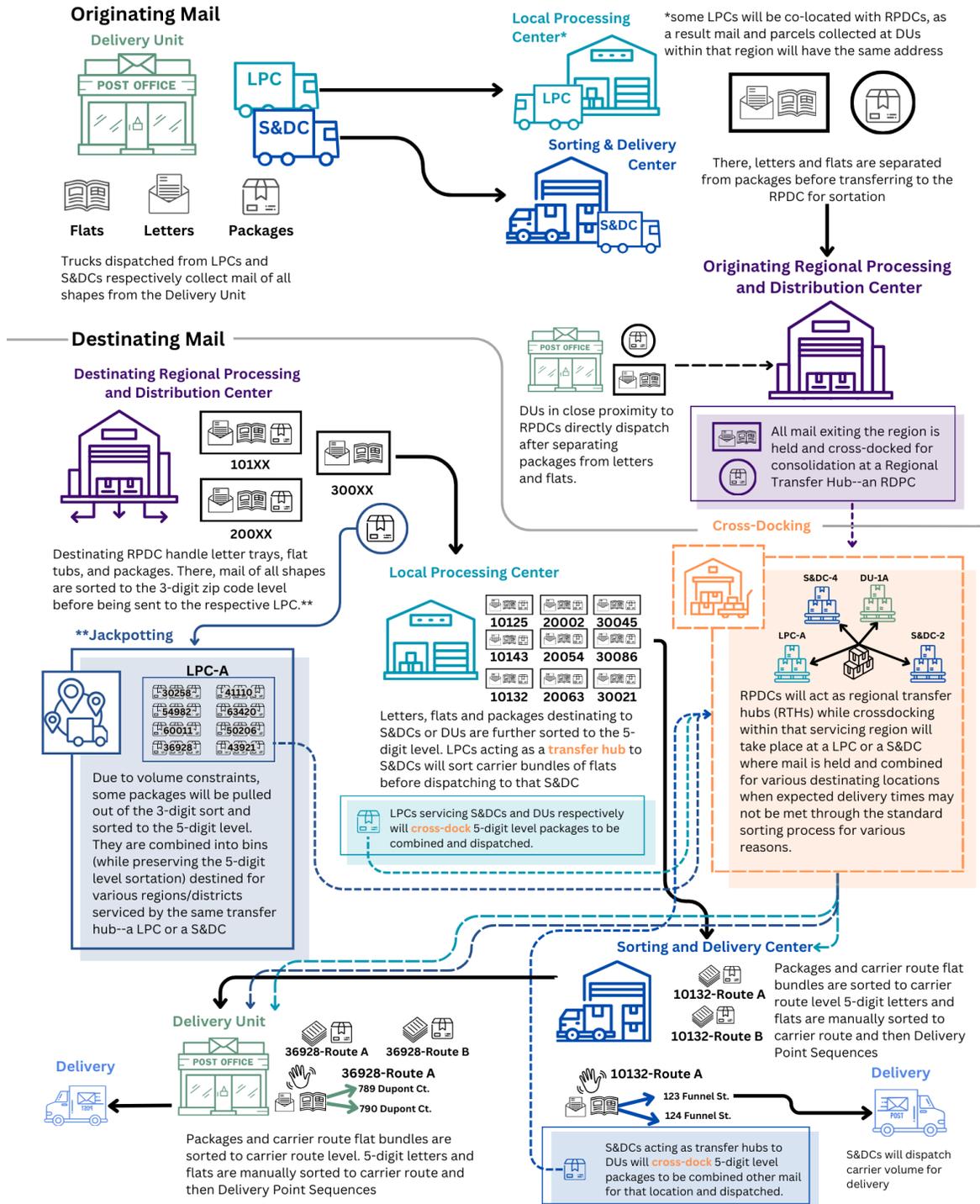
b. Analysis of the Inter-RPDC Hub Network

Leg 2 Transportation in the RPDC/LPC network has two components, the intra-RPDC transportation and the inter-RPDC transportation. The provided analysis of two states without RPDCs highlights specific details of how the Postal Service plans to operate the intra-RPDC network within regions. The transportation operational change of the intra-RPDC network means that LPCs will only have direct transportation lanes to their assigned RPDC.

The inter-RPDC network will be used to move mail across the country. In the legacy network, the Postal Service has used STCs. Through the consolidations of STCs, the Postal Service is shifting cross-dock and consolidation operations to RPDCs. The Postal Service selects 45 of the 59 RPDCs to operate as RTHs in its inter-RPDC mileage model, prior to running the model. USPS-T-1 at 30, Response to POIR No. 1 question 23. The operational concept of the hubbing operation is that origin RPDCs can consolidate volume for several different destination RPDCs, which in turn can be cross docked as they move across the country. USPS-T-1 at 24.

Figure VII-C4 illustrates the end-to-end mail flow for the RPDC/LPC network. This illustration shows many variable paths that mail can take in this network design.

**Figure VII-C4
End-to-End Material Flows in the New Network**

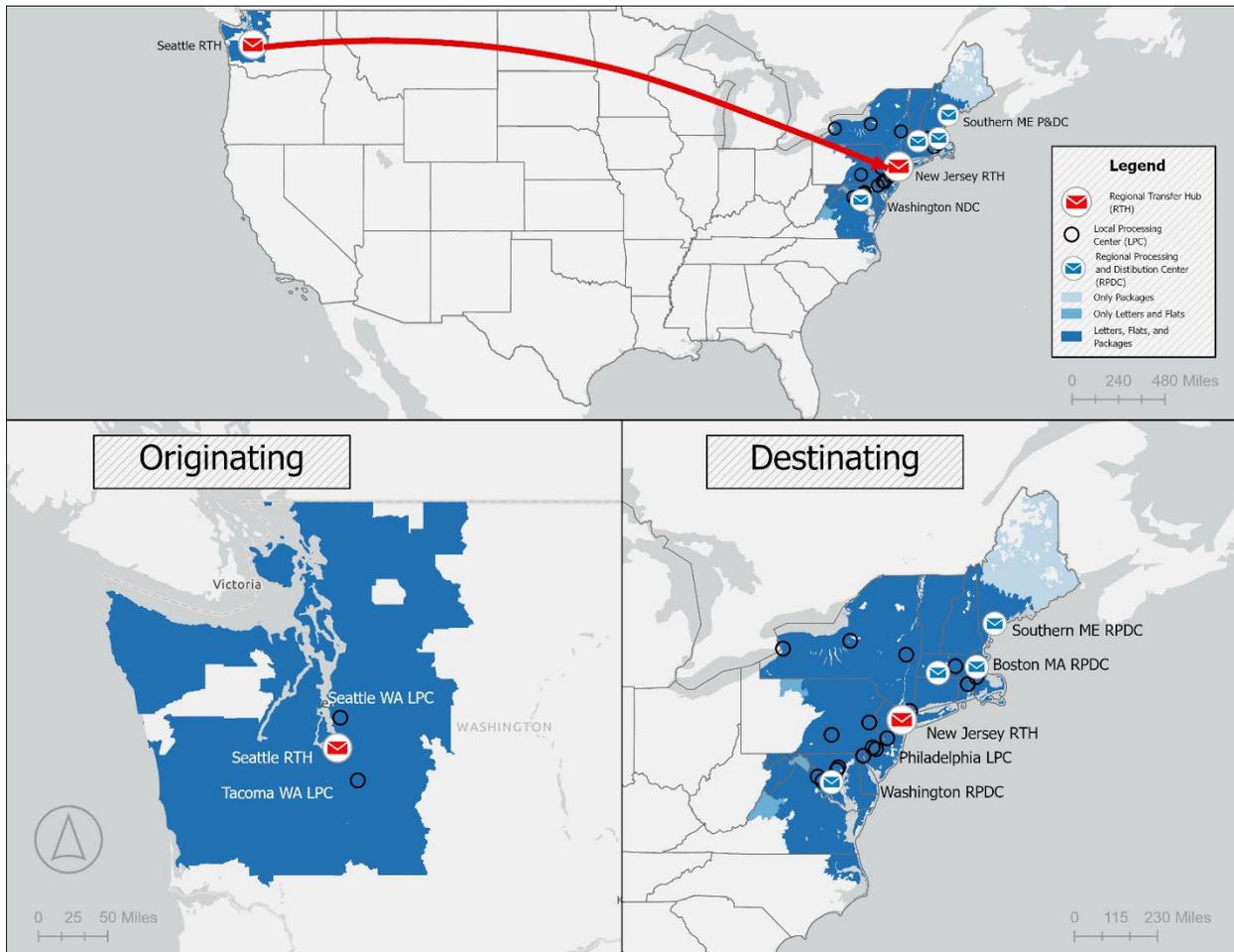


Source: USPS-T-1 at 23-26.

Figure VII-C4 contains several important details about the redesigned mail processing and transportation functions of the RPDC/LPC network. This figure also details how the S&DCs are integrated into this network approach. Similar to how the RPDCs act as the “gateways” to the LPCs in their region, the RTH operational approach creates RPDCs, operating as RTHs that are gateways to the other nearby RPDCs. See Figure VII-C4.

Figure VII-C5 provides an example of an RTH operating as a gateway to other RPDCs. This figure illustrates how the Postal Service’s MIP model flows mail originating in the region of the Seattle RPDC to the region of the New Jersey RTH. In this example, the New Jersey RTH is acting as a gateway to the RPDCs (and, in turn the LPCs) throughout the East Coast. In the Postal Service’s model that produces the estimate of reduced mileage (by 31 percent compared to the actual FY 2023 mileage), the workload (measured in cubic feet of letters, flats, and parcels) that originates in the region of the Seattle RPDC and destinates on the East Coast is processed, prepared, and transported to the New Jersey RTH.

**Figure VII-C5
Regional Transfer Hub Example: Seattle to New Jersey**



Source: Response of United States Postal Service Witness Hagenstein to Intervenor Carlson’s Interrogatories (DFC/USPS-T1-1-14), November 12, 2024, question 9; Library Reference USPS-LR-N2024-1-12, Excel file “PUBLIC POIR No. 2 Q9 Response – RPDCs and LPCs.xlsx.”

The Postal Service states that its Leg 2 transportation model shows a more efficient network. The modeled RPDC/LPC network uses pre-planned processing and crossdocking schemes to reduce the number of trips between facilities and increase the capacity utilization on each trip. Operationally, the Seattle RPDC aggregates outgoing volume destined to the East Coast to New Jersey RTH. Once mail and packages arrive at the New Jersey RTH it is processed and separated into containers for

downstream facilities serviced by the RTH in that region.⁸⁷ The Postal Service provides a model for inter-RPDC transportation, but it does not provide an implementation plan or specific decision rules for RTH transportation assignments.

Figure VII-C5 highlights the ability of the Postal Service to realize its cost reduction targets hinge, in large part, on RTH's executing their functions in a timely and cost-effective manner. The Commission has reviewed the assumptions in the Postal Service's transportation model to better understand how RTH operations work in this efficient future network. As detailed below, these assumptions do not align with the current operational realities of the Postal Service. In its MIP model, the Postal Service does not consider any additional operational costs incurred at the hubs due to cross-docking and consolidating of the mail that will move further downstream to other RPDCs and LPCs. Response to POIR No. 2, question 8.

This means that while the MIP model selects hubs for cross-docking that minimize the total mileage for the mail flows, the model is not selecting hubs using information on the total costs of the Postal Service (e.g., including mail processing costs). The MIP model is based on additional assumptions that include: unlimited facility space, on-time trips, consistent departure times, sufficient trucks, and 100 percent capacity utilization (where required by available cubic footage). USPS-T-1 at 28-29; Response to POIR No. 1, question 22. These assumptions create a fictional transportation network without accounting for real-world interactions. While this model may be instructive for how a hub-and-spoke network can work it is not a meaningful analysis of how it will actually work.

⁸⁷ The Postal Service notes that the downstream facilities served by an RPDC acting as an RTH can be outside the general RPDC/LPC assignment. In the specific example of the New Jersey RTH, the downstream facilities that may have direct transportation from the New Jersey RTH include the Buffalo LPC, Syracuse LPC and Baltimore LPC. These facilities are not in the New Jersey RPDC service region. The Postal Service suggests that, where merited by sufficient volume, the RTH hub and spoke network could have direct lanes that are not part of the RPDC hub and spoke network. Response to DFC/USPS-TI-1-14, question 9.

The Postal Service's MIP model for inter-RPDC transportation uses the 85th percentile of the FY 2023 volume by shape for the workload estimates. Response to POIR No. 1, question 21.c. This model does not adjust for daily or monthly variations in volume. When reviewed in totality, the assumptions described above that are underlying the inter-RPDC transportation mileage model, differ significantly from the daily reality of the Postal Service. The Postal Service experiences operational constraints on an on-going basis. It has experienced ongoing shortages of available trucking capacity. Response to POIR No. 3, question 19. The facilities that perform cross-docking activities have experienced shortages of available dock space and platform space.⁸⁸ The Postal Service's internal Service Performance Measurement System shows that service performance failures are directly related to trucks not departing and arriving at the scheduled time. The "Root Causes" analysis that the Postal Service has provided in Annual Compliance Reports identifies specific transportation failures as the "cause" of a percentage of the volume in each class that is not delivered within the service window.⁸⁹ The Postal Service has not detailed how the untested RPDC and RTH approach to inter-facility transportation will resolve these long-standing issues.

The RTH concept is similar to the strategic concept of the STC and NDC facilities that the Postal Service used in its legacy network.⁹⁰ Like STCs and NDCs, RTHs function as intermediate consolidation and distribution hubs. As detailed in Commission reports and Postal Service OIG reports, the operations at these facilities did not achieve

⁸⁸ See United States Postal Service, Office of Inspector General, Report No. 21-206-R22, Fiscal Year 2022 Peak Mailing Season Preparedness, November 19, 2021.

⁸⁹ See, e.g., Docket No. ACR2023, Library Reference USPS-LR-FY23-23, December 29, 2023, Excel file "FY23 FCM Root Cause.xlsx."

⁹⁰ STCs are designed to distribute, dispatch, consolidate, and transfer First-Class Mail, Priority Mail, and Periodicals. See USPS Employee and Labor Relations Manual, available at https://about.usps.com/manuals/elm/html/elmc1_003.htm. NDCs handled the distribution of USPS Marketing Mail, Periodicals, and Package Services and sometimes served as consolidation points for truckload volumes. See USPS Postal Terms, available at https://about.usps.com/publications/pub32/pub32_terms.htm.

consistent cost and service results.⁹¹ The Postal Service has not detailed how the untested RPDC and RTH approach to inter-facility transportation is fundamentally different from the transportation in the STC and NDC networks.

c. Analysis of Cost Estimates

The Postal Service develops its estimate of Leg 2 transportation cost savings by comparing an optimized mileage estimate (that it models for its new network) with the recorded FY 2023 mileage. USPS-T-1 at 31. The Commission determines that this approach is unrealistic for several reasons. First, the Postal Service's model is missing important data that would make the results more accurate. Second, the Postal Service has not provided the mileage estimate that the model would produce for the legacy network. Comparing the results of a modeling exercise to real world data is not an apples-to-apples comparison, which limits the interpretation of the estimated reduced mileage, and thus costs.

Facility selection process does not include important data. The accuracy of the Postal Service's efficiency improvements, and, in turn, cost savings estimates, depends on the Postal Service's ability to align the operational implementation with the modeled changes. When reviewing the feasibility of the Postal Service's model, the Commission has identified important information that the Postal Service left out of these models. When the Commission inquired whether the Postal Service included productivity and efficiency into the facility location selection process, the Postal Service responded that these metrics would be best conceived in the design process, and not as inputs into the selection process modelling. Response to POIR No. 3, question 20. When selecting which facilities would be RPDCs and LPCs, the Postal Service has neither used information on the mail processing costs, machine productivity, machine efficiency nor

⁹¹ See, e.g., United States Postal Service, Office of Inspector General, Report No. 23-031-R23, Efficiency of Surface Transfer Centers in the Western Pacific Region, July 13, 2023; Docket No. SS2022-1, Order on Postal Service Flats Plan, December 27, 2024, at 13 (Order No. 8436).

included machine sets or operational windows. The Postal Service estimated transportation and mail processing costs only after it already determined the new network.⁹²

The Postal Service acknowledges that the surrounding areas around each RPDC have different volume levels, mix of mail, and mail arrival profiles. Tr. 1/316. The Postal Service has not developed a cohesive or comprehensive facility plan for each region in its filings in this docket. Through the lens of structural and cost analysis, the Postal Service has not provided evidence to show that the necessary and appropriate facility space, personnel, mail processing equipment will be included in each region. Similarly, through the lens of operational and service performance analysis, the Postal Service has not provided evidence to show that the necessary operating windows and transportation schedules are in place to achieve reliable performance.

Instead, the Postal Service proposes creating a national network without consideration for local facility differences. Specifically, this proposal is reflected in its decision to develop a deterministic model rather than a comprehensive stochastic model. Response to POIR No. 3, question 18. The Postal Service does not provide the finalized network details in its filings in this docket. The changes to existing facilities occur when they are transformed from a P&DC to an LPC, to which the Postal Service refers to as the “design process.” Response to POIR No. 1, question 54. The Postal Service states that it will perform additional analysis during the design phase within each region. Response to POIR No. 3, question 20. The Postal Service also states that during the extensive design process, different factors, such as facility processing capacity, dock constraints, and equipment types, informed decision-making. Response to POIR No. 1, question 22. Lastly, the Postal Service states that the intended functions for each new facility are subject to adjustments and configurations based on location operational considerations. Request at 16. Therefore, the Postal Service provides that

⁹² These mail processing efficiencies are discussed in Section VII.D.

it will account for regions' differences during the designing rather than modeling phase, leaving many unknowns and adjustments for the future. The Commission finds that determining the locations for the RPDC/LPC network is a concept that the Postal Service developed without using the information necessary to implement the locations and, therefore, it is unlikely that this concept can yield optimal results.

The Postal Service does not provide a detailed explanation or methodology for the identification of RPDCs and LPCs in the new network. The Postal Service used its business judgement to make the selections on where to locate RPDCs and LPCs, stating that no "single, integrated, quantitative model encapsulates our deliberative business judgements." Response to CHIR No. 1, question 54. The Postal Service explains that all discussed above modeling approaches function as tools to guide the design and capabilities of the network. Response to POIR No. 3, question 8. The Commission is concerned that the tools the Postal Service developed to guide its process do not include either the key information or the real-world data. These tools were not developed to work in conjunction. Instead, the Postal Service performs the mail processing analysis and transportation analysis separately. Tr. 1/621.

The Postal Service's ability to realize substantial cost and efficiency improvements in Leg 2 transportation is linked to having the right facilities in the right place. The Commission is concerned about the incomplete process that the Postal Service states that it used to select the location of the facilities in its RPDC/LPC network. The Postal Service has not provided evidence that the 45 RPDCs that will be assigned as RTH facilities have the required yard space, dock space, floor space, and staff necessary to achieve its stated cost and service performance goals. The Postal Service notes that it conducts the reviews of these key factors in the regional design process before implementation, but after the location selection. Response to POIR No. 1, question 54. The Postal Service estimates that transforming to a hub-and-spoke network for inter-facility transportation will enable it to reduce trips, increase utilization, and achieve reliable service. Response to POIR No. 3, question 19. However, the

tools used by the Postal Service to guide it in its facility selections do not include the data necessary to operationalize these changes.

The Commission is also concerned that air transportation network is not included in the model, despite claims of cost savings from modeled transportation changes in the inter-RPDC model. The Postal Service negotiated a new air transportation network with the goal of reducing costs and maximizing 2- to 3-day air coverage. Response to POIR No. 1, question 29. This new air contract contains a consolidated network of 61 service points, and the Postal Service states that this will enable it to efficiently use the air network capacity. Response to POIR No. 1, question 29. The Postal Service does not separate the air transportation cost savings generated by the negotiated air rate from the cost changes that are associated with the modeled volume, which is diverted from the air network to the surface network. See Response to POIR No. 3, question 49.

The Commission analyses of the Postal Service's RPDC/LPC transportation model outputs reveals that the volume has increased in the redesigned air network.⁹³ The Postal Service states that the service standards for FCM will remain 2-5 days even if originating from a ZIP Code subject to RTO. USPS-T-1 at 37. The implementation of RTO adds 1 service day for ZIP Codes outside of the 50-mile driving radius of the RPDC, but the Postal Service is not adding additional days to the service standard. *Id.* Therefore, the Commission concludes through the implementation of RTO, Postal Service plans to reduce the time mail spends in Leg 2, causing fewer routes to meet their service commitments on surface transportation, consequently, forcing more volume from the surface to the air. While the air volume is not decreasing under the network changes, the cost reductions stem from two sources: first THS will be insourced to RPDCs eliminating transportation and operating costs associated with the facilities,

⁹³ Library Reference USPS-LR-N2024-1-NP2, Excel file "PROTECTED_Network Model High Level KPI Comparison (REV.10.17.24).xlsx."

and second the Postal Service negotiated a lower air cube rate cost. The Postal Service estimates \$701 million projected savings in air transportation. USPS-T-5 at 12.

Finally, it has historically been more expensive to operate local transportation than it has been to operate network transportation due to the higher cost of PVS for local and the lower cost of HCR network transportation. However, the Postal Service plans on using more PVS due to the greater flexibility, increased brand recognition, stabilized cost over regional suppliers, and driver availability. Request at 23. The Postal Service deems employee fleets well suited for regional transportation. *Id.* The Postal Service has not modeled these changes within the Leg 2 model.

A stochastic model would have allowed better optimization. The Commission is confident that a stochastic model would be able to account for regional differences in a network. When asked about creating a deterministic model instead of a stochastic model, the Postal Service stated that the RPDC/LPC processing and transportation networks, should not behave like a stochastic process but rather operate as fixed base infrastructure. Response to POIR No. 3, question 18. In regard to the benefits of a deterministic model, the Postal Service states it has simpler setup, faster runtimes, and easier interpretability of results. As for disadvantages, the deterministic model may not provide insight into variability in the modeled network. Response to POIR No. 3, question 6. The Commission agrees with the advantages and disadvantages of deterministic models the Postal Service uses for inter- and intra-RPDC network. The Commission, however, suggests that some variability could have been introduced in the Blue Yonder TMOD to stimulate how the hub routes and inter-RPDC network perform in various scenarios that might impact volumes and service. The Commission finds that due to the lack of variability in the deterministic models, the Postal Service is not maximizing potential cost savings and not providing the best regionally-based service to customers.

d. LTO/RTO Cost and Service Trade-off

As detailed in Section VII.E., 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. As detailed in this section, the redesigned network will require most mail to be transported to an RPDC for origin processing. This will require additional Leg 2 transportation compared to the legacy network. While the Postal Service states that the proposed network will reduce costs, it has not provided compelling evidence of these cost reductions or a comparative analysis of the cost savings that may be possible without transforming the inter-facility transportation network to a hub-and-spoke network.

The LTO pilot that the Postal Service performed was local in scope, and the RTO initiative is regional in scope; the hub-and-spoke inter-facility transportation is a key difference between these network concepts. Notice at 22. The Postal Service states that it has not performed any analysis of the cost and service trade-off associated with implementing the RTO concept instead of the LTO concept. Tr. 1/362, 639. The Postal Service has not provided any analysis that would justify or explain why the reduced level of service it will provide with the RPDC network is necessary to achieve its intended transportation cost savings.

3. Conclusion

The Postal Service has selected the mail processing facilities for the re-designed network. It has not, however, performed an optimization analysis to determine the network nodes that would result in the most efficient and effective inter-facility transportation network. The purpose of the transportation modeling developed by the Postal Service is to estimate the cost of transportation, with the location of facilities and the service standards operating as constraints. The Commission analysis in this section explains that if the Postal Service had chosen a different modeling approach, it may have reached a different conclusion regarding either the optimal locations of facilities or

the changes necessary to achieve the correct balance of cost and service levels. The Postal Service provides an estimate that it will reduce its usage of ground transportation with the RPDC/LPC network. The costing information provided by the Postal Service does not enable the Commission to support these projections with any degree of confidence. While the Postal Service may be able to reduce transportation costs with its RPDC/LPC network, it is still in the initial stages of determining how to implement this transformative strategy. In this proceeding, the Postal Service has not provided a transportation model that could enable it to implement this transformative strategy while measuring, tracking, and reporting on its successes and challenges.

D. Mail Processing Efficiencies

1. Overview of the Request

The efficiency with which the Postal Service processes and handles mail at its facilities directly impacts both its costs and service performance. The Postal Service describes existing inefficiencies in mail processing at current facilities and how each of the proposed operational changes will enable improvement in processing efficiencies. See USPS-T-4 at 1-21. In addition, the Postal Service estimates the cost savings associated with the proposed changes, which are attributed to reduced processing workhours and the termination of contracted operating costs and real estate leases. *Id.* at 21-40. While the roles of RTO and the redesigned RPDC/LPC network on processing efficiency are described separately, mail processing cost savings are not estimated separately for these two operational changes.

a. Summary of Processing Improvements Due to Network Redesign

Introduction. The Postal Service claims that the current network contains too many facilities that are poorly designed and poorly maintained because the network was not sufficiently responsive to shifting demands across the country as package volume increased and mail volume declined. USPS-T-4 at 1. The Postal Service states that

the network suffers from numerous interrelated deficiencies that reduce processing efficiency, disaggregate volume, increase handling and transportation costs, generate unnecessary carbon emissions, and delay service. *See id.* at 2. The Postal Service states that the redesigned network will resolve these deficiencies. *See id.* at 5-13.

Standardized assignment of mail and package processing elements. The Postal Service provides data on the processing elements performed at each facility, which show that the configurations “vary from region to region and site to site.” *See id.* at 2, Figure 2. The Postal Service claims this variation precludes service and operating standards that would allow the network to be more effectively managed, and also creates additional handling touches and inter-facility transportation routes that would be unnecessary in a more rationally designed network. *See id.* at 3. The Postal Service states that the redesigned network generally uses a standard model of processing assignments, which is expected to reduce the processing sortation workload and rehandle rates, while also increasing container fill rates. *Id.* at 5-6. The Postal Service admits that some variations and adjustments may be made both to the overall functions of facility types and on a local, location-specific basis. *Id.* at 6. In this redesigned network, RPDCs will insource STC operations and THS operations and perform cancellations, all originating operations, and destinating package operations. *Id.* LPCs will perform cancellations at some locations and all destinating operations. *Id.*

Standard facility layouts. The Postal Service states that current facilities lack sufficient staging space and have ineffective layouts. *Id.* at 2. Processing operations for a single product can be (and often are) split apart within the same building. *Id.* The Postal Service states that in the redesigned facility network, facilities are expected to have standard layouts based on function blocks.⁹⁴ The Postal Service provides an

⁹⁴ *Id.* Function blocks are blocks with one or more mail processing machines, such as a group of letter mail sorters or a single package sorter, along with the designed space around the machine. *Id.* at 8.

example of the Richmond facility layouts before and after RPDC implementation. *Id.* at 9.

Mail processing equipment upgrades. The Postal Service states that the configuration of mail processing equipment in the network is neither sufficiently calibrated to emerging processing needs nor configured to maximize productivity. *Id.* at 4. The Postal Service is “implementing machine upgrades and acquiring new equipment,” which is expected to “save time, improve throughputs, and enhance processing effectiveness overall.” *Id.* at 10. The Postal Service describes machine enhancements, which include package sorters with a larger standard package dimension and equipping certain sorting machines with singulation capability so packages can be inducted automatically. *Id.* at 11. In addition, the Postal Service is replacing equipment in order to sort larger quantities of volume within smaller processing windows. *Id.* The Postal Service has also deployed new machines such as the Matrix Regional Sorter (MaRS) and High Output Package Sorter (HOPS) within selected RPDCs. *Id.* In addition, the Postal Service has installed conveyors, which may transfer volume between equipment sets, or between dock operations and equipment sets. *Id.*

Insourcing operations performed by third-party contractors. The Postal Service describes an overreliance on third-party contractors, and that STCs and THS create unnecessary transportation trips and handling touches. *Id.* at 2, 4. The Postal Service claims that RPDCs will insource THS and STC operations, which “will reduce the amount of handling for volume that travels through such facilities.” *Id.* at 12.

b. Summary of Processing Improvements Related to RTO

The Postal Service claims that current volume arrival profiles create tight arrival schedules that depend on numerous factors, and which must be executed seamlessly and without slack. USPS-T-4 at 5. Additionally, it claims that this arrangement results in inefficient originating processing operations with inefficient staffing assignments,

unproductive machine deployments, late clearance time, and an increased risk of delays, which can create negative downstream consequences. *Id.* The Postal Service expects that RTO and the extra day of service standard in Leg 1 will result in arrival profiles that are more evenly spread throughout the day. *Id.* at 10. As the Postal Service claims, this will allow it to better plan shifts, decrease machine idling, and enable earlier clearance times, which will have downstream benefits to multiple operations. *Id.* at 10, 14-18, 31-32.

c. Summary of Workhour Reductions Due to Processing Efficiency

Due to the claimed improvements in productivity resulting from RTO and RPDC/LPC network and facility changes, the Postal Service also expects a reduction in workhours. *See id.* at 30; *see also* Table VII-D1. Labor Distribution Codes (LDCs) categorize Postal Service work assignments by type and are organized into higher-order groupings (or “functions”) indicating the organizational segments into which those assignments fall. USPS-T-4 at 25. Witness White’s testimony describes and analyzes how the proposed changes will allow reduced workhours for Function 1 LDCs (those concerning processing-related work assignments). Witness White calculates the workhours under an “improved productivity” rate for each direct LDC.⁹⁵ *See* Table VII-D1. Witness White calculates an overall workhour reduction of 16.1 percent across six direct LDCs and applies the same reduction rate to indirect LDCs (operations that are not volume-tracked by scans): manual letters and flats (LDC 14.1 and 14.2), allied

⁹⁵ Witness White’s testimony divides the Function 1 LDCs into two categories: (1) sources of direct workhour reductions, which encompass volume-tracked operations recorded by scans to which productivity increases can be directly linked; and (2) sources of indirect workhour reductions, which are estimated by application of percentages rather than direct scans. *See* USPS-T-4 at 29. Direct LDCs include auto letters (LDC 11), auto flats (LDC 12), auto and mechanized packages and bundles (LDC 13), manual packages (LDC 14), mechanized operations (LDC 16), and letter cancellations (LDC 17.1). *Id.*

operations (LDC 17), and mail processing related operations⁹⁶ (LDC 18). See *id.* at 39; see also Table VII-D1.

Table VII-D1
Productivity Rate Improvements and Workhours Reduction by LDCs

Function 1 LDC	Hourly Average - Pieces per Workhour		Productivity Improvement (%)	Currently Achieving Improved Productivity Rate (% Sites)	Workhours Change (%)
	Current Productivity	Improved Productivity			
LDC 11	6,264	6,700	7%	57%	-6.5%
LDC 12	1,610	1,650	2%	33%	-2.4%
LDC 13	■	■	■	■	-25.6%
LDC 14	■	■	■	■	-23.2%
LDC 16	47	53	14%	53%	-12.0%
LDC 17.1	11,544	14,000	21%	25%	-17.5%
Total % Change in Workhours =					-16.10%

Source: USPS-T-4 at 30, Figure 14.

d. Facility Cost Savings Due to Lease Terminations and STC Insourcing

The Postal Service has terminated 17 leases for processing annexes, and it expects to terminate 60 additional leases as the network redesign progresses. USPS-T-4 at 21-22. The Postal Service calculates annual cost savings of approximately \$81 million due to these lease terminations. *Id.* at 22. The Postal Service also insourced 2 STC facilities in FY 2023, plans 7 more in FY 2024, and the remaining 4 between FY 2025 and FY 2029, thereby eliminating all STCs.⁹⁷ The Postal Service expects the STC insourcing initiative to yield approximately \$35 million in STC facilities cost savings and

⁹⁶ Mail processing related operations include “package re-wrap and damaged package handling,” mail transport equipment (MTE) equipment handling, miscoded or uncoded mail handling, Postal Automated Redirection System (PARS) waste. *Id.* at 28.

⁹⁷ *Id.* at 23-24; see also Response of the United States Postal Service to Questions 1-64 of Presiding Officer’s Information Request No. 1, October 28, 2024, question 42 (Response to POIR No. 1); Response of the United States Postal Service to Questions 1-24 of Presiding Officer’s Information Request No. 2, October 31, 2024, question 22 (Response to POIR No. 2).

approximately \$168 million in annual savings from STC operating costs. USPS-T-4 at 24.

2. Commission Analysis

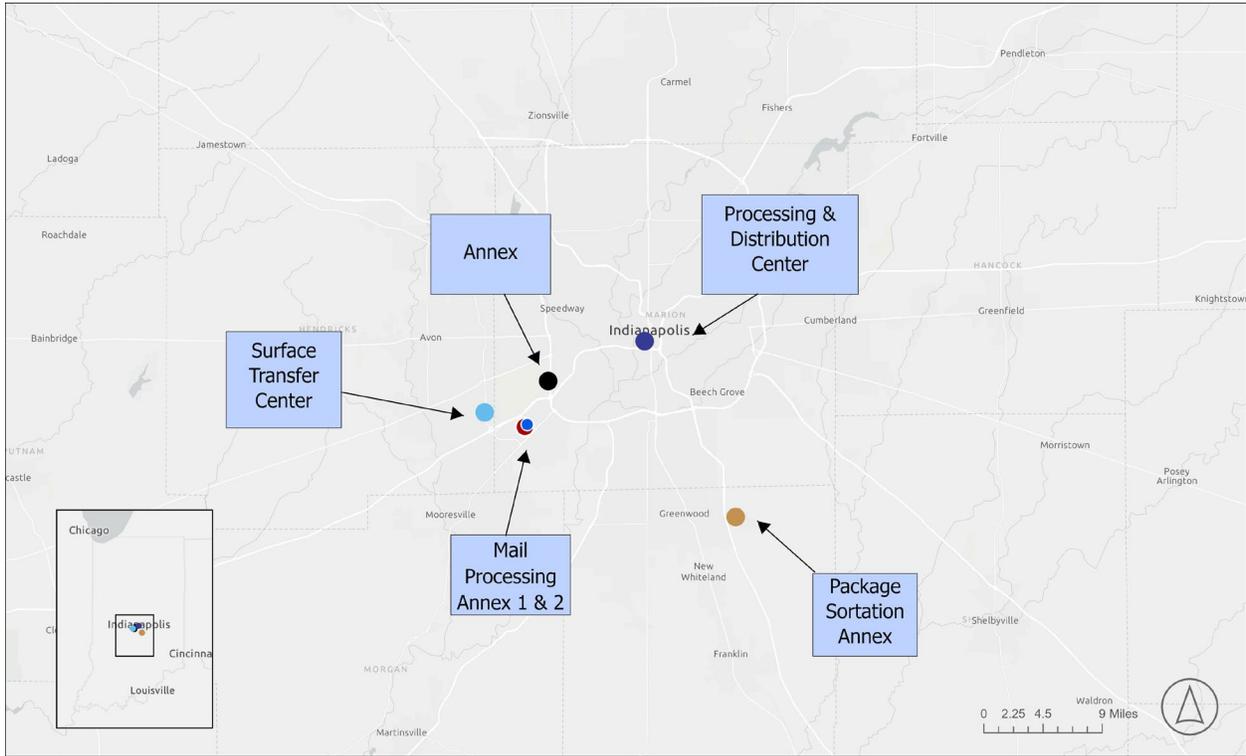
Using the Request, witness testimony, library references, responses to interrogatories and POIRs, and briefs, the Commission assesses the Postal Service claims regarding the efficiency improvements in the redesigned RPDC/LPC network, the RTO initiative, workhour reductions due to productivity improvements, and facility and STC lease terminations to determine the likelihood that the projected outcomes will be achieved as predicted. The Commission has concerns with the lack of a consolidated model incorporating local variations, the use of “improved productivity” that is not data driven, and the ability of the Postal Service to identify and track cost savings by initiative. In addition, Commission analysis shows that the Postal Service’s claims are unfounded, and the cost savings estimates are unreliable.

a. Redesigned RPDC/LPC Network

The Commission agrees that there are inefficiencies in the current network related to redundant processing operations in facilities located in close proximity to one another. As an example, Figure VII-D1 shows a cluster of six facilities near Indianapolis, Indiana, and Figure VII-D2 illustrates that there is overlap in some processing assignments between these facilities.⁹⁸

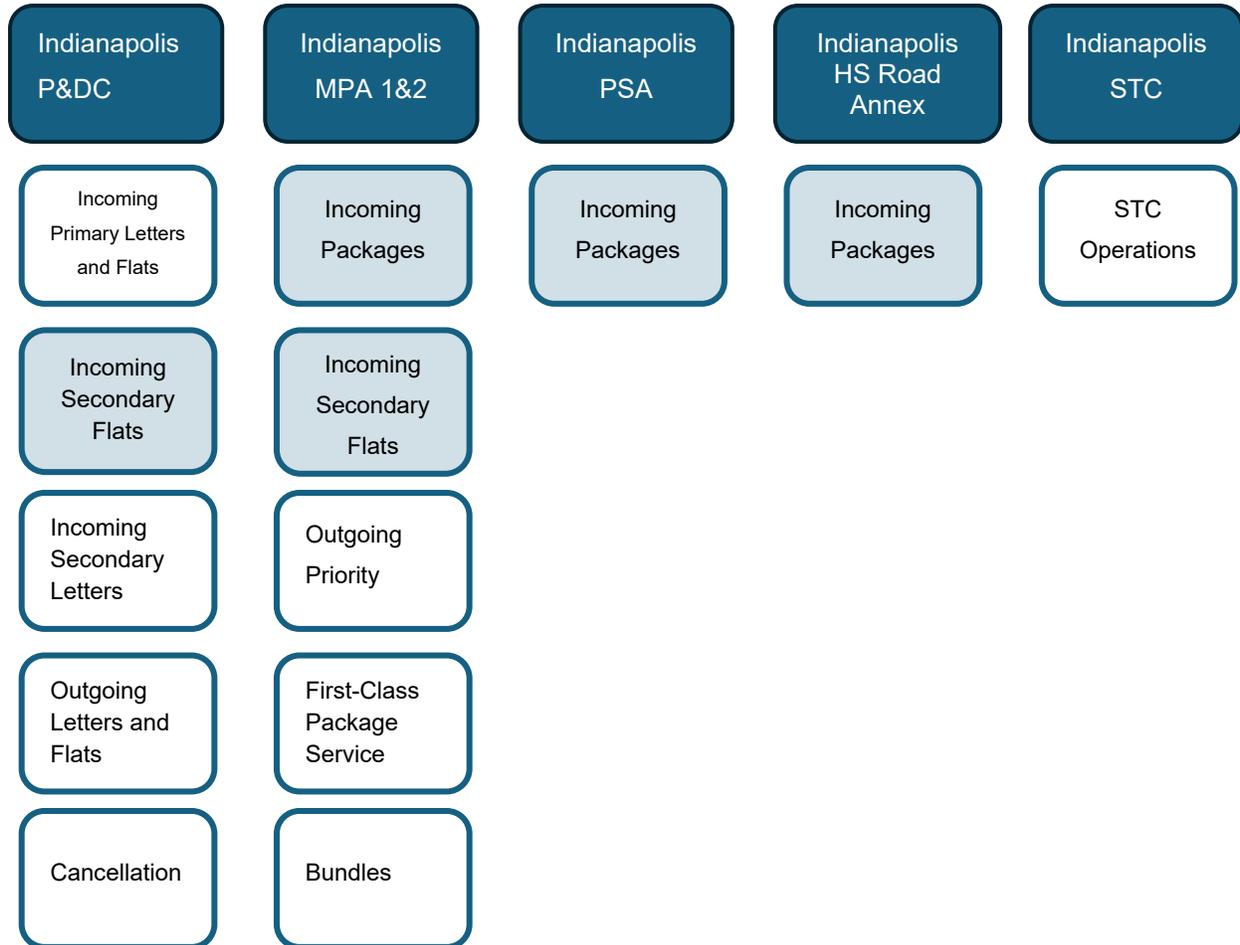
⁹⁸ This cluster includes a processing and distribution center (P&DC), an Annex, two Mail Processing Annexes (MPA), a Package Sortation Annex (PSA), and an STC. The Postal Service data for two MPAs in Indianapolis, Indiana (MPA 1 & 2) are combined.

**Figure VII-D1
Cluster of Facilities Near Indianapolis, Indiana**



Source: Library Reference USPS-LR-N2024-1-7.

Figure VII-D2
Processing Assignments at Indianapolis, Indiana Processing Facilities



Source: Library Reference USPS-LR-N2024-1-7.

Note: The highlighted processing assignments represent overlaps between facilities. The Postal Service provided facility assignments for processing First-Class Package Service; however, First-Class Package Service is no longer a product offered by the Postal Service. See Response to POIR No. 2, question 21.b.

The Commission also identified this inefficiency in its Flats Operational Study Report.⁹⁹ The Commission described a group of three mail processing facilities (comprising two P&DCs and a network distribution center (NDC)), which shared processing jobs and moved mail frequently between the different sites. Docket No. SS2022-1, Flats Study at 69. The Commission illustrated the complex movement of mail between the three facilities and concluded that these groups of mail processing facilities resulted in frequent inefficient shuttle trips between facilities and broken bundles due to extra handling. *Id.* at 69-71.

Tables VII-D2 through VII-D4 compare the number of facilities of different types performing processing operations in the current and the redesigned networks and shows the consolidation of processing operations into fewer facilities in the redesigned network. Information in the tables are, however, incomplete because the Postal Service has not yet determined the final number of each facility type that will be performing each processing operation in the redesigned network, and only provided processing assignments for facilities within significantly active RPDC regions.¹⁰⁰ The majority of the 33 stand-alone RPDCs, 26 co-located RPDC-LPCs, and 170 LPCs will follow the standard design.

⁹⁹ See Docket No. SS2022-1, *Flats Operations Study Report*, April 6, 2023 (Docket No. SS2022-1, Flats Study).

¹⁰⁰ Transcripts of Proceedings, December 18, 2024, Tr. 1/558 (Tr.); Library Reference USPS-LR-N2024-1-13, October 31, 2024. The Public Representative expressed concerned, with so many elements of the redesign network left unknown or to be determined during implementation, that “the Postal Service’s proposal is more of an experiment than it is a plan.” PR Brief at 13.

Table VII-D2
Summary of Originating Processing Assignments at Current Facilities
and Future Facilities

Network	Facility Type	Total Number of Facilities	Cancellations	Outgoing Letters	Outgoing Flats	Outgoing Priority	Outgoing First-Class Packages
Current-State	P&DC	215	117	145	133	87	93
	Annex	92	-	3	8	25	22
	NDC	21	-	-	2	13	12
Future-State	RPDC	33	33	33	33	33	33
	RPDC-LPC	26	26	26	26	26	26
	LPC	170	16-36?	-	-	-	-

Source: Library Reference USPS-LR-N2024-1-7; Response to POIR No. 2, question 21; Response of the United States Postal Service to Questions 1-50 of Presiding Officer's Information Request No. 2, November 11, 2024, question 39 (Response to POIR No. 3).

Note: The question marks ("?") represent assignments that the Postal Service has yet to determine. *Id.*

**Table VII-D3
Summary of Destinating Processing Assignments at Current Facilities
and Future Facilities**

Network	Facility Type	Total Number of Facilities	Primary Letter	Secondary Letter	Primary Flats	Secondary Flats	Packages
Current-State	P&DC	215	188	194	155	174	115
	Annex	92	2	2	13	17	81
	NDC	21	-	-	2	2	21
Future-State	RPDC	33	-	-	-	-	?
	RPDC-LPC	26	-	-	-	-	?
	LPC	170	170	170	170	170	?

Source: Library Reference USPS-LR-N2024-1-7; Response to POIR No. 2, question 21; Response to POIR No. 3, question 39.

Note: The question marks (“?”) represent assignments that the Postal Service has yet to determine. *Id.*

**Table VII-D4
Summary of Other Processing Assignments at Current Facilities
and Future Facilities**

Network	Facility Type	Total Number of Facilities	Bundles	STC	THC
Current-State	P&DC	215	59	-	1
	Annex	92	12	-	-
	NDC	21	7	-	-
	STC	13	-	13	-
	THS	62	-	-	62
Future-State	RPDC	33	?	?	?
	RPDC-LPC	26	?	?	?
	LPC	170	?	-	-

Source: Library Reference USPS-LR-N2024-1-1-7; Response to POIR No. 2, question 21; Response to POIR No. 3, question 39.

Note: The question marks (“?”) represent assignments that the Postal Service has yet to determine. *Id.*

The Commission agrees with the Postal Service that some adjustments and other location-specific variations to RPDC and LPC functions might be required based on local operational considerations during the network implementation. USPS-T-4 at 7. However, location-specific adjustments are based on business judgement regarding local operational considerations rather than rigorous data analysis.¹⁰¹ The Commission is concerned that because of this, the impacts of these adjustments on the consolidated network are not known. There is also no indication of how many adjustments there may be in each region or across the entire network.

An example of location-specific adjustments is that some LPCs will retain cancellation operations. See Response to POIR No. 1, question 54.b. The Postal Service provides a list of 16 LPCs that will retain cancellation operations. Tr. 1/584-85. However, this list is not finalized, and additions or changes may still be made. *Id.* at 626. The number of LPCs that will retain cancellations may be more than double the original 16, with Witness Hagenstein estimating that 36 LPCs will retain their cancellation operations.¹⁰² While the adjustments may be reasonable on a local level, based on “operational considerations,”¹⁰³ the Commission is concerned that the lack of a consolidated, rigorous approach in making these adjustments might reduce the effectiveness of a standardized processing network.

In addition to location-specific adjustments, the Postal Service has indicated that it may also make strategic changes that would impact the RPDC/LPC network broadly.

¹⁰¹ Response to POIR No. 1, question 54.d. The Public Representative is also concerned about the adjustments, stating that the Postal Service has precluded itself from being able to conduct a risk assessment of its proposal by “incorporating flexibilities to the proposed changes that are going to be informed by future developments, effectively building a mechanism to absorb deviations it failed to account for at the planning stages, and treat them as anticipated adjustments.” PR Brief at 14.

¹⁰² *Id.* at 313. Witness White said at the hearing that he “believes [the number of LPCs retaining cancellations and the corresponding financial impact will] be announced within the next couple of weeks if not sooner,” however, the Commission has not received this update. *Id.* at 625-26.

¹⁰³ Operational considerations include the LPC’s distance from the RPDC, volume of Single-Piece First-Class Mail that both originates and destines in the LPC area, physical attributes of facilities, volume growth, and service impact. Response to POIR No. 1, question 54.b.

Response to POIR No. 1, question 54.a. One such example of a strategic change to the network is the decision to allow some LPCs to process destinating packages. *Id.* Prior to this change, the plan was to have RPDCs process all destinating packages for a region, which required building or acquiring facilities over 1 million square feet. *Id.* The Postal Service claims that changes in the market environment shifted the investment case for RPDCs. *Id.* The Commission finds that this adjustment was only made after already launching many RPDC regions, which resulted in seven LPCs not processing destinating packages. *Id.*; *see also* Library Reference USPS-LR-N2024-1-13. The Commission is concerned that failing to integrate these changes and adjustments into a final, consolidated network model could result in another inefficient network that requires further changes in the future, which may disrupt mail processing and service.

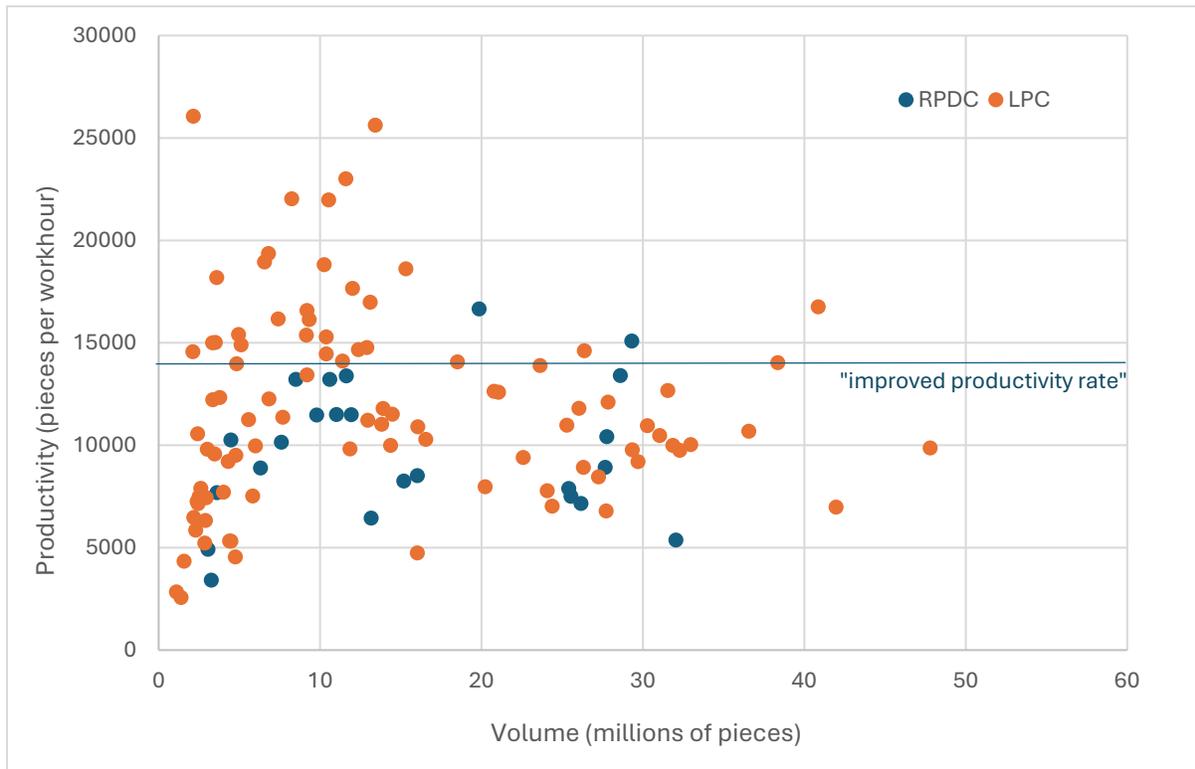
The Postal Service claims that consolidating operations will also lead to improved productivities. *See* USPS-T-4 at 30-35. To test this claim, the Commission analyzes the potential productivity impacts of the proposed changes on the letter cancellation operation, which represents one of the primary reasons for the move from LTO to RTO.¹⁰⁴ As shown in Table VII-D2, currently cancellations are performed at 117 P&DCs. In the redesigned network, cancellations will be performed at approximately 75 to 95 facilities (at 59 RPDCs and at 16 to 36 LPCs). *See* Table VII-D2. Therefore, cancellations are consolidated into fewer facilities. USPS-T-4 at 30. To determine whether consolidating cancellation operations into fewer facilities (most of which are RPDCs) is likely to improve cancellation productivity, the Commission analyzes data for LDC 17.1, which is the labor code for Letter Cancellations.¹⁰⁵ Figure VII-D3 provides the cancellation volume and productivity of individual facilities in FY 2024, Quarter 3, and compares facilities that will become future RPDCs with facilities that will become

¹⁰⁴ The Postal Service claims that RTO is necessary because LTO will not produce the “desired benefits” since cancellations will be performed at RPDCs. *See* USPS-T-1 at 18, Response to POIR No. 1, question 10. *See* Section VII.B. for further discussion on the move from LTO to RTO.

¹⁰⁵ The Commission used the LDC data for FY 2024, Quarter 3. *See* USPS-T-4 at 30; Library Reference USPS-LR-N2024-NP17, October 29, 2024.

LPCs. As Figure VII-D3 illustrates, out of 28 facilities with a higher Letter Cancellation productivity than the Postal Service's "improved productivity" of 14,000 pieces per workhour (which was used to calculate workhour reductions), only 2 facilities are planned to become RPDCs (the other 26 are to become LPCs). See Figure VII-D3. The remaining 57 RPDCs have cancellation productivity rates below 14,000 pieces per workhour. See Figure VII-D3. The Postal Service also claims that cancellation operations will be conducted in fewer locations in the redesigned network, which will increase volumes and thus drive productivity improvements. USPS-T-4 at 30. However, Figure VII-D3 shows that facilities with higher volumes do not necessarily have higher Letter Cancellation productivity. In fact, most of the 25 percent of the facilities currently achieving the improved productivity rate actually have lower volumes. The Commission finds no evidence that consolidating cancellation operations and volume at RPDCs will improve letter cancellation productivity since higher volume facilities do not necessarily have higher productivities and future RPDCs are not high-productivity facilities. Therefore, the Commission is not confident that the proposed changes will improve the productivity rates to the level required to achieve the cost savings projected by the Postal Service. Section VII.D.2.c. discusses the productivity rates used to calculate cost savings in further detail.

Figure VII-D3
FY 2024, Quarter 3, Letter Cancellation Volume and Productivity at
Future RPDCs and Future LPCs



Source: Library Reference PRC-LR-N2024-1-NP1, January 31, 2025, folder “Section D Non-Public,” Excel file “Figure VII-D3 and VII-D6.xlsx,” tab “Figure VII-D3.” The Commission eliminated sites from the data sampling based on zero volume or zero workhours and excluded outlier data to match the Postal Service’s calculation of 25 percent of sites currently achieving improved productivity rate. See Response to POIR No. 1, question 48.b.; see a/s/o Library Reference USPS-LR-N2024-1-NP27, November 12, 2024, question 40; USPS-T-4 at 30, Figure 14.

The Commission finds that removing clusters of facilities may reduce inefficiencies related to extra handling of mail and unnecessary inter-facility transportation. However, the Postal Service has not demonstrated that its intended future state mail processing network design is the most effective design to resolve current inefficiencies. 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. The

Commission is concerned that, when designing the mail processing network, the Postal Service did not fully analyze its productivity data at the facility level, which would have indicated that consolidating cancellation volumes at RPDCs is unlikely to increase cancellation productivity. As the Commission showed, higher volume facilities do not necessarily have higher productivity and future RPDCs are not high-productivity facilities. The Commission encourages the Postal Service to review and analyze its facility-level data to ensure that the productivity improvements are achievable and that the proposed operational changes will have their intended effect.

Facility layouts and machine upgrades. The Postal Service states that improved facility layouts in the redesigned network will improve efficiency; however, OIG reports have identified challenges related to the implementation of facility layouts at two RPDCs: Portland, Oregon and Atlanta, Georgia.¹⁰⁶ At the Portland, Oregon RPDC, the OIG found that the Postal Service management did not adhere to the planned layout, resulting in delayed mail at the facility. OIG Report No. 24-071-R24 at 12. At the Atlanta, Georgia RPDC, the OIG found that there was not sufficient space in the newly designed facility for personnel to unload trailers, move mail into the facility, stage mail for operations, and dispatch outgoing mail. OIG Report No. 24-074-R24 at 10. While the Commission agrees that improving facility layouts and staging space will improve efficiency, it is concerned that the implementation of facility layouts has not been a smooth process. The Commission recommends the Postal Service evaluate its implementation procedures to minimize issues that arise during the process.

¹⁰⁶ United States Postal Service, Office of Inspector General, Report No. 24-071-R24, Effectiveness of the New Regional Processing and Distribution Center in Portland, OR, September 19, 2024, at 12-13, available at <https://www.uspsoig.gov/reports/audit-reports/effectiveness-new-regional-processing-and-distribution-center-portland-or> (OIG Report No. 24-071-R24); United States Postal Service, Office of Inspector General, Report No. 24-074-R24, Effectiveness of the New Regional Processing and Distribution Center in Atlanta, GA, August 28, 2024, at 10, available at <https://www.uspsoig.gov/reports/audit-reports/effectiveness-new-regional-processing-and-distribution-center-atlanta-ga> (OIG Report No. 24-074-R24).

The Commission encourages the Postal Service's adoption of new machines and technology. The Commission finds that the new MaRS and HOPS machines have higher throughputs than the Automated Parcel and Bundle Sorter (APBS) and also have higher machine productivities (throughput divided by number of operators).¹⁰⁷ However, the annual maintenance cost per machine is approximately 5 to 25 times the maintenance cost of the APBS. *Id.* The Postal Service explains that machine maintenance costs are dependent on machine types, and machine types are determined during regional design reviews, which are yet to be completed for future regions. Response to POIR No. 1, question 40. The Commission finds that while overall maintenance costs may not be determinable, a range can be estimated based on the RPDC regions and the new machines that are already operational. In addition, the Postal Service can compare machine maintenance costs at RPDCs before and after implementation to determine whether the cost benefits of improved machine productivity outweigh the increased machine maintenance costs of the new machines.

The Commission notes that machine upgrades and the cost benefits of improved machine productivity are not reliant on the RTO implementation. The Commission finds that the Postal Service can achieve the cost savings without the deterioration in service related to the RTO implementation.

b. RTO

The Postal Service claims that RTO will have downstream benefits to logistics operations and mail processing by shifting originating operating windows and allowing earlier clearance times. USPS-T-4 at 13. However, the examples it provides assume an ideal environment without potential impacts from other network changes. *See id.* at 15; Response to POIR No. 1, question 39. The Commission evaluates and expands

¹⁰⁷ See Library Reference USPS-LR-N2024-1-NP15, October 28, 2024; Response to POIR No. 1, questions 42, 51; Library Reference USPS-LR-N2024-1-NP27.

upon the Postal Service's analysis and finds that implementing RTO simultaneously with other network changes may dampen the intended effect on cancellations.

In addition, the Postal Service has not developed a future-state operating plan for First-Class Mail, including the arrival profiles under RTO, and the operational windows for cancellation operations, outgoing operations, and incoming operations. Response to POIR No. 1, question 56. The operating plans will be determined as the implementation plan is finalized, and the Postal Service will evaluate the transitions and make adjustments if required. *Id.* Without a future-state operating plan, the Commission instead analyzes actual arrival profiles and cancellations from LTO pilots.

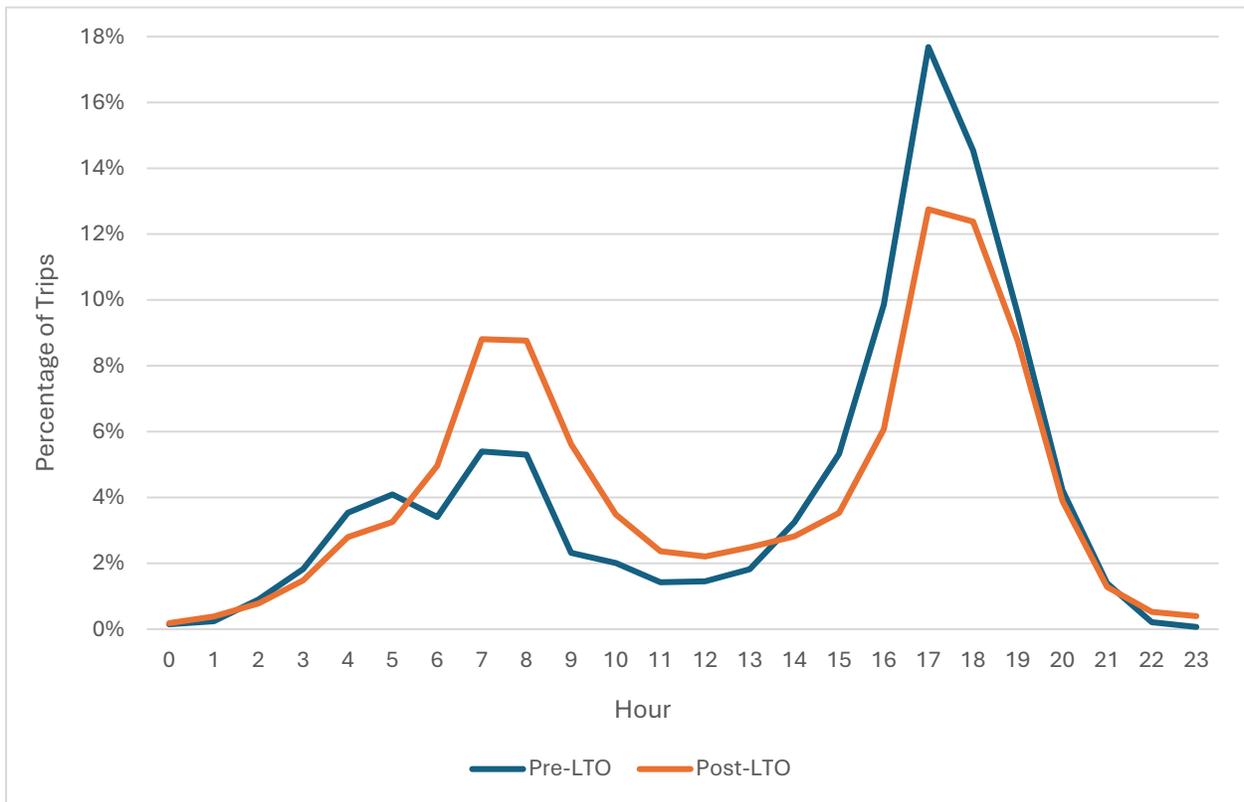
The Postal Service states that RTO will “produce volume arrival profiles that are spread more evenly throughout the day.” USPS-T-4 at 10. However, it has not modeled, or even estimated, the expected arrival profiles at each RPDC. Response to POIR No. 3, question 26. To test the veracity of the Postal Service's claim, the Commission analyzes actual arrival times from the last leg of the trip from collection sites (e.g., Post Offices, delivery units) to LTO cancellation facilities from October 1, 2022, to October 31, 2024. Figure VII-D4 shows that after the implementation of LTO, a larger percentage of trips arrive earlier in the day at LTO Pilot sites, and the arrival profile is more evenly distributed between the two peaks.¹⁰⁸ However, the Commission notes that these data reflect trips arriving at LTO pilot sites (12 LPCs and 3 RPDCs), while trips under RTO and the redesigned network will transport collection mail to RPDCs for cancellations instead. Since distances between collection sites and RPDCs are generally longer than the distance between collection and LTO pilot sites, this may affect the arrival times at each RPDC.¹⁰⁹ Without modeling the arrival profiles at

¹⁰⁸ The Postal Service provided the number of trips arriving at each LTO facility at each hour but did not provide the volume collected on these trips because volume cannot be reliably estimated until the cancellation process. Response to POIR No. 3, questions 27, 33.

¹⁰⁹ See Section VII.B. for the Commission's analysis of distances between collection sites and RPDCs/LPCs. The Public Representative also expressed concern that the increased distances between PO and RPDC (Leg 1) will impact transportation and service. PR Brief at 17-20.

RPDCs, it will be difficult for the Postal Service to know how the confounding effects of RPDC/LPC implementation affect these arrival profiles. The Commission urges the Postal Service to model the arrival profiles under RTO in order to better plan for the subsequent changes to operations.

Figure VII-D4
Percentage of Trips Arriving Each Hour Pre-LTO and Post-LTO at LTO Pilot Sites



Source: Library Reference PRC-LR-N2024-1-1, January 31, 2025, folder “Section D. Mail Processing Efficiencies,” Excel file “Figure VII-D4.xlsx.”

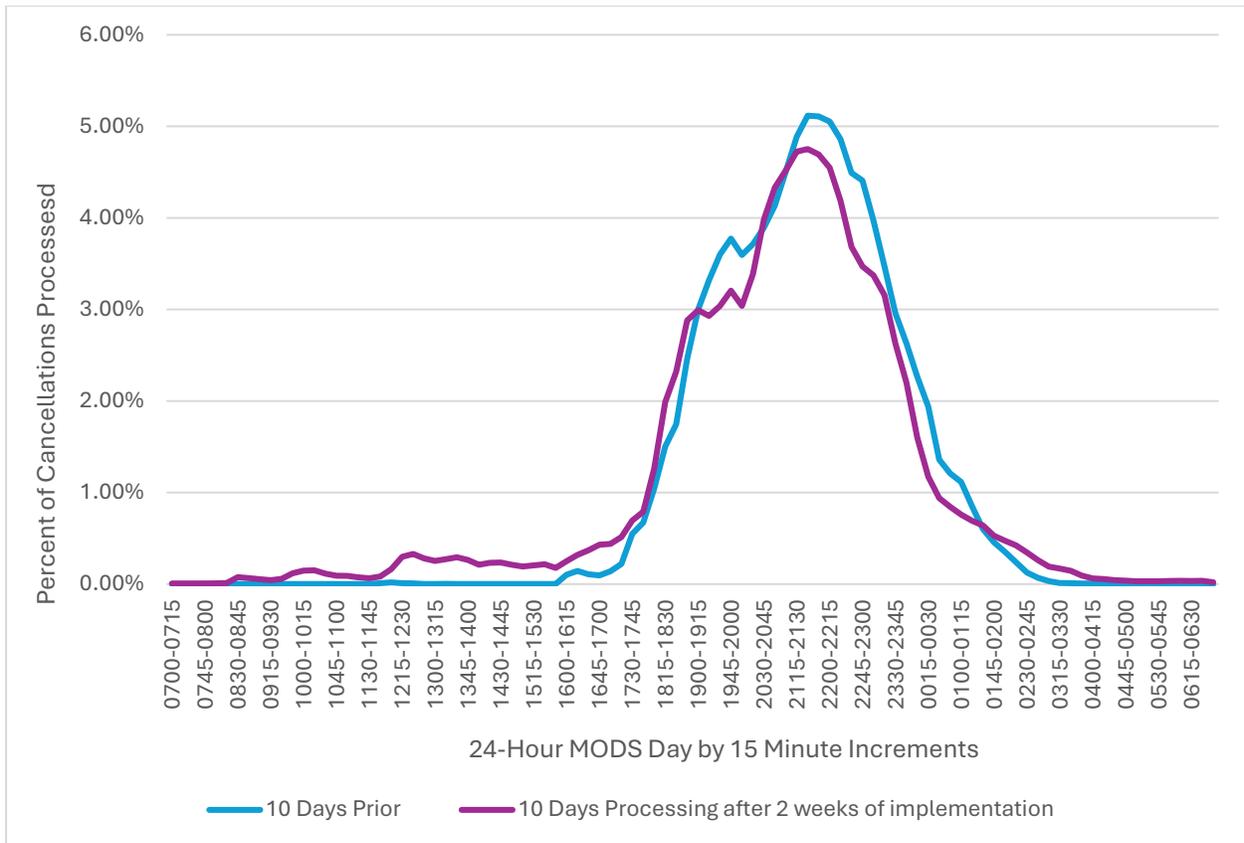
Note: Data excludes Deluth GA LPC, Columbus LPC, Carol Stream LPC, Iron Mountain LPC and Columbus LPC because these had zero arrivals post-LTO implementation, were an outlier facility, or the Postal Service did not provide activation dates for the facility.

In contrast to the trip arrival profile analysis that uses trip data instead of volumes, cancellation data contains actual volumes. The Postal Service's analysis of cancellation data shows that Wisconsin LTO pilots demonstrated condensed cancellation windows and earlier clearance times after LTO implementation. USPS-T-4 at 15. The Postal Service provides the Wisconsin-area LTO sites as an example because there are no confounding effects with the network redesign.¹¹⁰ The Commission agrees that it is important to isolate the effects of RTO and the network redesign, especially when estimating and attributing cost savings. However, the Postal Service has also stated that it will start implementing RTO as it finalizes models for RPDC campuses. Hagenstein Response to NPPC-T1-1-6, question 1. Therefore, for a realistic perspective on what to expect as RTO and the network redesign are implemented concurrently, the Commission finds it useful to look at LTO pilots in the other areas where LTO was not implemented in isolation.

To that end, the Commission analyzes and aggregates cancellation volume data for Single-Piece First-Class Mail letters processed on Advanced Facer Canceler System (AFCS) machines over 15-minute increments at 16 LTO pilot sites. Similar to the Postal Service's Figures 6 and 7 in USPS-T-4, Figure VII-D5 illustrates the cancellation percentages 10 days prior to LTO implementation and 10 days of processing 2 weeks after implementation. The Commission, however, aggregates the data across 16 LTO pilots instead of analyzing just two Wisconsin facilities. The Commission finds that more cancellations occur earlier in the day (between 12:00 p.m. and 5:00 p.m.) but opposite to the two Wisconsin facilities, clearance times are not earlier after LTO implementation and cancellation windows are not condensed. See Figure VII-D5. After LTO implementation, cancellations appear to be completed as late as 4:00 a.m. while before implementation, cancellations were completed an hour earlier, by 3:00 a.m.

¹¹⁰ Response to POIR No. 1, question 39. In addition to confounding effects with network design, four LTO pilots only affected a small subset of the overall volume. *Id.*

**Figure VII-D5
Cancellation Percentages Before and After LTO at all Pilot Sites**



Source: PRC-LR-N2024-1-1, folder "Section D. Mail Processing Efficiencies," Excel file "Figure VII-D5.xlsx."

Therefore, the Commission finds that the condensed cancellation windows and earlier clearance times did not materialize at the LTO pilots when implemented with the network change.¹¹¹ In addition, the change from LTO to RTO and moving cancellations to RPDCs does not guarantee these benefits either. As shown in Figure VII-D3, the facilities gaining cancellation operations (those becoming RPDCs) are not generally the facilities currently achieving high cancellation productivities.

¹¹¹ Four LTO pilots did not have confounding effects with the network redesign and only impacted a small percent of offices and volume. Response to POIR No. 1, question 39. Since LTO only impacted a small percent of offices and volumes in these areas, these sites do not explain the later clearance times or wider cancellation windows.

c. Improved Productivity and Workhour Reduction

The Postal Service estimates workhour reductions by calculating and comparing workhours if facilities meet an “improved productivity” rate for each direct LDC.¹¹² The Postal Service explains that it considered product type, operation type, planned investments, efficiency gains from RTO, and RPDC/LPC network redesign when formulating what the Postal Service refers to as “improved productivity rates.” USPS-T-4 at 30. However, the Commission finds that the Postal Service did not quantify the estimated effects of each factor, including the effect of RTO and RPDC/LPC network redesign. See Response to POIR No. 1, question 48; Response to POIR No. 3, question 31. Instead, to justify the higher productivity rates used in the workhour reduction estimates, Witness White relies on the fact that between 25 and 57 percent of sites are currently achieving the improved productivity rate.¹¹³ The Commission is not confident in the accuracy of workhour reductions estimated by the Postal Service. The Commission expands the productivity analysis and concludes that, while some facilities currently achieve the higher productivity rates there is no justification for assuming that *all* facilities can achieve this rate with the proposed changes. The Commission is also concerned that the workhour reductions, and therefore cost savings from mail processing, cannot be separately attributed to RTO and the RPDC/LPC network redesign.

In Section VII.D.2.a., the Commission analyzes letter cancellation volume and workhour data and finds that only 2 out of 28 facilities that achieved the higher productivity rate of 14,000 pieces per workhour in FY 2024, Quarter 3, are RPDC facilities of the future network (the rest are to become LPCs). Since the majority of facilities performing cancellations in the future network will be RPDCs, this implies that the improved productivity rate may not be as achievable in the future as the Postal

¹¹² See n.2, *supra*. See USPS-T-4 at 30, Figure 14, 26-28, for a description of each LDC.

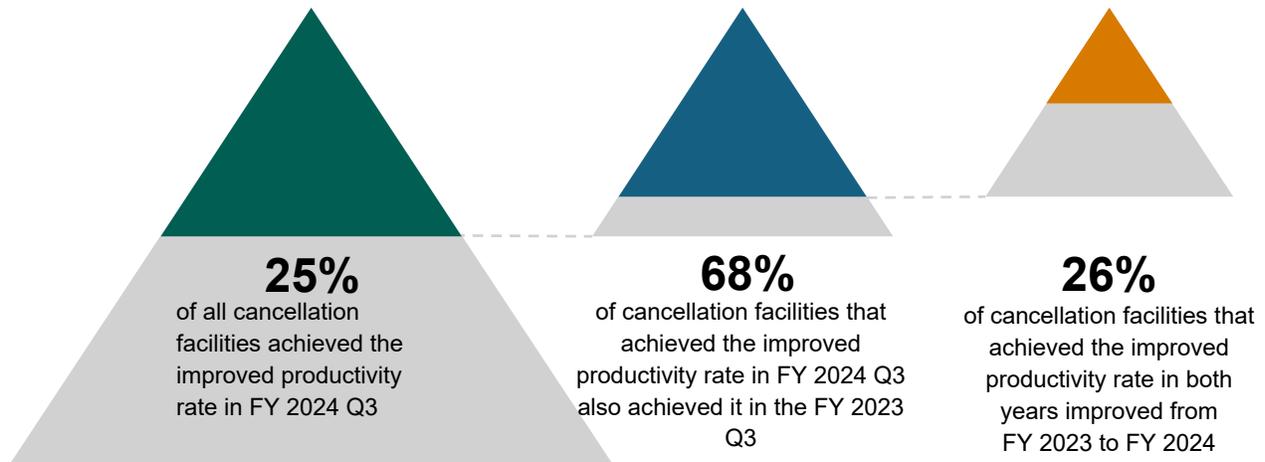
¹¹³ The range provided is the range of public LDCs and does not include redacted rates. See USPS-T-4 at 30; see *also* Tr. 1/642-43.

Service suggests. To expand upon this analysis, the Commission analyzes the productivity for the same period last year (SPLY), as well as another LDC, LDC 11 Auto Letters.

Out of 25 percent of facilities achieving the higher productivity rate for letter cancellations in FY 2024, Quarter 3, approximately 68 percent also achieved the higher productivity rate in FY 2023, Quarter 3.¹¹⁴ Therefore, the fact that 25 percent of facilities achieve the higher productivity rate for letter cancellations in FY 2024, Quarter 3, does not demonstrate the capacity for productivity improvement for all facilities that the Postal Service claims will result from the proposed changes. In fact, only 26 percent of the facilities that achieved the higher productivity rate in both FY 2024, Quarter 3 and SPLY, experienced an increase in productivity between these periods. See Figure VII-D6. The remaining facilities experienced a decrease in productivity.

¹¹⁴ See Figure VII-D6. Commission calculations using Library Reference USPS-LR-N2024-1-NP26, November 12, 2024, Excel file "Productivity by tour – LDC 17.1 FY23 Q3.xlsx" (FY23 Q3 LDC 17.1 Data); Library Reference USPS-LR-N2024-1-NP17, October 29, 2024, Excel file "FY24 Q3 Productivity by Tour – LDC 17.1.xlsx" (FY24 Q3 LDC 17.1 Data). In the calculations, the Commission backed out a threshold above which productivity is determined to be an outlier. The Commission did this by adjusting the threshold to match the percentage of facilities currently achieving the improved productivity rate seen in USPS-T-4 at 30, Figure 14, using methods described by the Postal Service in Response to POIR No. 1, question 48.b. and Library Reference USPS-LR-N2024-1-NP27, question 40.

Figure VII-D6
Illustration of Cancellation Facilities Achieving Improved Productivity Rate



Source: Library Reference PRC-LR-N2024-1-NP1, folder "Section D Non-Public," Excel file "Figure VII-D3 and VII-D6.xlsx," tab "Figure VII-D6."

In addition, only 4 LTO pilots (approximately 25 percent of LTO pilots) are currently achieving the improved productivity rate for letter cancellations.¹¹⁵ Out of the two Wisconsin examples that the Postal Service uses to illustrate condensed cancellation windows under LTO, one had a productivity below the improved productivity rate, and one had a high outlier productivity. FY24 Q3 LDC 17.1 Data. The facility that remains below the improved productivity rate only increased by 2 percent compared to the SPLY. *Id.*; FY23 Q3 LDC 17.1 Data. The other facility improved by 18 percent but remains above the outlier threshold in both periods. *Id.*

The Commission concludes that the condensed cancellation windows illustrated in USPS-T-4, Figures 6 and 7, did not translate into improved productivity and workhours for letter cancellation. This also suggests that the improvement rate for letter cancellation is unrealistic since the Postal Service's ideal examples of LTO (the two Wisconsin sites) did not demonstrate an improvement in letter cancellation productivity,

¹¹⁵ One LTO pilot did not appear in FY2024, Quarter 3, LDC 17.1 data.

which would be the operation that experiences the highest direct impact. In witness White's testimony, the description of the impacts of RTO on the other operations are all due to downstream effects from cancellations. See USPS-T-4 at 30-32.

The Commission also analyzes LDC 11, Auto Letters.¹¹⁶ Similar to letter cancellations, a large percentage of facilities that are currently achieving the higher productivity rate in FY 2024, Quarter 3, also achieved the higher productivity rate in SPLY. The Postal Service claims that the validity of the 7 percent increase in productivity for operations related to auto letters is demonstrated by the fact that 57 percent of facilities currently achieve the improved productivity rate. See Tr. 1/642-43. However, 81 percent of the facilities currently achieving what witness White refers to as the improved productivity rate also operated at higher productivity rates during SPLY.¹¹⁷ Again, this suggests that idiosyncrasies at these facilities may make them high-productivity facilities, but it does not demonstrate the capability for the other 43 percent of facilities to achieve this rate or that the proposed changes will enable this achievement.

Application of Direct LDC Workhour Reductions to Indirect LDCs. The Postal Service uses the estimated workhour reduction percentage from direct, volume-scanned LDC functions, to determine workhour reductions in indirect LDC functions. In other words, the Postal Service applies the same 16.1 percent reduction in workhours uniformly across all four indirect LDCs (LDC 14.1, 14.2, 17, 18). USPS-T-4 at 39. The Postal Service explains that the application of this approach is necessary because operations in indirect LDC functions are not volume-tracked by scans and do not lend themselves to clear and direct productivity quantification. *Id.* The Postal Service further

¹¹⁶ Auto Letters operations include Outgoing Letters, Incoming Letters, delivery point sequence (DPS) to flow to carriers in Retail and Delivery Operations, Low-Cost Reject Encoding Machine (LCREM), a corrective process for mail missing encoding required for processing, PARS mail forwarding processes. USPS-T-4 at 26.

¹¹⁷ Commission calculations using Library Reference USPS-LR-N2024-1-NP26, Excel file "Productivity by Tour – LDC 11 FY23 Q3.xlsx;" Library Reference USPS-LR-N2024-1-NP17, Excel file "FY24 Q3 Productivity by Tour – LDC 11.xlsx."

explains that “it is reasonable to assume that the workhour reduction averaged across other Function 1 LDCs may be transferred to these indirect sources of cost, as the operations that they encompass are deeply enmeshed with, and/or downstream of, the other processing modalities discussed by USPS-T-4.” Response to POIR No. 1, question 55. The Commission finds that while clear and direct productivity quantification of these indirect LDCs may not be possible, uniformly applying a percentage workhour reduction likely overestimates the reduction and therefore cost savings. The Commission concludes that each direct LDC may have different relevance to each indirect LDC and that it is possible to determine a more nuanced relationship between the direct LDCs and indirect LDCs.

The Commission analyzes the relationship between FY 2023 direct LDC workhours and FY 2023 indirect LDC workhours across facilities by using a log-log econometric model, in which indirect LDC workhours is the dependent variable, and direct LDC workhours is the explanatory variable.¹¹⁸ In this log-log econometric model, the model output suggests 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.¹¹⁹

¹¹⁸ The Commission uses data provided in Library Reference USPS-LR-N2024-1-NP26. When cleaning the data, the Commission excluded facilities with zero workhours or did not record any direct LDC or indirect LDC workhours. A logarithmic (ln) transformation of indirect and direct LDC workhours allows an easier interpretation of the result in percentage. See Jeffrey M. Wooldridge, *Introductory Econometrics: A Modern Approach* 41 (5th ed. 2013).

¹¹⁹ See Table VII-D5. See Library Reference PRC-LR-N2024-1-NP1, folder “Section D Non-Public,” folder “Table VII-D5 and Econometric Model Files” for more details on the econometric analysis.

**Table VII-D5
Regression Results¹²⁰**

Relationship Between Direct LDC Workhours and Indirect LDC Workhours, FY 2023						
Indirect Workhours	Coefficient	Std. err.	T	P>t	[95% conf. interval]	
Direct Workhours	0.8638	0.025	34.271	0.000	0.814	0.913
_cons	1.319	0.305	4.330	0.000	0.720	1.918
R-squared:	0.779		F-statistic	1174		
Adj. R-Squared	0.778		Prob > F =	0		
Number of Observations	335					

Source: Library Reference PRC-LR-N2024-1-NP1, folder "Section D Non-Public," folder "Table VII-D5 and Econometric Model Files," Excel file "Table VII-D5."

Therefore, applying the same 16.1 percent workhour reduction expected from direct LDCs to indirect LDCs likely overestimates the workhour reductions and cost savings from indirect LDC operations. Under this model, a 16.1 percent workhour reduction for direct LDCs would translate to an approximately 13.9 percent workhour reduction for indirect LDCs. However, considering the idiosyncrasies across facilities, the Commission concludes that the Postal Service, using its vast institutional knowledge and data, should be able to calculate more precise relationships between the direct LDCs and the indirect LDCs. The Commission urges the Postal Service to do so.

d. STC Insourcing and Facility Cost Savings

As part of the network redesign, RPDCs will insource STC operations. USPS-T-4 at 4. The Postal Service calculates the STC facility and operating cost savings and states that the additional workhours at RPDCs due to insourcing STC operations are

¹²⁰ An R-squared of 0.779 indicates that 77.9 percent of the variability in indirect workhours is explained by the variability in direct workhours within the model. There may be confounding variables or unaccounted factors that impact the relationship between indirect and direct workhours, with approximately 22 percent of variability in indirect workhours remaining unexplained.

reflected in the workhour reduction calculations. Response to POIR No. 1, question 42. However, the Postal Service also confirms that it does not have estimates of the increase in workhours. Response to POIR No. 3, question 32. Since the Postal Service does not formulate the improved productivities in a way that identified the effect of each change, the impact of STC insourcing on workhours cannot be separated from the overall proposed changes.

The Commission's analysis of the allied operations (LDC 17) data shows that average workhours at facilities that insourced STC operations increased by 15.5 percent in FY 2024, Quarter 3 compared to SPLY.¹²¹ On the other hand, at facilities that did not insource STC operations, the average workhours for allied operations decreased by 2.3 percent during the same period.¹²²

The Postal Service estimates annual STC facilities cost savings of approximately \$35 million: \$23.1 million from 7 facilities insourced in FY 2024 and \$11.9 million from 4 facilities still contracted. The contract end dates for these facilities are in Table VII-D6. The last contract, for Dallas STC, does not end until October 31, 2028, but is included in the cost savings. See Table VII-D6. As explained further in Section VII.H., the Postal Service has not provided any timelines for when the cost savings estimates for the proposed changes will be realized, but it appears that at least some of the cost savings are not expected until FY 2029.

¹²¹ Library Reference USPS-LR-N2024-1-NP26, folder "30," folder "30 c," Excel file "Productivity by Tour - LDC 17 FY23 Q3.xlsx;" Library Reference USPS-LR-N2024-1-NP26, folder "29," Excel file "Productivity by Tour - LDC 17 FY24 Q3.xlsx." A list of facilities that insourced STC operations is provided in Response to POIR No. 1, question 42.

¹²² The other LDC operations experienced decreases or only small increases in average workhours.

Table VII-D6
Remaining 4 STC Contract End Dates

STC Facility	Contract End Date
Chicago STC	5/31/2025
Orlando/Seminole STC	10/19/2025
Phillipsburg STC	7/22/2026
Dallas STC	10/31/2028

Source: Response to POIR No. 2, question 22.

The Postal Service also estimates the cost savings due to the disposition of plant annexes. USPS-T-4 at 21-23. Although the Postal Service has actual annual costs of leases, it explains that it uses “an estimate for still-leased facilities [rather than actual lease costs] because using annual costs is not straightforward.” Response to POIR No. 2, question 23. The Postal Service further explains that most lease terms are for multiple years and do not align with a fiscal year and that leases may have graduated rental terms that allow for increased annual costs year over year. *Id.* The Commission finds that the estimated annual cost savings from leases are not much different from the actual annual costs of the leased facilities and finds that this is a reasonable estimate. However, as with STCs, the contract end dates vary and the last of the planned 77 lease terminations does not end until FY 2031. See Table VII-D7. As discussed in Section VII.H., the Commission finds that the Postal Service does not separate out the cost savings by year or by initiative, complicating its ability to measure and verify actual cost savings or identify sources of shortfalls.

**Table VII-D7
Future Lease/Contract End Dates**

Fiscal Year	Number of Lease/Contract End Dates
2025	5
2026	25
2027	14
2028	4
2029	7
2030	2
2031	1

Source: Library Reference USPS-LR-N2024-1-NP20, November 1, 2024.

3. Conclusion

Although the Postal Service's proposed changes may present potential improvements to mail processing, the Commission finds that the supporting documentation provided to quantify the improvements is weak and the effects of various changes to processing are not well-defined. The Postal Service has not based the projected productivities and cost savings on any quantitative formulations or models. The Postal Service's link between the proposed changes and the reduced workhours (and hence cost savings) relies on broad assumptions and conjectures rather than detailed modeling and clear evidence. This creates uncertainty about whether the proposed efficiencies are achievable, how the Postal Service will measure them, and what initiatives are effective or ineffective. Considering these multiple uncertainties, the Commission finds that it will be difficult for the Postal Service to identify and correct problems if the expected efficiencies are not achieved.

The proposed productivity improvements rely on assumptions and descriptions about the ability of all facilities to replicate the performance of high-productivity sites after the changes are implemented. The estimated improvement in productivity does not rely on any formula, and the Commission's data analysis shows that although portions of the Postal Service facilities are currently achieving those productivities, this

fact does not provide any evidence that the proposed changes would improve the productivities of other facilities. In addition, as the Commission's analysis shows, the Postal Service overgeneralizes the relationship between direct, volume-scanned operations, and indirect, non-volume-scanned operations, by applying the workhour reduction rate derived from direct operations to indirect operations. The Commission concludes that this may further overestimate the reduction in workhours due to the unrealistic assumption regarding the relationship between direct workhours and indirect workhours. Overall, the Commission finds that these issues lead to inaccurate cost reduction estimates.

Additionally, the insourcing of STC operations and the termination of annex leases are subject to long timelines that delay the realization of these benefits. The Postal Service does not specify the expected time for materialization of cost savings, but the Commission finds that some contracts are not set to expire until as late as FY 2031. Therefore, the overall cost savings presented in this proposal may be misleading without a timeline.

Finally, although making adjustments to the functions of RPDCs and LPCs based on local operational considerations appears reasonable, use of a business judgment for each facility instead of a quantitative model when making these decisions risks the development of another ad-hoc network and increases the risk of continued inefficiencies.

The Commission urges the Postal Service to adopt more rigorous methodologies to ensure that the proposed changes will provide all the benefits described, including to study and incorporate data and lessons from past RPDC implementations. The Commission also encourages the Postal Service to provide specific metrics, related to each change, for assessing the success of its initiatives.

E. Effects on Service

1. Overview

Service standards refer to the amount of time within which a customer may ordinarily expect delivery of a particular mailpiece. Current service standards set delivery expectations between 3-Digit ZIP Codes, while in this proceeding, the Postal Service proposes to set service standards “at the more precise 5-Digit to 5-Digit level.” USPS-T-1 at 4.

For end-to-end inter-RPDC First-Class Mail (FCM) originating and destinating within the contiguous 48 states,¹²³ the Postal Service proposes that the new service standards will be calculated by adding the service expectation days across the three legs that mailpieces will travel from their origins to their destinations. *Id.* at 35. For Leg 1 (point of entry or acceptance to originating RPDC), a mailpiece will be assigned either 0 or 1 day depending on whether its originating ZIP Code is subject to RTO. *Id.* at 5-6, 35. Presorted FCM will not be subject to RTO and therefore Presorted FCM will not have an extra day assigned in Leg 1 as long as it is accepted before the critical entry time (CET). *Id.* at 11, 35. The Postal Service notes that adjustments to CETs or entry locations for Presorted FCM may be required to ensure Presorted FCM is not impacted by RTO. *Id.* at 11. For Leg 2 (transit from originating RPDC to destinating RPDC to destinating LPC), a mailpiece will be assigned 2 to 5 delivery expectation days depending on drive times between originating and destinating processing facilities in the redesigned network. *Id.* at 5-6, 35-36. For Leg 3 (destinating processing plant to

¹²³ Current service standards for FCM originating in offshore locations will be unchanged. *Id.* at 6, 38. Current service standards for FCM destinating in offshore locations will also be largely unchanged, except that Single-Piece FCM that originates in the contiguous 48 states, is subject to RTO, and destinate in an offshore location will have a 5-day service standard. *Id.* at 38. The service standards for Outbound Single-Piece FCM International will be the same as the service standards for domestic FCM pieces originated in the same 5-Digit ZIP Code and destined to the same 5-Digit ZIP Code in which the International Service Center is located. *Id.* at 39. The service standards for Inbound Letter Post will be the same as the service standards for domestic FCM pieces destined to the same 5-Digit ZIP Code and originated in the 5-Digit ZIP Code of the International Service Center. *Id.*

delivery point), 0 days will be assigned. *Id.* at 5, 35. The Postal Service represents that it will retain the current 2- to 5-day service standard range, even when a mailpiece has a 5-day service expectation in Leg 2 and is subject to RTO in Leg 1. *Id.* at 6. The Postal Service represents that less than 2 percent of Single-Piece FCM volume would have a service standard beyond 5 days if the service standard was not capped at 5 days and that it “will determine the proper transportation routing strategy and/or transportation mode to meet the 5-day service standard” for these mailpieces. Response to POIR No. 2, questions 11.a.-11.b. The Postal Service asserts that the new service standards will “provide a net positive impact for FCM from a service standard perspective” USPS-T-1 at 7.

The Postal Service also notes a few planned exceptions for end-to-end FCM originating and destinating within the contiguous 48 states. First, the current same day and 1-day service standards will continue to apply to USPS Connect Local Mail. *Id.* at 37. Second, the Postal Service proposes to retain the 1-day service standard for Presorted FCM intra-sectional center facility except that the standard will now be applied to intra-LPC mailpieces to reflect the redesigned network. *Id.* at 6, 37. Third, the Postal Service proposes to offer turnaround service¹²⁴ to Single-Piece FCM in RPDC regions and some LPC service areas with a service standard of 2 or 3 days depending on the originating ZIP Code’s distance from the RPDC or qualifying LPC. *Id.* at 37-38. Presorted FCM not eligible for a 1-day service standard that originates and destinate in the same RPDC region will have a 2-day service standard. *Id.* at 38.

The Postal Service proposes that the service standards for other end-to-end Market Dominant mail in the Periodicals, USPS Marketing Mail, and Package Services classes will have a shortened day range within the contiguous 48 states,¹²⁵ resulting in

¹²⁴ Turnaround service refers to the Postal Service’s treatment of mail that originates and destinate in the same service area and has a faster service standard as a result.

¹²⁵ Service standards for end-to-end Periodicals, USPS Marketing Mail, and Package Services mail originating or destinating in an offshore location will not change except that such mailpieces that

“overall faster service for end-to-end USPS Marketing Mail, Periodicals, and Package Services.” *Id.* at 6, 7. For end-to-end Periodicals within the contiguous 48 states, a 3- to 6-day service standard will apply, which will be the applicable FCM service standard plus one day and faster than the 5- to 8-day and 6- to 9-day service standards that currently apply. *Id.* at 39-40. For end-to-end USPS Marketing Mail, 2 days will be added to the applicable FCM service standard for FCM traveling the same path, shortening the outer bound service standard from 10 days to 7 days. *Id.* at 44. For end-to-end Package Services, service standards will correspond to the service standards for USPS Ground Advantage,¹²⁶ plus 2 days, resulting in a 4- to 7-day service standard (as compared to the current 2- to 8-day range). USPS-T-1 at 45. For Periodicals, USPS Marketing Mail, and Package Services mail that originates and destines in the same RPDC service area, the Postal Service will provide turnaround service. *Id.* at 26.

Destination entry service standards for mailpieces in these mail classes will remain largely unchanged. *Id.* at 6. For destination entered Periodicals, USPS Marketing Mail, and Package Services mail, proposed changes reflect new facilities within the redesigned network rather than the legacy facility designations. *Id.* at 40-43, 44, 46. For Periodicals, in cases where the legacy network had two possible service standards depending on whether facilities were co-located, the shorter of the two service standards will apply.¹²⁷

originate in the contiguous 48 states, are subject to RTO, and destinate in an offshore location will have an additional day added to their service standards. *Id.* at 40, 44, 45-46.

¹²⁶ For USPS Ground Advantage, 5-Digit to 5-Digit service standards will be based on the same operational leg approach as FCM. *Id.* at 46. An extra service expectation day will be added for USPS Ground Advantage entered at retail locations impacted by RTO, and Leg 2 bands specific to USPS Ground Advantage will apply, resulting in the overall 2- to 5-day service standard for this product remaining the same. *Id.* USPS Ground Advantage will also have a 2- to 3-day service standard for intra-RPDC mail. Request at 37.

¹²⁷ *Id.* at 41-42. Service standards are also largely unchanged for destination entered Periodicals mail originating or destinating in offshore locations. *Id.* at 42. Exceptions include some pieces entered at the destination area distribution center (DADC) in Puerto Rico and destined to the U.S. Virgin Islands,

The Postal Service provides an analysis showing the impacts of the revised service standards on origin-destination ZIP Code pairs for Presorted FCM, Single-Piece FCM, end-to-end Periodicals, USPS Marketing Mail, and Package Services. *Id.* at 47-50. For each category, the analysis shows the percentage of origin-destination ZIP Code pairs receiving each service standard under the current and proposed service standards. *Id.* The analysis shows that more ZIP Code pairs for Presorted FCM and USPS Marketing Mail will receive faster service under the proposed service standards as compared to the current service standards. *Id.* at 48, 49. On the other hand, more ZIP Code pairs for FCM Single-Piece and Package Services will receive slower service as compared to the current service standards. *Id.* at 48, 50. For example, under the current service standards, 38.1 percent of ZIP Code pairs for FCM Single-Piece mail have a 4-day service standard and 18.1 percent of ZIP Code pairs have a 5-day service standard, while under the proposed service standards, 42.1 and 39.0 percent of ZIP Code pairs for FCM Single-Piece would have a 4- and 5-day service standard, respectively. *Id.* at 48. The analysis for Periodicals reflects more mixed effects with some ZIP Code pairs being slowed and some being sped up compared to the current service standards. *Id.* at 49.

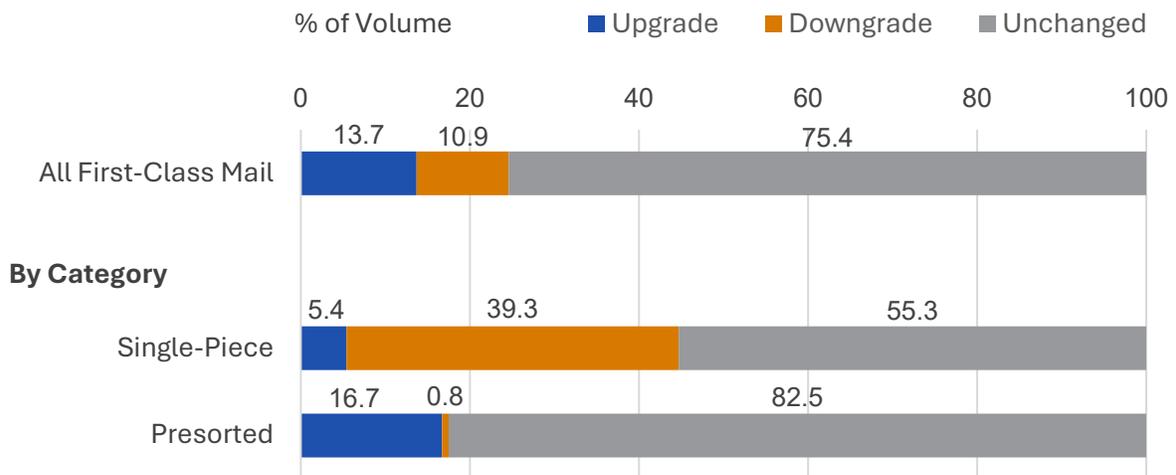
To further evaluate the impact of its proposed service standard changes, the Postal Service provides a mail volume-based impact analysis, showing what percentage of FY 2024, Quarter 3 volume would have been upgraded (i.e., would have received a faster service standard compared to the current service standard), downgraded (i.e., would have received a slower service standard compared to the current service standard), and unchanged (i.e., would have received the same service standard compared to the current service standard) for various mail categories and classes had the proposed service standard changes been in effect in FY 2024, Quarter 3. USPS-T-2 at 6-9. The Postal Service states that “a small percentage of market dominant volume,

destined to select 3-Digit ZIP Codes in Alaska, or entered at the destination sectional center facility in Hawaii and destined to American Samoa. *Id.* at 42-43.

only about 17 percent, is anticipated to be upgraded or downgraded as a result of the proposed revisions to the Postal Service’s service standards” and that “[o]f this amount, about 11 percent will be upgraded and only 6 percent will be downgraded.” *Id.* at 9.

The Postal Service characterizes the anticipated effects on all FCM as “minor.” *Id.* at 10. Figure VII-E1 replicates the analysis presented by the Postal Service.

**Figure VII-E1
Service Standard Changes Based on Volume for First-Class Mail**

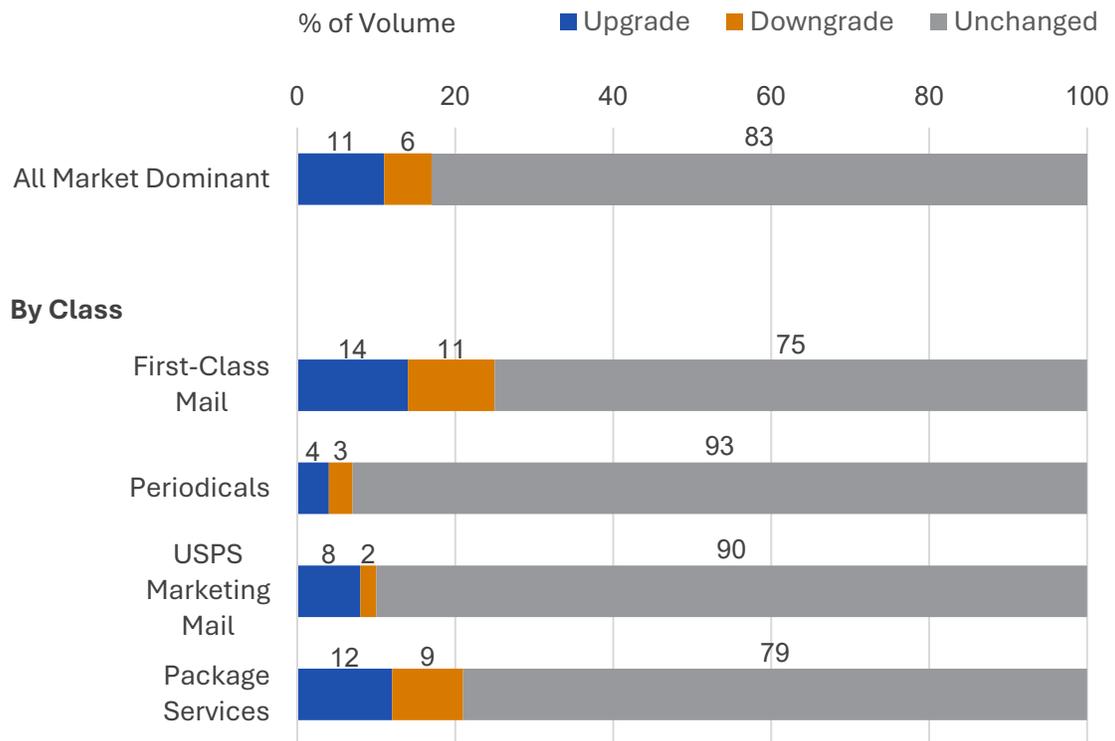


Source: USPS-T-2 at 11.

As Figure VII-E1 shows, the Postal Service’s analysis finds that 75.4 percent of FY 2024, Quarter 3 volume would have had an unchanged service standard, 13.7 percent would have had an upgraded service standard, and 10.9 percent would have had a downgraded service standard. *Id.* at 10. As Figure VII-E1 further shows, when broken out between Presorted FCM (82.5 percent of FY 2024, Quarter 3 volume’s service standards unchanged, 16.7 percent upgraded, 0.8 percent downgraded) and Single-Piece FCM (55.3 percent of FY 2024, Quarter 3 volume’s service standards unchanged, 5.4 percent upgraded, and 39.3 percent downgraded), the disproportionate impacts on the two categories are evident. *Id.* at 10-11.

Figure VII-E2 replicates the Postal Service’s analysis for Market Dominant mail, by class.

**Figure VII-E2
Service Standard Changes Based on Volume**



Source: USPS-T-2 at 10.

As Figure VII-E2 demonstrates, for the other Market Dominant classes affected by the proposed changes (USPS Marketing Mail, Periodicals, and Package Services), the Postal Service’s analysis shows the percentages of volume that would have experienced no change in service standard are 90 percent, 93 percent, and 79 percent, respectively, with each class showing a higher percentage of FY 2024, Quarter 3 volumes that would have been upgraded than downgraded. *Id.* at 10.

The Postal Service also provides a volume-based impact analysis that shows what effects the changed service standards would have had on FY 2024, Quarter 3 volumes had the service standard changes been in effect in FY 2024, Quarter 3 disaggregated by urban and rural volume. *Id.* at 13-17. For this analysis, the Postal Service uses the United States Census Bureau's urban and rural classifications as "enriched . . . with data from the Postal Service's repository of address information, which are geo coordinates." *Id.* at 13; Response to POIR No. 1, question 36. The Postal Service explains that spatially joining the data from both sources "enabled the Postal Service to sample a single delivery point for every ZIP+4 Sector Segment" and determine whether each ZIP+4 Sector Segment was urban or rural. Response to POIR No. 1, question 36.

The Postal Service states that based on its analysis, it expects that the majority of impacts will be on urban communities given that for FCM, USPS Marketing Mail, and Periodicals, only 5 percent of the FY 2024, Quarter 3 volume is attributable to rural communities. USPS-T-2 at 14. The Postal Service represents that 3 percent of total FY 2024, Quarter 3 FCM, USPS Marketing Mail, and Periodicals volume that would have been upgraded is from rural communities and that 20 percent of total FY 2024, Quarter 3 FCM, USPS Marketing Mail, and Periodicals volume that would have been downgraded is from rural communities. *Id.* For Single-Piece FCM, 15 percent of total FY 2024, Quarter 3 volume is attributed to rural communities; 4 percent of FY 2024, Quarter 3 volume that would have been upgraded is attributed to rural communities; and 25 percent of FY 2024, Quarter 3 volume that would have been downgraded is attributed to rural communities. *Id.* at 14-15. For USPS Marketing Mail, 5 percent of total FY 2024, Quarter 3 volume is attributed to rural communities; 3 percent of FY 2024, Quarter 3 volume that would have been upgraded is attributed to rural communities; and 3 percent of FY 2024, Quarter 3 volume that would have been downgraded is attributed to rural communities. *Id.* at 15. For Periodicals, 7 percent of total FY 2024, Quarter 3 volume is attributed to rural communities; 1 percent of FY 2024, Quarter 3 volume that would have been upgraded is attributed to rural

communities; and 4 percent of FY 2024, Quarter 3 volume that would have been downgraded is attributed to rural communities. *Id.* at 16.

With respect to expected service performance after the proposed network changes and service standard changes, the Postal Service repeatedly emphasizes that the changes will result in improved service reliability. For example, the Postal Service states that the proposed changes “will not only stabilize . . . service but will revitalize [the Postal Service’s] network in a manner than enables [the Postal Service] to substantially improve . . . service quality overall, through improved precision and reliability.” Request at 2. The Postal Service argues that among the benefits of its initiatives are “enhance[d] service” and increased ability “to reliably achieve [the Postal Service’s service] standards” and that “[a]ll volume will . . . benefit from greater service reliability.” *Id.* at 2, 3, 5.

However, the Postal Service also acknowledges that it “experienced significant execution challenges . . . which led to temporary service performance declines” with respect to RPDC activations that previously occurred in Richmond and Atlanta. *Id.* at 17. The Postal Service argues that “[t]hese service performance declines were the function of poor execution in these specific regions, and do not indicate any issues with the long-term strategy underlying the new network design.” *Id.* The Postal Service also admits that “[d]ue to the very significant changes that are required to effectively transform the Postal Service, it is also possible that service performance may be temporarily impacted in regions where significant modernization efforts are undertaken.” *Id.* at 47. The Postal Service represents that it “is committed to minimizing the disruptions that occur, correcting any issues in an effective manner, and adjusting [its] processes to improve [its] execution of these changes moving forward.” *Id.*

2. Commission Analysis

In this section, the Commission evaluates the Postal Service’s contentions regarding how the proposed changes will affect certain categories of mail, mailers, and

nationwide service performance and reliability. The Commission finds that the Postal Service focuses on the potential enhanced service under the proposed service standards and downplays the significant and imbalanced effects that its proposal will have on certain mail categories, classes, and rural communities in particular. The Commission also considers the Postal Service's claims that service performance and reliability will improve as a result of its proposed changes and expresses concern that the opposite may occur, as demonstrated by the considerable decline in service performance in areas where the proposed network changes have already been implemented.

a. Disproportionate Negative Impact of Proposed Changes on Some Mailers and Communities

Disproportionate impacts within Market Dominant mail. The Postal Service anticipates that its proposed changes to the service standards will result in all but 6 percent of Market Dominant mail having an unchanged or upgraded service standard. USPS-T-2 at 9-10. The Postal Service claims that the expected cost savings “will not come at the price of degraded service” and that the Postal Service “will provide faster overall service for significant percentages of [its] various product offerings, keeping the current service standard day-ranges for end-to-end FCM, Periodicals Mail, and USPS Ground Advantage intact, while shortening the outer bound end-to-end day ranges for USPS Marketing Mail and Package Services.” USPS-T-1 at 51.

The Postal Service illustrates the expected impacts of its proposed changes to the service standards (i.e., what mail will experience unchanged, upgraded, and downgraded service standards) through a volume-based analysis using FY 2024, Quarter 3 volume. USPS-T-2 at 9-11. This volume-based impact analysis portrays the proposed changes as largely beneficial or neutral for the majority of Market Dominant mail. For example, it highlights that the Postal Service expects only about 17 percent of total Market Dominant volume to experience any change to its service standard, with 11

percent receiving an upgrade and just 6 percent facing a downgrade based on what the impacts would have been on FY 2024, Quarter 3 volumes. *Id.* at 9.

For all FCM, the Postal Service characterizes the effects of the proposed changes as “minor,” noting that its analysis shows that the service standard for 75.4 percent of FY 2024, Quarter 3 FCM volume would have remained unchanged, with 13.7 percent of that volume benefiting from faster delivery and only 10.9 percent seeing a downgraded service standard. *Id.* at 10. The Postal Service also underscores the favorable outcome for Presorted FCM, where the service standard for 82.5 percent of FY 2024, Quarter 3 volume would have remained unchanged, 16.7 percent of the volume would have experienced an upgrade, and 0.8 percent would have experienced a downgrade. *Id.* The Postal Service states that for Single-Piece FCM, 55.3 percent of FY 2024, Quarter 3 volume would have experienced an unchanged service standard, 39.3 percent of that volume would have had a downgraded service standard, and 5.4 percent would have experienced an upgraded service standard. *Id.*

For other Market Dominant mail (i.e., USPS Marketing Mail, Periodicals, and Package Services), the Postal Service’s analysis shows that larger percentages of FY 2024, Quarter 3 volume would have been upgraded than downgraded for each class with the vast majority of the mail volume for those classes not experiencing a change in service standard. *Id.* According to the Postal Service’s analysis, the service standards would have been unchanged for 79 percent of FY 2024, Quarter 3 Package Services volume, 90 percent of FY 2024, Quarter 3 USPS Marketing Mail volume, and 93 percent of FY 2024, Quarter 3 Periodicals volume. *Id.*

The Postal Service asserts that “the estimated upgrades and downgrades on mail volume accurately represent the anticipated impact of the proposed revisions to the Postal Service’s service standards for market dominant products within the redesigned network on . . . customers” and that “analyzing how a service standard change impacts mail volume is the appropriate way to assess the actual impact on . . . customers.” Response to POIR No. 2, questions 19.a., 19.b.

Despite the Postal Service's view that its estimates "accurately represent the anticipated impact[s]," the Commission finds that the Postal Service does not have high quality data for Single-Piece FCM at the level of detail necessary to accurately estimate the impact of the proposed changes to the service standards on Single-Piece volumes. Because the Postal Service only has Single-Piece FCM originating volumes disaggregated at the 3-Digit ZIP Code level based on the Start-the-Clock facility, the Postal Service develops a methodology to convert the 3-Digit ZIP Code originations to 5-Digit ZIP Code originations to conduct its volume-based impact analysis. USPS-T-2 at 7-8. To do so, the Postal Service uses yearly collection box volume estimates to disaggregate 3-Digit ZIP Code volumes to the 5-Digit ZIP Code level. Response to POIR No. 3, question 21.a. The Postal Service develops these yearly collection box volume estimates using data collected employing an imprecise method, with carriers manually converting feet of mail into pieces for a 2-week period.¹²⁸

In Docket No. PI2024-1, the Postal Service acknowledged that this data source has significant accuracy concerns.¹²⁹ Regarding the collection box density data, it stated that "[t]he data reflects a point-in-time view of the collection volumes and does not capture seasonal variations in the data." Docket No. PI2024-1, Postal Service Notice at 3. The Postal Service also noted that because the data is manually inputted into Postal Service systems, it "is, therefore, subject to potential data input error." *Id.* The Postal Service acknowledged "deficiencies in the accuracy and representativeness of this data," which were confirmed "through sample randomized collection box inspections conducted in 2024 that showed large variations in the observed collection box density relative to the referential data." *Id.* The Postal Service further acknowledged additional deficiencies affecting the data's accuracy, stating that this

¹²⁸ See Postal Operations Manual, at section 314.3, available at https://about.usps.com/postal-bulletin/2015/pb22429/html/updt_006.htm.

¹²⁹ Docket No. PI2024-1, United States Postal Service Notice of Filing Changes to Service Performance Measurement Plan Document, March 18, 2024, at 4 (Docket No. PI2024-1, Postal Service Notice).

“proxy approach does not accurately reflect the decline in mail volume and changes in customer behavior in the past decade[,]” because it “gives weight equally to all delivery points during volume proportioning, which does not reflect the reality that geographies where businesses are located may have more volumes but less delivery points.” *Id.* at 4.

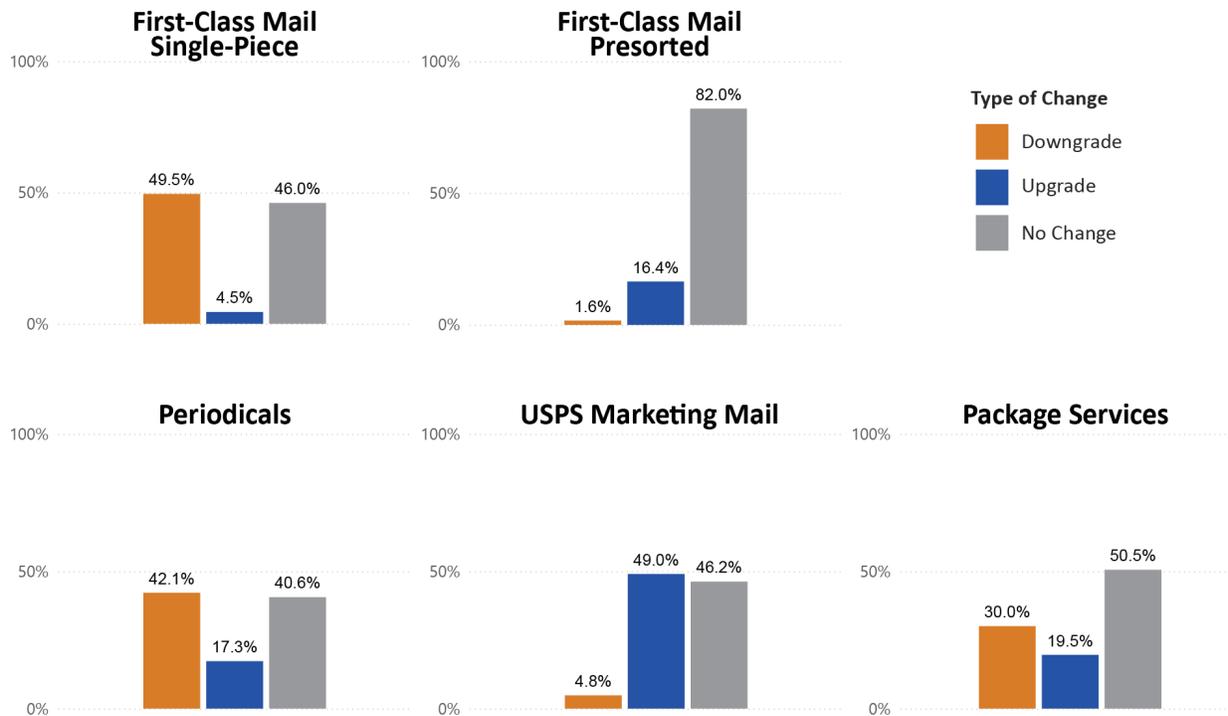
Despite all of these known and acknowledged deficiencies with the collection box density data, the Postal Service nonetheless uses that data to disaggregate Single-Piece FCM volumes by 5-Digit ZIP Code to perform its volume-based analysis. In light of the known deficiencies with the data accuracy and representativeness, the Postal Service, and subsequently the Commission, face severe limitations in understanding the current distributions of Single-Piece FCM origin volume across 5-Digit ZIP Codes. Given these limitations, the Commission finds that the deficiencies of the collection box density data make any analysis of the impacts of the proposed service standard changes on Single-Piece FCM volumes inherently inaccurate.

In addition, the Commission concludes that the Postal Service’s volume-based approach is misleading because it allows the impacts from the highest volume areas to mute the impacts in lower volume areas. The Commission finds that evaluating the impacts of the proposed service standard changes using 5-Digit Origin to 3-Digit Destination ZIP Code pairs as opposed to mail volume is a more appropriate approach because it both uses accurate data and provides a more comprehensive picture of how specific communities, particularly those with lower mail volumes, are going to be affected. Using this methodology for analysis ensures that both high- and low-volume areas are equally considered, preventing the impacts in the highest volume areas from muting the impacts in lower volume areas and offering a clearer picture of geographic and community-level effects of the proposed changes. As the Postal Service states, “RTO sites account for lower average volume per office.” Hagenstein Response to MH/USPS-T1-1-17, question 4. Thus, by analyzing impacts based on volume, the negative effects on lower volume mail originating in areas subject to RTO are muted.

By emphasizing the effects on higher volume areas not subject to RTO, the Postal Service’s analysis presents a more positive picture because it obscures the negative impacts that will be experienced in lower volume areas.

In Figure VII-E3, the Commission presents its 5-Digit Origin to 3-Digit Destination ZIP Code pair impact analysis, which demonstrates that the Postal Service’s volume-based approach obscures and minimizes negative impacts by giving greater weight to higher volume areas that will generally experience more unchanged and upgraded service under the proposed service standards. The Origin-Destination ZIP Code pair analysis also shows more pronounced negative impacts for several mail categories and demonstrates that the Postal Service’s proposed service standard revisions will create clear winners and losers within Market Dominant mail.

**Figure VII-E3
Service Standard Changes Based on Origin-Destination ZIP Code Pairs**



Source: Revised Library Reference USPS-LR-N2024-1-3, November 29, 2024.

For FCM, the Origin-Destination ZIP Code pair analysis demonstrates how Single-Piece FCM will experience significant downgrades in its service as a result of the proposed changes in service standards,¹³⁰ while Presorted FCM will experience little service degradation and substantial upgrades in service. Specifically, the analysis for Single-Piece FCM reveals that 49.5 percent of ZIP Code pairs will experience downgrades, while only 4.5 percent will see upgrades and 46.0 percent will remain unchanged. This compares to the Postal Service's volume-based analysis of 55.3 percent unchanged, 39.3 percent downgraded, and 5.4 percent upgraded for Single-Piece FCM.¹³¹ The Origin-Destination ZIP Code pair analysis also shows that unlike Single-Piece FCM, the vast majority of Presorted FCM ZIP Code pairs either benefit from the proposed service standard changes or experience no change with only 1.6 percent of Presorted FCM ZIP Code pairs experiencing downgrades and 16.4 percent seeing upgrades.

Similar to Single-Piece FCM, the Origin-Destination ZIP Code pair analysis shows that Periodicals ZIP Code pairs will experience more downgrades in service standards (42.1 percent) than upgrades (17.3 percent) or no change in service standards (40.6 percent). This contrasts sharply with the Postal Service's volume-based analysis, which shows 93 percent of Periodicals volume with an unchanged service standard with more volume being upgraded (4 percent) than downgraded (3 percent).¹³² The Origin-Destination ZIP Code pair analysis also shows that Package

¹³⁰ Several interested parties raise concerns about the slowing down of Single-Piece FCM in particular, including the disproportionate nature of the proposal and harms it will cause to the Postal Service's reputation, the general public, and household and business customers. *See, e.g.,* APWU Brief at 2, 4-5, 19-21; GCA Brief at 5, 8-9; NPPC Statement at 4, 7-8; PostCom Statement at 8.

¹³¹ USPS-T-2 at 10-11. As the Commission notes above, the Postal Service's volume-based impact analysis for Single-Piece FCM relies on 3-Digit ZIP Code data converted to 5-Digit using collection box volume estimates that have recognized deficiencies in the accuracy and representativeness of the data, thus calling into question the accuracy of the Postal Service's volume-base analysis for Single-Piece FCM.

¹³² USPS-T-2 at 10. N/MA argues that even if the Postal Service's numbers are correct, it is concerned that service performance will not reflect these improvements. N/MA Statement at 4. Further,

Services ZIP Code pairs will experience more downgrades (30.0 percent) than upgrades (19.5 percent) in service standards with 50.5 percent of Origin-Destination ZIP Code pairs' service standards unchanged. Similar to Periodicals, these findings differ from the Postal Service's volume-based analysis, which shows Package Services volumes receiving more upgrades (12 percent) than downgrades (9 percent) with 79 percent of the volume having an unchanged service standard as a result of the Postal Service's proposal. USPS-T-2 at 10.

The Origin-Destination ZIP Code pair analysis also demonstrates that like Presorted FCM, USPS Marketing Mail substantially benefits from the proposed service standard changes. Unlike Single-Piece FCM, Periodicals, and Package Services, which all experience substantial service standard downgrades, 49.0 percent of USPS Marketing Mail ZIP Code pairs will experience upgraded service standards and 46.2 percent will experience no change in service standards under the proposed changes with only 4.8 percent expected to experience downgraded service standards.

As explained by APWU, the substantial downgrades described above will have widespread practical impacts on individuals and businesses. APWU-RT-2 at 6-10. For example, APWU describes how lengthening service standards raises financial concerns for customers, such as potential challenges with sending and receiving timely checks and failure to meet payment deadlines, resulting in late fees or affected creditworthiness. *Id.* at 6. APWU explains that these issues and the service downgrades could cause customers to change their practices but that alternatives may be more expensive, burdensome, or generally impractical or non-existent. *Id.* at 6-7. This is especially true in cases where the Postal Service is a "lifeline" and fulfills needs that are unable to be met otherwise, including cases where the Postal Service is the only delivery service provider in a community. *Id.* at 8-9. APWU also points out that small businesses rely heavily on the Postal Service and that "slower and less reliable

N/MA notes that actual delivery for some Periodicals, particularly end-to-end mailpieces, will slow significantly. *Id.* at 4-5.

mail service is likely to diminish their business, especially in this time of rising costs.” *Id.* at 7. In focusing on its overly positive picture of improved service, the Commission is concerned that the Postal Service has not adequately considered the widespread and disproportionate negative effects its proposal will have on certain Market Dominant mailers and customers. In light of the Commission’s analysis concerning the imbalanced negative impacts on Market Dominant mail, the Commission strongly advises the Postal Service to closely monitor the impact of its proposed changes to the service standards on Market Dominant mailers and customers and to modify its plans and take immediate mitigation measures if service impacts are greater than expected.

Negative impacts on rural communities. In witness Saleem’s written testimony, the Postal Service also provides a volume-based impact analysis using FY 2024, Quarter 3 FCM, USPS Marketing Mail, and Periodicals volume that disaggregates service standard upgrades and downgrades by whether the mailpiece originated in a rural or urban area based on U.S. Census Bureau definitions and criteria for those classifications.¹³³ The Postal Service asserts that its “results show that a majority of the impacts will be for urban communities.” USPS-T-2 at 14. Specifically, the Postal Service notes that only 5 percent of all FY 2024, Quarter 3 FCM, USPS Marketing Mail, and Periodicals mail originated in rural communities. *Id.* Out of the total amount of FY 2024, Quarter 3 FCM, USPS Marketing Mail, and Periodicals mail that would have been upgraded had the revised service standards been in effect in FY 2024, Quarter 3, the volume-based analysis found only 3 percent originated in rural areas. *Id.* Out of the total amount of FCM, USPS Marketing Mail, and Periodicals mail that would have been downgraded had the revised service standards been in effect in FY 2024, Quarter 3, the volume-based analysis found 20 percent originated in rural areas. *Id.*

¹³³ USPS-T-2 at 13-17. The Commission notes that the Postal Service uses the term “urban” throughout its testimony to refer to non-rural areas. The Commission uses the terms “non-rural” and “urban” interchangeably throughout this analysis. The Commission notes that the term “non-rural” better reflects the continuum from rural to urban, as it encompasses both urban and suburban areas.

The Postal Service explains that its volume-based analysis shows similarly small effects on mail originating in rural communities when its results are broken out into smaller categories. For Single-Piece FCM, FY 2024, Quarter 3 volumes that originated in rural areas made up 15 percent of total Single-Piece FCM, 4 percent of the Single-Piece FCM volume that would have been upgraded had the revised service standards been in effect in FY 2024, Quarter 3, and 25 percent of the Single-Piece FCM volume that would have been downgraded had the revised service standards been in effect in FY 2024, Quarter 3. *Id.* at 14-15. For USPS Marketing Mail, FY 2024, Quarter 3 volumes that originated in rural areas made up 5 percent of total USPS Marketing Mail, 3 percent of the USPS Marketing Mail volume that would have been upgraded had the revised service standards been in effect in FY 2024, Quarter 3, and 3 percent of the USPS Marketing Mail volume that would have been downgraded had the revised service standards been in effect in FY 2024, Quarter 3. *Id.* at 15-16. For Periodicals, FY 2024, Quarter 3 volumes that originated in rural areas made up 7 percent of total Periodicals mail, 1 percent of the Periodicals mail volume that would have been upgraded had the revised service standards been in effect in FY 2024, Quarter 3, and 4 percent of the Periodicals mail that would have been downgraded had the revised service standards been in effect in FY 2024, Quarter 3. *Id.* at 16-17.

The Postal Service argues that “analyzing how a service standard change impacts mail volume is the appropriate way to assess the actual impact on . . . customers” and represents that it did not consider any other quantitative analysis related to impacts on rural communities. Response to POIR No. 2, question 19.b. The Postal Service states that it “is not aware of any limitations with using mail volume for its analysis” evaluating the impacts on rural communities. *Id.* question 19.e.

However, the same limitations the Commission identified with the Postal Service’s volume-based approach to assess the impacts of the proposed service standard changes on various Market Dominant categories of mail are applicable to the volume-based analysis disaggregating rural and urban impacts. As the Commission

previously explained, using 5-Digit Origin to 3-Digit Destination ZIP Code pairs to evaluate the impacts of the proposed service standard changes is a more appropriate approach because it provides a more comprehensive and accurate picture of how specific communities, particularly those with lower mail volumes, are going to be affected. This is particularly important when assessing the impact on rural areas as those areas tend to send less mail and thus the effects on those areas are under-weighted in a volume-based analysis. Using 5-Digit Origin to 3-Digit Destination ZIP Code pairs for analysis ensures that all areas are equally considered, preventing the impacts in the highest volume (and often urban) areas from muting the impacts in lower volume (and often rural) areas. In addition, as explained above, the 5-Digit Origin to 3-Digit Destination ZIP Code pair data do not have the same deficiencies related to accuracy and representativeness for Single-Piece FCM as the data used in the Postal Service's volume-based analysis.

In Figure VII-E4, the Commission presents its 5-Digit Origin to 3-Digit Destination ZIP Code pair impact analysis, which uses the same urban and rural designations as the Postal Service's volume-based analysis. The Commission's analysis confirms that the Postal Service's volume-based analysis obscures and minimizes negative impacts on rural areas by giving greater weight to higher volume areas. The Origin-Destination ZIP Code pair analysis demonstrates that rural areas are substantially more vulnerable to the negative effects of the proposed changes to the service standards and that rural communities will experience substantially higher levels of downgraded service than urban areas.

The Commission is particularly concerned about the disproportionate impacts the Postal Service's proposed changes in service standards will have on rural communities.¹³⁴ While the Postal Service uses its analysis to paint a picture of minimal

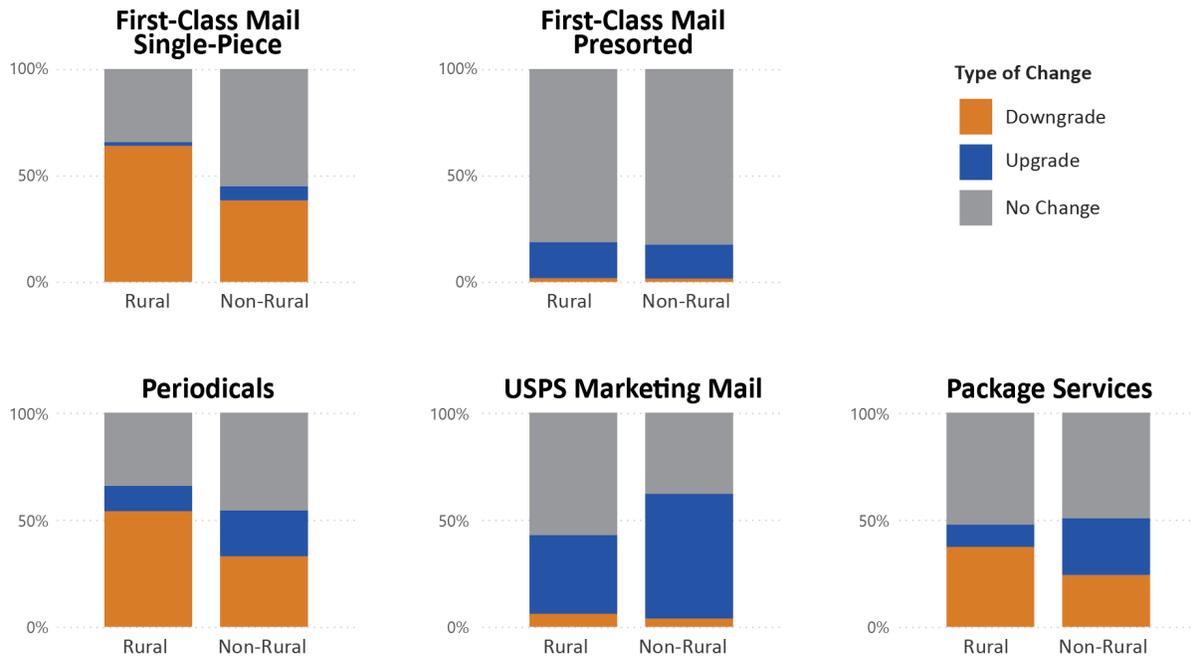
¹³⁴ Many interested parties raise concerns regarding the disproportionate negative impacts the Postal Service's proposal will have on citizens in rural areas and how the Postal Service's analysis minimizes and dismisses those impacts and oppose the Postal Service's proposed service degradations

rural impacts, the Commission's analysis provided below makes clear that rural communities will experience significantly higher rates of downgraded service and significantly lower rates of upgraded service compared to non-rural areas. The Commission is very concerned that the Postal Service has greatly underestimated how its proposal will impact rural communities. The Commission is also concerned that these disproportionate impacts will most greatly affect rural citizens and businesses who rely heavily on the Postal Service, delaying both their outgoing mail and their receipt of key documents and other essential items sent from areas also experiencing downgraded service. As APWU notes, rural customers "are particularly dependent on the Postal Service to conduct their affairs" and are "concerned that additional slowdowns would make it more difficult or expensive to do business, or to keep in touch with family and friends." APWU-RT-2 at 6. APWU explains that many rural residents "feel like they are being punished with worse postal service simply because of where they live" and that "even slower service will make it impossible to reliably conduct their affairs through the Postal Service." *Id.* at 9. APWU states that rural residents are concerned that "the proposed changes would make it more costly for them to live in their communities" whether the costs arise from needing to use more expensive alternatives, change business practices, or travel to areas with better service. *Id.* at 10. The Postal Service has "as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people" and it is required to "provide prompt, reliable, and efficient services to patrons in all areas and . . . render postal services to all communities." 39 U.S.C. § 101(a). The Commission strongly advises the Postal Service to consider these obligations and reconsider the impact of its proposed changes

in rural areas. See, e.g., NRECA Statement at 2-3; VA, MD, DE Association Statement at 1; Congress Statement at 1-3; APWU Brief at 7-9; GCA Brief at 5; PR Brief at 27; Hutkins Statement at 1-2, 7-11; PSA Statement at 2, 7; PR Reply Brief at 9-10.

to the service standards, particularly on rural areas and the rural citizens and businesses who rely most heavily on the Postal Service.

Figure VII-E4
Service Standard Changes Based on ZIP Code Pairs
Rural/Non-Rural Breakdown Using Postal Service Designation



Source: Revised Library Reference USPS-LR-N2024-1-3; Revised Library Reference USPS-LR-N2024-1-6, November 29, 2024; USPS-T-2 at 13. See Response to POIR No. 1, question 36.

The Commission's analysis shows that rural areas will be disproportionately affected by the proposed changes to service standards, experiencing significantly higher rates of downgraded service compared to urban areas. For Single-Piece FCM, 64.0 percent of rural 5-Digit to 3-Digit ZIP Code pairs will be downgraded, compared to 38.3 percent of non-rural pairs. Similarly, the disparities are stark across other mail categories: for Periodicals, 54.1 percent of rural pairs will be downgraded versus 33.0 percent of non-rural pairs; for Package Services, 37.4 percent versus 24.2 percent; for USPS Marketing Mail, 6.1 percent versus 3.8 percent; and for Presorted FCM, 1.7 percent versus 1.5 percent.

Upgrades, on the other hand, will be far less likely for rural areas than for non-rural areas. For Single-Piece FCM, only 1.7 percent of rural pairs will experience upgrades compared to 6.7 percent of non-rural pairs. This trend appears across other categories: for Periodicals, 11.9 percent of rural pairs will experience upgrades versus 21.4 percent of non-rural pairs; for Package Services, 10.4 percent versus 26.6 percent; and for USPS Marketing Mail, 36.8 percent versus 58.4 percent. These findings highlight the inequities in service impacts, with rural communities bearing a disproportionately greater burden of degraded service while receiving fewer benefits from the proposed changes. The Commission notes that its analysis stands in sharp contrast to the Postal Service's volume-based analysis, which led the Postal Service to conclude "that a majority of the impacts will be for urban communities." USPS-T-2 at 14.

The Commission also presents an alternative analysis that uses rural-urban commuting area (RUCA) codes from the U.S. Department of Agriculture Economic Research Service to provide a more granular classification of rural and urban areas and confirm the disproportionately higher impacts on less populated areas. Although the Postal Service asserts that RUCA classifications are "not appropriate for the volume impact analysis performed for this case[.]" the Postal Service does not provide a basis for this assertion. Response to POIR No. 2, question 17. The Postal Service most

recently used RUCA codes in a proceeding before the Commission in Docket No. RM2022-3, where they were used “as a characteristic variable to improve [an] econometric model to estimate volume variabilities for city carrier street time by differentiating densities across sampled ZIP Codes.”¹³⁵

RUCA codes range from 1 (most urban) to 10 (most rural), using “measures of population density, urbanization, and daily commuting flows to classify ZIP Codes along a spectrum of congestion from the least congested rural areas to the most congested urban cores.” Docket No. RM2022-3, Bradley Report at 74-75. Table VII-E1 shows the classification description applying to each RUCA code.

**Table VII-E1
Primary RUCA Codes, 2010**

RUCA Code	Description
1	Metropolitan area core: primary flow within an urbanized area (UA)
2	Metropolitan area high commuting: primary flow 30% or more to a UA
3	Metropolitan area low commuting: primary flow 10% to 30% to a UA
4	Micropolitan area core: primary flow within an Urban Cluster of 10,000 to 49,999 (large UC)
5	Micropolitan high commuting: primary flow 30% or more to a large UC
6	Micropolitan low commuting: primary flow 10% to 30% to a large UC
7	Small town core: primary flow within an Urban Cluster of 2,500 to 9,999 (small UC)
8	Small town high commuting: primary flow 30% or more to a small UC
9	Small town low commuting: primary flow 10% to 30% to a small UC
10	Rural areas: primary flow to a tract outside a UA or UC

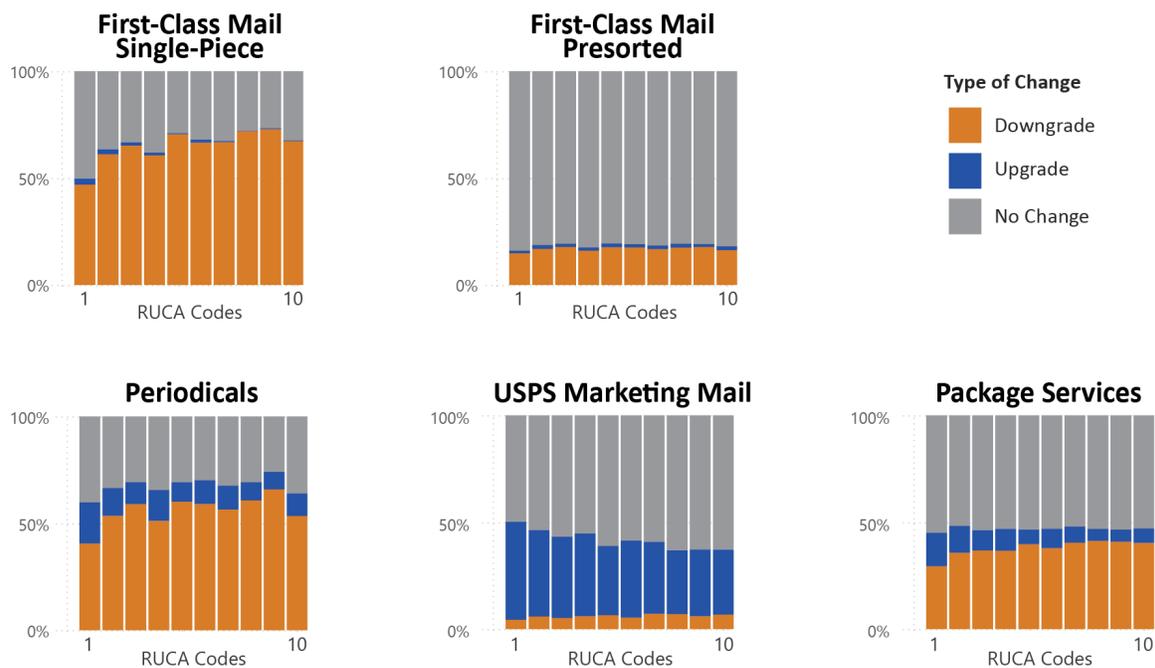
Source: U.S. Department of Agriculture, Economic Research Service, Rural-Urban Commuting Area Codes, available at <https://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes/rural-urban-commuting-area-codes/>, Excel file “RUCA2010zipcode.xlsx,” tab “RUCA code description.”

¹³⁵ Response to POIR No. 2, question 17. See Docket No. RM2022-3, Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal One), January 5, 2022, file “Top Down Model Bradley Report.pdf,” at 74-82 (Docket No. RM2022-3, Bradley Report).

As Table VII-E1 shows, each code assigns both a type of commuting area (i.e., metropolitan, micropolitan, small town or rural area) and a description of the primary commuting flow.

In Figure VII-E5, the Commission presents a 5-Digit Origin to 3-Digit Destination ZIP Code pair impact analysis, using the RUCA codes to define the rural or urban nature of the originating ZIP Code.

**Figure VII-E5
Service Standard Changes Based on ZIP Code Pairs**



Source: Revised Library Reference USPS-LR-N2024-1-3; U.S. Department of Agriculture, Economic Research Service, Rural-Urban Commuting Area Codes, available at <https://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes/rural-urban-commuting-area-codes/>, Excel file "RUCA2010zipcode.xlsx."

The analysis shows that in general, as the RUCA codes increase, indicating a shift from urban areas to smaller cities and towns and more rural areas, the percentage of 5-Digit to 3-Digit ZIP Code pairs that will experience downgrades increases across all mail categories. This trend is most pronounced for Single-Piece FCM and Periodicals. For example, the percentage of Single-Piece FCM ZIP Code pairs that will experience

downgrades increases from 47.0 percent in urban areas (for mail originating in RUCA code 1) to a peak of 72.9 percent for mail originating in RUCA code 9, while the percentage of Periodicals ZIP Code pairs that will experience downgrades rises from 40.6 percent to 65.9 percent over the same range.

However, the percentage of downgraded ZIP Code pairs with mail originating in RUCA code 10 (the most rural areas) was lower than that for mail originating in RUCA code 9. Specifically, the percentage of Single-Piece FCM ZIP Code pairs that will experience downgrades drops to 67.4 percent for mail originating in RUCA code 10 compared to 72.9 percent for mail originating in RUCA code 9. A similar impact appears for Periodicals ZIP Code pairs with downgrades falling to 53.5 percent for mail originating in RUCA code 10 from 65.9 percent for mail originating in RUCA code 9. This anomaly may reflect that these regions already operate near baseline service standards, leaving less room for further degradation.

Lastly, the Commission finds that multi-day service standard downgrades will be more common for 5-Digit Origin to 3-Digit Destination ZIP Code pairs with originating mail from rural 5-Digit ZIP Codes. Table VII-E2 presents an analysis of the share of 5-Digit to 3-Digit ZIP Code pairs that will experience multi-day service standard downgrades and are rural, using the same urban and rural designations as the Postal Service's volume-based analysis.

Table VII-E2
Share of Rural ZIP Codes Experiencing Multi-Day Downgrades in Service

Number of Days Downgraded	FCM Single-Piece	USPS Marketing Mail	Periodicals	Package Service
2	57%	56%	56%	51%
3	-	53%	-	55%
4	-	-	-	49%

Source: Revised Library Reference USPS-LR-N2024-1-3; Revised Library Reference USPS-LR-N2024-1-6; USPS-T-2 at 13. See Response to POIR No. 1, question 36.

As Table VII-E2 illustrates, 57 percent of the proposed 2-day service standard downgrades for FCM Single-Piece will occur in ZIP Code pairs with originating mail from rural 5-Digit ZIP Codes. Similarly, more than 50 percent of the proposed 2-day service standard downgrades for USPS Marketing Mail, Periodicals, and Package Services will occur in ZIP Code pairs with originating mail from rural 5-Digit ZIP Codes, and 53 percent and 55 percent of the 3-day service standard downgrades for USPS Marketing Mail and Package Services, respectively, will occur in ZIP Code pairs with originating mail from rural 5-Digit ZIP Codes. Although slightly less than half of 4-day service standard downgrades for Package Services will occur in ZIP Code pairs with originating mail from rural 5-Digit ZIP Codes, less than 0.04 percent of all ZIP Codes have a 4-day downgrade in service.

b. Service Performance Concerns

The Postal Service asserts repeatedly that the service standard and operational changes proposed in this proceeding will improve service performance and service reliability. For example, the Postal Service states that “[t]he service standard adjustments—which overall lead to most mail volume having the same or an enhanced standard—. . . will allow [the Postal Service] to provide more efficient and reliable service.” USPS-T-1 at 52. The Postal Service also claims that the proposed changes “will not only stabilize . . . service but will revitalize [the Postal Service’s] network in a manner than enables [the Postal Service] to substantially improve . . . service quality overall, through improved precision and reliability.” Request at 2. The Postal Service further claims that among the benefits of its initiatives are “enhance[d] service” and increased ability “to reliably achieve [the Postal Service’s service] standards” and that “[a]ll volume will . . . benefit from greater service reliability.” *Id.* at 2, 3, 5.

Despite these optimistic assertions concerning service performance, the Postal Service acknowledges that it “experienced significant execution challenges with respect to the roll-out of RPDC activations in Richmond (the first RPDC activation) and Atlanta (a particularly complex activation that involved changes to over ten separate facilities),

which led to temporary service performance declines in these regions.” *Id.* at 17. The Postal Service represents that “[t]hese service performance declines were the function of poor execution in these specific regions, and do not indicate any issues with the long-term strategy underlying the new network design; indeed, these issues did not arise with respect to the activations in regions such as Portland, and service has been steadily improving in Richmond and Atlanta.” *Id.* The Postal Service claims that it made adjustments to its processes to prevent similar issues in future implementations. *Id.* at 12-13, 17.

However, the Postal Service also acknowledges that “[d]ue to the very significant changes that are required to effectively transform the Postal Service, it is also possible that service performance may be temporarily impacted in regions where significant modernization efforts are undertaken” and that it “is committed to minimizing the disruptions that occur, correcting any issues in an effective manner, and adjusting [its] processes to improve [its] execution of these changes moving forward.” *Id.* at 47. The Postal Service asserts that these possible localized service performance issues “would be short-term, localized, and minor in nature” and that “[o]ver the medium and long-term, by implementing [the proposed] operational initiatives and the service standards to which they are aligned, the Postal Service will increase service reliability while achieving the operational improvements and cost reductions that are critical to [the Postal Service] being a modern, high-performing, and financially sustainable organization.” Response to POIR No. 3, question 19.d.

Although the Postal Service claims that improved service performance and reliability will result from its proposed operational and service standard changes, the Commission is concerned that the opposite may occur, as the available evidence shows a considerable decline in service performance in areas where the Postal Service

implemented RPDCs.¹³⁶ As the Public Representative argues, the Postal Service’s decision to “dramatically lower” service performance targets for FY 2025 “appears to be an implicit recognition by the Postal Service that service performance will deteriorate as a result of the proposal in FY 2025.”¹³⁷ NPPC observes that there is an unexplained disconnect between the Postal Service’s claims of enhanced service and the “significantly reduced” FY 2025 service performance targets. NPPC Statement at 6. In the analysis presented below, the Commission assesses the impact of RPDC implementation on service performance by analyzing district-level and national performance trends surrounding the time of RPDC implementation in the three districts where RPDCs have been implemented.

Figure VII-E6 illustrates weekly outbound service performance scores for the Georgia, Virginia, and ID-MT-OR¹³⁸ districts—the three districts where RPDCs have been implemented—compared to national averages for FY 2023 and FY 2024. Specifically, Figure VII-E6 shows weekly performance scores for FCM Single-Piece Letters and Postcards with a 3-Day service standard to illustrate the trends in performance in those districts as compared to the national average in FY 2023 and FY 2024. As the figure shows, service performance decreased significantly in late FY 2023 and FY 2024, which covers the pre-implementation, implementation, and immediate post-implementation periods for the Atlanta, Georgia, Richmond, Virginia, and Portland,

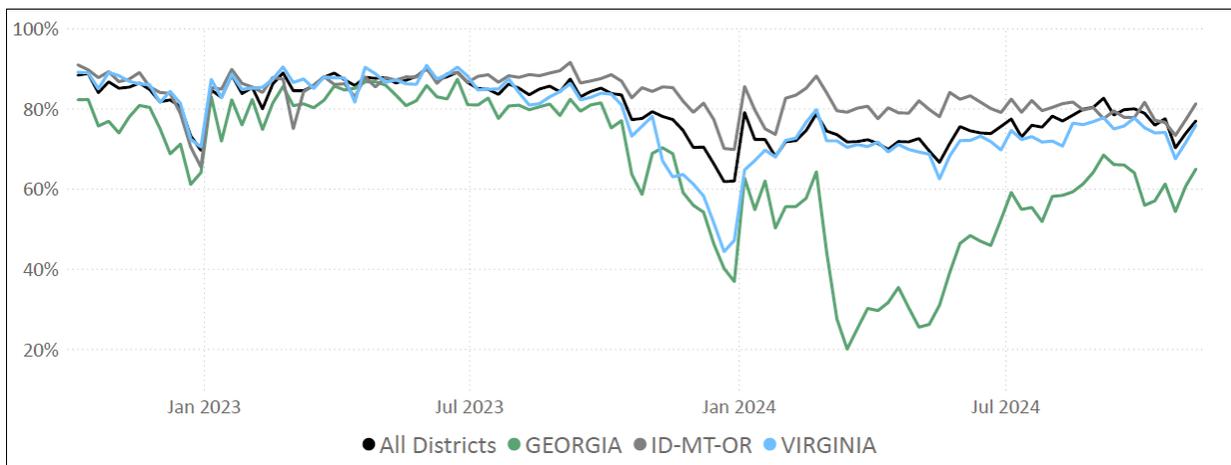
¹³⁶ Several interested parties express similar concerns that service reliability will decline after the Postal Service implements its plan and that the Postal Service has not adequately addressed the service failures that occurred with the implementation of prior RPDCs and LTO pilots. See, e.g., NRECA Statement at 2; Congress Statement at 2; PR Brief at 30-32; NPPC Statement at 4-6; PostCom Statement at 8; PR Reply Brief at 6-9.

¹³⁷ PR Brief at 32-33. N/MA, PostCom, and NPPC also note that service performance targets were lowered while this docket was open. N/MA Statement at 3-4; PostCom Statement at 7; NPPC Statement at 2, 6. The Postal Service explains that its service performance targets are “appropriate” and “reflect the capabilities of [its] current network” but do not indicate “that the Postal Service is not confident that the operational initiatives [it is] proposing will enable [it] to meet [its] goals in the long term.” Postal Service Reply Brief at 11.

¹³⁸ The Commission notes that the Portland, Oregon RPDC does not process mail for the entire ID-MT-OR district.

Oregon RPDCs.¹³⁹ Similar trends are observed in other categories, although the magnitude of the decline differs.

Figure VII-E6
Weekly Service Performance for First-Class Mail Single-Piece Letters and Postcards with 3-Day Service Standard (Outbound)



Source: USPS Service Performance Dashboard, available at <https://spm.usps.com/#/main>.

The Commission further analyzes the impact of RPDC implementation on service performance by calculating pre- and post-implementation average scores for specified time windows (4 and 12 weeks pre- and post-implementation) across the three districts with RPDCs in operation in FY 2024 and comparing them to national trends.¹⁴⁰ Implementation dates were defined for each district,¹⁴¹ and weekly time windows were used to calculate average scores¹⁴² before and after implementation.

¹³⁹ The Richmond, Virginia RPDC was implemented in July 2023, and the Atlanta, Georgia and Portland, Oregon RPDCs were implemented in February 2024. OIG Report No. 23-161-R24 at 3; OIG Report No. 24-074-R24 at 2; OIG Report No. 24-071-R24 at 2.

¹⁴⁰ The Commission uses the Postal Service's service performance data derived from its Service Performance Dashboard to perform this analysis. USPS Service Performance Dashboard, available at <https://spm.usps.com/#/main>.

¹⁴¹ For each district, the 1st of the applicable month (July 2023 for Richmond, VA, February 2024 for Atlanta, GA, and February 2024 for Portland, Oregon) is assumed to be the implementation day. See OIG Report No. 23-161-R24 at 3; OIG Report No. 24-074-R24 at 2; OIG Report No. 24-071-R24 at 2.

¹⁴² For this analysis, the Commission uses a simple average of scores.

The results for FCM Single-Piece Letters and Postcards with a 3-Day service standard illustrate the impacts of RPDC implementation on service performance across the Georgia, Virginia, and ID-MT-OR districts compared to national average. This category highlights changes in service performance and provides a baseline for comparing other service standards, shapes, and products.

In Georgia, the decline in performance scores post-implementation was pronounced and sustained. Four weeks after implementation, the district's average performance for FCM Single-Piece Letters and Postcards with a 3-Day service standard dropped from 67.4 percent on-time 4 weeks pre-implementation to 42.5 percent on-time post-implementation, a decline of 24.9 percentage points. By contrast, the national average saw a decline of 4.9 percentage points over the same period, decreasing from 78.1 percent on-time to 73.2 percent on-time. This gap widened over time, with Georgia's performance dropping 27.5 percentage points by 12 weeks post-implementation, from a pre-implementation average 12 weeks prior to implementation of 76.4 percent on-time to a post-implementation average of 48.9 percent on-time. During the same period, the national average declined by 8.7 percentage points, from 83.5 percent on-time to 74.8 percent on-time. These results indicate significant and persistent service performance challenges occurring during the RPDC transition in Georgia, with performance declines far exceeding national trends and very significantly below comparable periods pre-implementation.

In comparison, FCM Single-Piece Letters and Postcards with a 3-Day service standard in Virginia experienced more moderate, but still substantial, impacts after implementation of the RPDC. Comparing the 4 weeks pre- and post-implementation, the district's average score fell from 86.0 percent on-time pre-implementation to 74.1 percent on-time post-implementation, a decline of 11.9 percentage points. Comparing the 12 weeks pre- and post-implementation, the district's performance post-implementation fell to a district score average of 72.9 percent, reflecting a total decline of 11.9 percentage points from the 12-week pre-implementation average of 84.8

percent. Nationally, the average performance declined by 7.7 percentage points over the same period, from 84.1 percent to 76.4 percent. While Virginia's implementation faced notable service performance challenges, the decline in performance was less severe than Georgia's but still substantially below national averages and pre-implementation comparisons.

In the ID-MT-OR district, the RPDC implementation had minimal impact, with performance for FCM Single-Piece Letters and Postcards with a 3-Day service standard closely aligning with national averages. Comparing 4 weeks pre- and post-implementation, the district's average on-time performance dropped from 83.6 percent pre-implementation to 81.1 percent post-implementation, a modest decline of 2.5 percentage points, compared to a national decline of 4.8 percentage points during the same timeframe. Comparing 12 weeks pre- and post-implementation, the ID-MT-OR district's average on-time score had decreased by 5.5 percentage points, from 85.8 percent pre-implementation to 80.3 percent post-implementation, while the national average declined by 8.7 percentage points. These results suggest a smoother transition for RPDC implementation in Oregon, with impacts limited in scope and duration.

There are notable differences between the results for FCM Single-Piece Letters and Postcards with 2-Day and 3-Day service standards, particularly regarding the severity and persistence of service performance declines. Specifically, FCM Single-Piece Letters and Postcards with a 2-Day service standard experienced sharper initial declines, and in some cases, slower recovery compared to FCM Single-Piece Letters and Postcards with a 3-Day service standard. In Georgia, the difference between the two categories is particularly stark. For FCM Single-Piece Letters and Postcards with a 3-Day service standard, on-time service performance declined by 24.9 percentage points from 67.4 percent to 42.5 percent when comparing 4 weeks pre- and post-implementation. However, FCM Single-Piece Letters and Postcards with a 2-Day service standard saw an even steeper drop of 37.7 percentage points, from 84.6

percent to 46.9 percent over the same period. This sharper decline suggests that mail with the 2-Day service standard's tighter operational deadlines was significantly disrupted during implementation. Even after 12 weeks, 2-Day on-time service performance had increased to just 53.5 percent, reflecting a total decline of 33.8 percentage points, whereas 3-Day on-time service performance declined by 27.5 percentage points over the same period, showing a significant but smaller impact. In the Virginia and ID-MT-OR districts, the differences in on-time service performance between FCM Single-Piece Letters and Postcards with 3-Day and 2-Day service standards were evident but more modest.

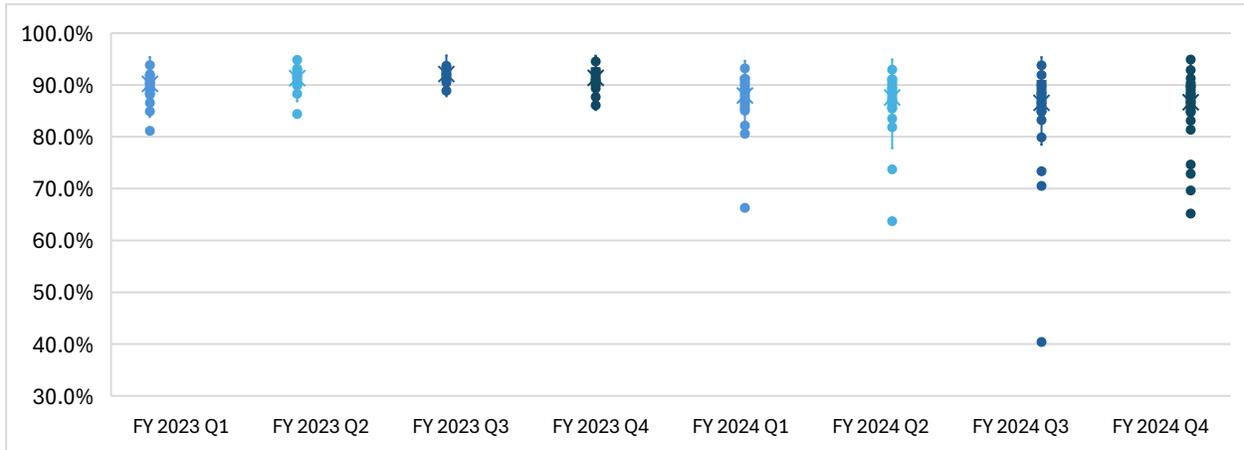
The results for FCM Flats with a 3-Day service standard are similar to those of FCM Single-Piece Letters and Postcards with a 3-Day service standard, with varying degrees of performance declines compared to the national averages. In Georgia, FCM Flats performance declined sharply, with a drop of 21.4 percentage points 4 weeks post-implementation and 26.3 percentage points at 12 weeks post-implementation, compared to smaller national declines of 4.4 and 8.4 percentage points in the same time periods, respectively. The Virginia district experienced moderate impacts, with FCM Flats service performance declining by 6.3 percentage points after 4 weeks post-implementation and increasing to a 7.7-percentage point decline by 12 weeks post-implementation, aligning more closely with national trends during the same periods. The ID-MT-OR district saw smaller impacts in the post-implementation period, with declines of 2.9 percentage points at 4 weeks and 5.4 percentage points at 12 weeks, tracking national averages.

Lastly, the negative effects of implementation on service performance are less pronounced for workshared mail categories, and for categories with more generous service standards. The service performance fluctuations for FCM Presorted Letters and Postcards and various USPS Marketing Mail categories showed disruption in service performance following the implementation of the RPDCs, but to a lesser degree than FCM Single-Piece Letters and Postcards.

In addition to the negative impact of RPDC implementation on performance scores, implementation of the DFA Plan as a whole appears to have increased variability in district-level service performance. Figure VII-E7 depicts the performance trends for FCM Single-Piece Letters and Postcards with a 2-Day service standard from FY 2023, Quarter 1 through FY 2024, Quarter 4. The box and whisker plots for each quarter highlight the variability of performance scores across the districts, including the median, interquartile range, and any outliers.

As Figure VII-E7 shows, variance increased substantially from FY 2023 to FY 2024. In FY 2024, Quarters 3 and 4, the variance among districts increased (even though the average performance of FCM Single-Piece Letters and Postcards with a 2-Day service standard improved compared with the previous quarter). There are also a substantial number of negative outlier districts in FY 2024, with several districts scoring more than 10 percentage points below the national average for a given quarter. In FY 2023, no districts scored more than 10 percentage points below the national average in any quarter. The widening gap between district scores in FY 2024 coincides with DFA-related operational shifts in FY 2024, which suggests that DFA Plan implementation may not be achieving standardization in operations as intended.

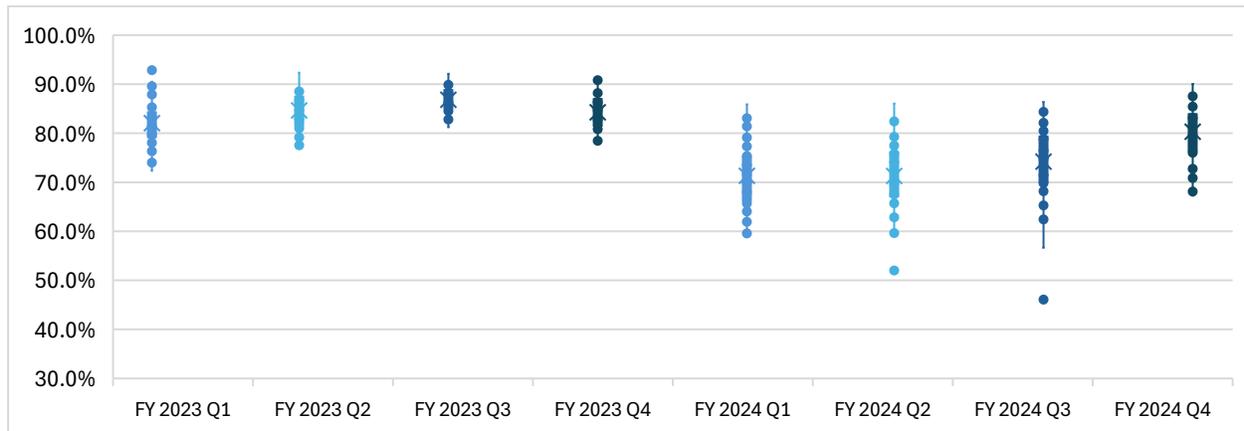
Figure VII-E7
First-Class Mail Single-Piece Letters and Postcards 2-Day
Quarterly Performance Score Distribution by District, FY 2023–FY 2024



Source: United States Postal Service, FY 2023 Quarter 4 – Quarterly Performance Measurement Data, November 9, 2023, ZIP file “QuartPerf_FY23_Q4;” United States Postal Service, FY 2024 Quarter 4 – Quarterly Performance Measurement Data, November 12, 2024, ZIP file “QuartPerf_FY24_Q4.”

Figure VII-E8 shows the distribution of district scores for FCM Single-Piece Letters and Postcards with a 3-5-Day service standard for each quarter of FY 2023 and FY 2024. Like the 2-Day category, the 3-5-Day category shows a growing variance, with several districts reporting scores more than 10 percentage points below the national average in FY 2024. The growing variance for the 3-5-Day category also indicates ongoing challenges in maintaining consistent service across districts.

Figure VII-E8
First-Class Mail Single-Piece Letters and Postcards 3-5-Day
Quarterly Performance Score Distribution by District, FY 2023–FY 2024



Source: United States Postal Service, FY 2023 Quarter 4 – Quarterly Performance Measurement Data, November 9, 2023, ZIP file “QuartPerf_FY23_Q4;” United States Postal Service, FY 2024 Quarter 4 – Quarterly Performance Measurement Data, November 12, 2024, ZIP file “QuartPerf_FY24_Q4.”

For USPS Marketing Mail categories, district service performance follows a similar pattern to service performance for FCM Single-Piece Letters and Postcards, but the variances are less pronounced, possibly because USPS Marketing Mail service standards are generally less difficult to meet, leading to more consistent performance across districts. For dropshipped categories, the changes are even less pronounced, likely because dropshipping reduces transit time and handling, making it easier to meet service standards consistently across districts.

As the analysis shows, the implementation of RPDCs in three districts led to a pronounced and sustained decline in service performance in the post-implementation period, particularly in the Georgia and Virginia districts. This raises substantial concerns that if the Postal Service has not fully identified the issues that caused those declines and the remedies necessary to prevent those issues from negatively impacting service performance in future RPDC implementations, then the Postal Service’s implementation of the RPDC model on a nationwide basis will have sustained and substantial negative effects on service performance nationwide. Although the Oregon RPDC implementation caused fewer service performance impacts, there is reason to be concerned that the

Postal Service will not appropriately apply lessons learned from these RPDC implementations to future implementations as the OIG found that the Postal Service failed to build on lessons learned from the Virginia RPDC implementation in its Georgia implementation. OIG Report No. 24-074-R24 at 4, 7. In order to minimize negative service performance impacts, the Commission concludes that the Postal Service must identify and learn from its mistakes as quickly as possible and not overlook or ignore systemic challenges in its determination to implement the proposed network and operational changes.

In addition, the Commission finds that there was an increased variance in service performance among districts in FY 2024 and that there were a substantial number of negative outlier districts in FY 2024 that did not occur in FY 2023. This indicates that service performance was increasingly uneven (while trending in an overall negative direction) among districts in FY 2024, a time period when the Postal Service accelerated the implementation and piloting of various initiatives associated with the DFA Plan. Although the Postal Service believes that its proposed network changes will improve service performance and reliability nationwide, the experience with RPDC implementation in the Georgia and Virginia districts and the increased variance in service performance across districts in FY 2024 points to the possibility that the opposite may occur and that service performance and reliability will be negatively impacted, quite possibly substantially so, by the Postal Service's proposed network and operational changes.

3. Conclusion

The Commission finds that the Postal Service presents a particularly positive picture of enhanced service under the proposed service standards and downplays the significant and imbalanced negative effects that its proposal will have on certain mail categories, classes, and rural communities in particular. Despite the Postal Service's claim that the benefits of the proposal to the Postal Service "will not come at the price of degraded service" and its volume-based analysis showing greater stability in service

standards and limited downgraded service, the Commission finds that substantial portions of the country will experience significant degradations in service standards under the Postal Service's proposal. See USPS-T-1 at 51; USPS-T-2 at 9-11, 13-17.

Under the Postal Service's proposed changes, Single-Piece FCM will see a particularly negative impact with 49.5 percent of ZIP Code pairs experiencing service standard downgrades. Periodicals and Package Services mail will also see substantial negative impacts as both mail classes will have more ZIP Code pairs experiencing service standard downgrades than upgrades. Specifically, 42.1 percent of Periodicals ZIP Code pairs will experience service standard downgrades, and 30.0 percent of Package Services ZIP Code pairs will experience service standard downgrades.

The Commission also finds that rural communities will experience disproportionate negative service standard impacts as a result of the Postal Service's proposed changes to the service standards. Although the Postal Service claims its proposal would have larger impacts on urban areas, the Commission's analysis demonstrates that the Postal Service's volume-based analysis obscures and minimizes negative impacts on rural areas by giving greater weight to higher volume areas. The Commission's analysis shows that rural areas are substantially more vulnerable to the negative effects of the proposed changes to the service standards and that rural communities will experience substantially higher levels of downgraded service than urban areas. The Commission also finds that multi-day service standard downgrades are more common for rural ZIP Codes.

The Commission is also concerned that the Postal Service's expectation that service performance and service reliability will improve as a result of its proposed changes will prove false, as demonstrated by the considerable decline in service performance in the Georgia and Virginia districts following the period when the Postal Service implemented RPDCs in those districts and the increasingly uneven service performance (while trending in an overall negative direction) among districts in FY 2024, a time period when the Postal Service accelerated the implementation and piloting of

various initiatives associated with the DFA Plan. The Commission is concerned that if the Postal Service does not fully identify the issues causing these service performance declines and does not fully implement lessons learned and appropriate remedies, then the Postal Service's roll out of its proposed operational and network changes on a nationwide basis will have sustained and substantial negative effects on service performance and service reliability nationwide.

F. Service Performance Measurement

1. Overview

Service standards specify the amount of time within which a customer may ordinarily expect that a particular mailpiece will be delivered. Each year, the Commission "make[s] a written determination" as to "whether any service standards in effect during such year were not met" as part of the *Annual Compliance Determination*. 39 U.S.C. § 3653(b)(2). To make this assessment, the Commission compares the percentage of mailpieces that achieve the stated service standard against targets established by the Postal Service. The Postal Service's service performance with respect to the service standards for Market Dominant products is measured with an internal measurement system known as internal SPM.¹⁴³ The contours of SPM are embodied in a document known as the SPM Plan, and the SPM Plan has several related design documents. When the service standards change, SPM must be adjusted to align the measurement methodologies contained in the SPM Plan and design documents with the revised service standards. The Postal Service represents that it "intends for its internal SPM systems to be accurate, reliable, and representative." USPS-T-2 at 3.

¹⁴³ Docket No. RM2024-9, Advance Notice of Proposed Rulemaking and Order Initiating Proceeding to Evaluate Internal Service Performance Measurement System, July 2, 2024, at 1 (Order No. 7247).

There are two primary categories of substantive change to SPM that the Postal Service puts forward to effectuate the service standard and operational changes proposed in this proceeding.

First, the Postal Service proposes to exclude Sundays and holidays as transit days for measurement purposes for mail and packages that are entered into the Postal Service's network on Saturday or the day before a holiday. *Id.* at 1. The Postal Service explains that this change will promote greater weekend operational flexibility in processing operations with staffing, processing, and dispatching and ensure consistent service standards across all Post Offices and product categories. *Id.* at 2.

This change will be implemented by revising the Expected Delivery Day calculation logic in SPM by not counting Sundays and Federal holidays as transit days for volume that has a start-the-clock of Saturday or the day before a Federal holiday. *Id.* As an example, the Postal Service explains that if a mailpiece has a Saturday start-the-clock and a 2-day service standard, then delivery would currently be expected to occur on Monday. *Id.* By not counting Sunday as a transit day, under the Postal Service's proposal, expected delivery of the same mailpiece would occur on Tuesday, while the service standard would continue to be considered 2 days (as Sunday will not be counted as a day). *Id.* The Postal Service includes the changes necessary to the SPM Plan and design document "First Mile Profile and Performance Calculation Design_v2" to implement this change in Library References USPS-LR-N2024-1-4 and USPS-LR-N2024-1-5.¹⁴⁴

The Postal Service presents an analysis showing the FY 2023 volumes and percentages of total volume that would have been impacted by this change had it been

¹⁴⁴ *Id.* at 4, 6; Library Reference USPS-LR-N2024-1-4; Library Reference USPS-LR-N2024-1-5. In addition, the Postal Service also proposes minor changes to the SPM Plan and design document to reflect the renaming of certain destinating entry points, the anticipated change to service standards based on 5-Digit ZIP Codes, and minor word choice and grammatical revisions in Library References USPS-LR-N2024-1-4 and USPS-LR-N2024-1-5. USPS-T-2 at 4, 6. The Postal Service notes that it intends to implement the proposed SPM Plan and associated design document changes no earlier than January 2, 2025. *See id.*

in effect in FY 2023 disaggregated by category of Market Dominant mail. USPS-T-2 at 2-3. The Postal Service's analysis shows that 14.0 percent of FY 2023 Market Dominant mail volume would have been impacted by this proposed change. *Id.* at 3. According to the Postal Service's analysis, Origin Entered Periodicals, Destination Entered USPS Marketing Mail, and Presorted FCM would have experienced the greatest impacts (i.e., 19.1 percent, 16.0 percent, and 15.1 percent of volumes, respectively) while Destination Entered Periodicals and Single-Piece FCM would have experienced the least impacts (4.7 percent and 7.9 percent of volumes, respectively). *Id.*

Second, the Postal Service will need to make substantial changes to the SPM Plan and design documents to effectuate service performance measurement at the proposed 5-Digit ZIP Code to 5-Digit ZIP Code level. See *id.* at 4. The service standards are currently determined at the 3-Digit ZIP Code level, and the related service performance is currently measured at the 3-Digit ZIP Code level and reported at the district level.¹⁴⁵ The Postal Service notes that it is in the process of "developing a method for measuring service performance at the new 5-digit to 5-digit service standard level[.]" and that once it is developed, it "will allow the Postal Service to collect, process, and display service performance measurement at a more granular level, which will provide additional performance visibility to the Postal Service's customers and other stakeholders." USPS-T-2 at 4. The Postal Service represents that it will file notice of any changes to the measurement system and reporting methodology with the Commission at least 30 days prior to planned implementation in accordance with 39 C.F.R. § 3055.5. *Id.*

¹⁴⁵ See USPS-T-1 at 34; Request at 40; Tr. 1/438.

2. Commission Analysis

On July 2, 2024, the Commission opened Docket No. RM2024-9 “to address concerns that service performance results as reported by SPM may not accurately represent customer experience for the country as a whole” and to consider “whether the design and implementation of SPM continues to produce accurate, reliable, and representative results in the current operating environment, as the law requires.” Order No. 7247 at 2. The Commission’s review in Docket No. RM2024-9 remains ongoing at this time.

As detailed above, in this proceeding, the Postal Service included proposed revisions to the SPM Plan for Market Dominant products and to the design document “First Mile Profile and Performance Calculation Design_v2” to implement some of the changes to service performance measurement needed to reflect the proposed operational and service standard changes proposed in this proceeding.¹⁴⁶ The Postal Service states that those filings fulfill its notice requirements regarding the changes under 39 C.F.R. § 3055.5. Request at 1 n.1. 39 C.F.R. § 3055.5 requires that the Postal Service file a notice with the Commission 30 days before implementation of any proposed change in “measurement systems, service standards, service goals or reporting methodologies[.]” 39 C.F.R. § 3055.5. That rule also reserves the Commission’s authority to initiate a proceeding “at any time to consider such changes if it appears that the changes might have a material impact on the accuracy, reliability, or utility of the reported measurement, or if the changes might have a material impact on the characteristics of the underlying product.” *Id.*

¹⁴⁶ See Library Reference USPS-LR-N2024-1-4; Library Reference USPS-LR-N2024-1-5.

Recognizing that Docket No. RM2024-9 was already dedicated to reviewing the ongoing accuracy, reliability, and representativeness of SPM, the Commission determined that consideration of the specific proposed revisions to the SPM Plan and associated design document filed in this proceeding is more appropriate in Docket No. RM2024-9.¹⁴⁷ Consistent with 39 C.F.R. § 3055.5, the Commission noticed the proposed revisions in Docket No. RM2024-9. See Order No. 7793 at 3-4. Thus, the Commission plans to consider the specific proposed revisions to SPM in Docket No. RM2024-9 in conjunction with the evaluation of whether SPM, as a whole, is producing accurate, reliable, and representative results.

In this proceeding, the Commission's role is to deliver an advisory opinion. 39 U.S.C. § 3661(b), (c). In this section, the Commission evaluates the two specific categories of substantive change to SPM as well as what the proposed operational and related service standard changes will mean overall for SPM. The Commission finds that the proposed change to not count Sundays and holidays for mail entered on Saturday or the day before a holiday will result in expected delivery taking an extra day (or more) for substantial portions of Market Dominant mail. Thus, substantial portions of Market Dominant mail will experience service downgrades as a result of the Postal Service's proposed changes. The Commission also finds that despite the Postal Service's representations that the Single-Piece FCM service standards will retain the current 2- to 5-day service standard range, the reality is that expected delivery for some affected Single-Piece FCM mail will extend to 6 (or more) days as a result of this proposed change. With regard to the proposed change to measure service performance on a 5-Digit ZIP Code to 5-Digit ZIP Code basis, the Commission finds that the Postal Service has not demonstrated that it is operationally or strategically prepared to accurately,

¹⁴⁷ Docket No. RM2024-9, Notice and Order Regarding Consideration of Proposed Modifications to Service Performance Measurement Plan for Market Dominant Products and Related Design Document, October 23, 2024, at 3 (Order No. 7793); Notice and Order Regarding Consideration of Proposed Modifications to Service Performance Measurement Plan for Market Dominant Products and Related Design Document, October 23, 2024, at 1-2 (Order No. 7794).

reliably, and representatively measure service performance under the new proposed service standards. Currently, SPM is designed to support reporting at the district level but cannot produce statistically meaningful results at the 5-Digit ZIP Code level, and the filings in this proceeding lack any detail concerning how the Postal Service plans to transform service performance measurement to measure the new 5-Digit to 5-Digit ZIP Code standards. The Commission will consider specific changes to SPM related to the service standard and operational changes the Postal Service proposes in this proceeding in Docket No. RM2024-9 in conjunction with its evaluation of whether SPM is producing accurate, reliable, and representative results.

a. Sunday/Holiday Transit Day Exclusion

The Postal Service proposes to exclude Sundays and holidays as transit days for service performance measurement for mail that is entered into the Postal Service's network on Saturday or the day before a holiday and proposes changes to SPM to effectuate this change. USPS-T-2 at 1-2, 4, 6. The Postal Service provides the following analysis of the FY 2023 volumes and percentages of total volume that would have been impacted by this change had it been in effect in FY 2023 disaggregated by category of Market Dominant mail, which is replicated in Table VII-F1.¹⁴⁸

¹⁴⁸ *Id.* at 2-3. The Commission notes that for this analysis, the Postal Service uses different, and more accurate, volume data than used in the volume-based analyses discussed in Section VII.E., *supra* (i.e., census SPM data identifying the start-the-clock day as opposed to the yearly collection box volume estimates).

Table VII-F1
FY 2023 Market Dominant Volume Impacted by
Sunday/Holiday Transit Day Change

Product	FY 2023 Total Volume (Billions)	Percent of Volume with Start-the-Clock on a Saturday or a Day Before Holiday
Single-Piece First-Class Mail	12.2	7.9%
Presorted First-Class Mail	22.7	15.1%
Origin Entered USPS Marketing Mail	5.1	12.4%
Destination Entered USPS Marketing Mail	35.9	16.0%
Origin Entered Periodicals	0.3	19.1%
Destination Entered Periodicals	1.3	4.7%
Package Services	0.2	13.9%
Total	77.7	14.0%

Source: USPS-T-2 at 3.

The Postal Service describes this as a “minor” revision to the SPM Plan and claims that “[t]his affects only a small amount of mail volume.” *Id.* at 4; Postal Service Brief at 13. While it is true that the proposed change to the measurement system to effectuate this change is small, especially given the breadth, depth, and length of the SPM Plan and associated design documents, the overall impacts of that change on mailers are not minor and will result in expected delivery taking an extra day (or more) for substantial portions of Market Dominant mail.¹⁴⁹

¹⁴⁹ Several interested parties oppose the proposed change to exclude Sundays and holidays as transit days for service performance measurement and the related extended time to expected delivery for affected mailpieces, noting that it affects substantial portions of the mail, harms customers, is unnecessary, degrades service and increases time to deliver mail, and is inadequately unjustified. See, e.g., Carlson Brief at 2, 5-7; GCA Brief at 5, 11-13; N/MA Statement at 5-6; NPPC Statement at 13-16; PostCom Statement at 8-9.

As Table VII-F1 shows, 14.0 percent of FY 2023 Market Dominant mail would have taken an additional day (or more) to be delivered that would not have counted as a day (or days) to delivery had this change been in effect in FY 2023. Table VII-F1 also shows that in FY 2023, Single-Piece and Presorted FCM would have had 7.9 and 15.1 percent of volumes affected, while Origin Entered Periodicals, Package Services, and Origin and Destination Entered USPS Marketing Mail would have had between 12.4 percent and 19.1 percent of volumes affected. Because the change is presented as a change to the measurement system and results in a day that previously would have been counted in service measurement no longer being counted, the Postal Service's presentation of this change obscures the fact that this is a separate and additional way that the Postal Service's proposed changes in this proceeding downgrade mail service for substantial portions of Market Dominant mail. As the Public Representative states, "[t]o put it bluntly, this is merely a way to extend the delivery timeframe without calling it a service standard downgrade." PR Brief at 29.

Furthermore, the Postal Service repeatedly emphasizes that the overall service standards for Single-Piece FCM are unchanged by its proposal and will remain at 2 to 5 days.¹⁵⁰ The Postal Service also states that the change to exclude Sundays and holidays as transit days for service performance measurement "does not impact the published service standards, but changes the SPM business rules."¹⁵¹ However, that misrepresents the reality for Single-Piece FCM mailpieces with a 5-day service standard that are entered on Saturday or the day before a holiday. For those mailpieces, expected delivery will extend to 6 (or more) days after mail entry (i.e., the 5 expected days to delivery, plus Sunday and/or the holiday that will not be counted in measurement but is an additional day (or two) that will be taken to deliver those mailpieces). For example, a mailpiece with a 5-day service standard with entry on

¹⁵⁰ See, e.g., Request at 4; USPS-T-1 at 6; NAPS/USPS-T2-3; Postal Service Brief at 13.

¹⁵¹ Response of United States Postal Service Witness Saleem to Intervenor Mailers Hub's Interrogatories MH/USPS-T2-1-2 and 4(A-B), 5-9, November 7, 2024, question 4.b. (Saleem Response to MH/USPS-T2-1-2, 4(A-B), and 5-9).

Saturday would be expected to be delivered on Friday after this change is implemented (i.e., on what would be considered day 6 under current measurement when the mailpiece would have been expected to be delivered on day 5 or Thursday prior to this change).¹⁵² A mailpiece with a 5-day service standard with entry on a Saturday before a Monday Federal holiday would be expected to be delivered on the following Saturday after this change is implemented (i.e., on what would be considered day 7 under current measurement). See Tr. 1/441-42.

Despite the Postal Service presenting this change as a minor measurement revision, it is plainly a degradation in service impacting the actual number of expected days to delivery for affected mail. As NPPC states, “[r]ather than admitting that the service standard is changing, the Postal Service instead plans to change the way it keeps score.” NPPC Statement at 14. Although the Postal Service presents analyses of mail expected to experience downgrades as a result of the proposed service standard changes, the Postal Service does not include this change in its analyses of downgraded mail because the Postal Service only includes what it considers to be service standard changes in those analyses. See, e.g., USPS-T-2 at 9-11, 13-17; Tr. 1/445. As a result, in addition to the deficiencies with those analyses discussed in Section VII.E., *supra*, those analyses further present an incomplete and overly positive picture of the overall impacts of the proposed changes to service because they ignore the proposal to exclude Sundays and holidays as transit days for mail that is entered into the Postal Service’s network on Saturday or the day before a holiday despite the fact that that proposal adds an expected day (or more) to delivery for affected mail. As NPPC states, this change “will make service look better than it actually is.” NPPC Statement at 14.

¹⁵² See Response of United States Postal Service Witness Saleem to Intervenor National Postal Policy Council’s Interrogatories NPPC/USPS-T2-1-3, October 31, 2024, question 1.a.

In Docket No. N2014-1, the Postal Service filed a request for an advisory opinion on its proposed Load Leveling Plan.¹⁵³ This proposal changed the 3-day service standard to 4 days for destination sectional center facility Standard Mail entered after the CET on Thursdays and before the CET on Saturdays. Docket No. N2014-1, Request at 3, 6-7. The Postal Service considered its proposal a change in service standards and included the change in the *Federal Register* notice concerning changes to 39 C.F.R. part 121, the part of the Code of Federal Regulations where the service standards for Market Dominant products are codified.¹⁵⁴ The Load Leveling Plan is analogous to the Sunday/holiday transit day exclusion because both initiatives involve increasing the expected days to delivery for mail entered between specified CETs to improve operational flexibility and reduce cost. Docket No. N2014-1, Request at 5-7; USPS-T-2 at 2. Despite the Postal Service's insistence that the Sunday/holiday transit day exclusion is not a change in service standards, the Postal Service has not explained why the Sunday/holiday transit day exclusion should not be considered a service standard change, given its parallels to the Load Leveling Plan that was considered a change in service standards and the fact that it adds a day or days to delivery for all affected mailpieces and extends the expected days-to-delivery time ranges for certain mailpieces. See Tr. 1/460; Saleem Response to MH/USPS-T2-1-2, 4(A-B), and 5-9, question 4.b. As NPPC states, "[t]o publish a service standard but then deliberately not count Sundays (for some, not all) mail is misleading at best." NPPC Statement at 11. The Commission agrees with NPPC's argument that "[i]f the Postal Service truly needs that Sunday for flexibility, it should instead announce that it is increasing the service standard for some mail." *Id.*

In addition, given the widespread and substantial effects of this change, the Commission finds that clear communication to customers about this change and how it

¹⁵³ Docket No. N2014-1, United States Postal Service Request for an Advisory Opinion on Changes in the Nature of Postal Services, December 27, 2013 (Docket No. N2014-1, Request).

¹⁵⁴ *Id.* at 2, 6-7; Docket No. N2014-1, Library Reference USPS-LR-N2014-1/3, January 6, 2014; USPS-T-1 at 33.

impacts postmarking and delivery expectations is critical. As Carlson outlines in his rebuttal testimony, there are many reasons why a customer would need to understand when a given mailpiece is going to be postmarked and inducted for processing into the Postal Service's network. DFC-RT-1 at 6, 11. Should the Postal Service determine to move forward with implementing the change, the Commission strongly encourages the Postal Service to seek out ways to clearly communicate with customers this change and how it affects postmarking and delivery expectations for mailpieces. For example, the Postal Service should have clear signage in its retail facilities and on collection boxes that indicates when mail entered on Saturdays and the day before a holiday will be postmarked and that those mailpieces will have a service standard of an additional day (or days). In his rebuttal testimony, Carlson provides several examples of how collection box signage could be modified to better inform customers of how the proposed changes will affect postmarking and induction. *Id.* at 14, 20, 22. In addition, the Postal Service's proposed 5-Digit to 5-Digit ZIP Code lookup tool, which the Postal Service represents will allow customers to look up service standards by 5-Digit ZIP Code pair, should clearly distinguish the difference in expected delivery days for a mailpiece entered on Saturday or the day before a holiday versus a mailpiece entered any other day of the week. See USPS-T-2 at 18. Carlson also proposes other modifications, such as pushing Saturday collection times to Monday mornings before dispatch, that are worthy of consideration as potential ways to somewhat moderate the impacts of the Postal Service's proposal on customers.¹⁵⁵

The Commission urges the Postal Service to clearly and transparently communicate the impacts of proposed service standard and service performance

¹⁵⁵ DFC-RT-1 at 18-19; Carlson Brief at 8-10. However, as Hutkins points out, due to the hours Post Offices are staffed, pushing Saturday collection times to Monday mornings may not be feasible in some places. Hutkins Statement at 11-12. The Postal Service also expresses some concerns about Carlson's proposal stating that it "runs counter to RTO's objectives and could compromise its effectiveness because transportation schedules would still be reliant on collection schedules" but acknowledges that there are situations when it is "appropriate" to "move mail that is deposited after hours with the morning dispatch[.]" Postal Service Reply Brief at 27-28.

measurement changes when those changes impact the underlying service received by customers. The Commission will continue to vigilantly monitor SPM Plan and associated design document changes filed pursuant to 39 C.F.R. § 3055.5 to ensure that nationwide or substantially nationwide changes to service are not hidden within proposed measurement system changes without being first considered in a proceeding of this type in accordance with 39 U.S.C. § 3661.¹⁵⁶

b. 5-Digit Measurement

Substantial changes to SPM will be needed to measure service performance at the 5-Digit ZIP Code to 5-Digit ZIP Code level. The filings and testimony provided in this proceeding, however, do not present or even preliminarily describe the significant methodological changes that will be necessary to measure service performance under the new 5-Digit ZIP Code to 5-Digit ZIP Code service standards. The Postal Service states that it is still “working through the design of the 5-digit to 5-digit service performance measurement system” and that it “does not have an estimate for when any revisions to the SPM Plan and related methodology documents will be filed with the Commission.” Response to POIR No. 1, question 34.a.i. The Postal Service commits to filing notice of any such changes to the measurement system at least 30 days prior to implementation pursuant to 39 C.F.R. § 3055.5. *Id.*

Given the lack of information concerning 5-Digit to 5-Digit ZIP Code service performance measurement, the Commission finds that the Postal Service has not demonstrated that it is operationally or strategically prepared to accurately, reliably, and representatively measure service performance under the new proposed service

¹⁵⁶ See Docket No. PI2022-3, Order Directing the Postal Service to Request an Advisory Opinion Prior to Implementing its Proposed Change to the Critical Entry Times for Periodicals and Approving the Other Proposed Revisions to Market Dominant Service Performance Measurement Plan, July 18, 2022 (Order No. 6232).

standards.¹⁵⁷ In this proceeding, the Postal Service is proposing to embark on major operational and service standard changes for end-to-end products that will impact carrier, transportation, and mail processing operations. The current SPM system is built around both the current service standards and the Postal Service's current operations and related operational data as it uses a combination of sample data and operational data to measure service performance. See Order No. 7247 at 14. The changes proposed in this proceeding include substantial changes to both foundational aspects of SPM, the service standards, and the Postal Service's current operations. Despite the Postal Service proposing changes that will substantially and substantively impact the foundations of SPM, the Postal Service has not provided any plan or detail as to how it proposes to comprehensively revamp the SPM system under the new networks, new operations, and new service standards it is proposing in this proceeding. See Response to POIR No. 1, question 34.a.i.; Tr. 1/439-40.

The Commission provided a detailed overview of how SPM operates in Docket No. RM2024-9. See *generally* Order No. 7247. At a high level, the service performance measurement for Single-Piece FCM is comprised of three phases: First Mile, Processing, and Last Mile. *Id.* at 13, 20. For the First Mile, the Postal Service uses scans at collection boxes or retail counters to create a "start-the-clock" for Single-Piece FCM mail and a passive automation scan at cancellation to demarcate the end of the First Mile. *Id.* at 14-17. For the Processing phase, the Postal Service leverages passive automation scans at processing operations to measure the time and place as pieces move through the automation mailstream. *Id.* at 18. For the Last Mile, the

¹⁵⁷ At the hearing, witness Saleem testified that the changes to SPM necessary to measure 5-Digit to 5-Digit service performance may not go into effect prior to the implementation of the proposed 5-Digit to 5-Digit service standards. Tr. 1/450, 465. He further testified that "these new service standards will be reflected in [the] current measurement system" and if the service standards are implemented prior to the implementation of the new measurement system, the current SPM system would remain accurate, reliable, and representative as applied to the new service standards. *Id.* at 450, 465-66. In the remainder of this section, the Commission raises several issues with the current SPM system's ability to accurately, reliably, and representatively measure service performance at the 5-Digit to 5-Digit level.

Postal Service uses carrier scans at delivery points to measure the time between the last processing scan and delivery. *Id.* at 18-19.

Two of the three phases rely on sampling measures to estimate the amount of time mail spends in that phase, First and Last Mile. *Id.* at 14. For each of these phases, the Postal Service develops an estimate for each service area, which covers an applicable 3-Digit ZIP Code. *Id.* at 16-19. That is to say, for each week, the Postal Service measures the time in the First and Last Mile for sampled mailpieces within a 3-Digit ZIP Code. *Id.* The integrity and the statistical validity of these samples are essential for developing service performance results that are accurate, reliable, and representative. *Id.* at 22-26, 32-37. As detailed in Docket No. RM2024-9, the Commission has concerns about how the data are currently developed using the existing measurement methodologies. *Id.* at 20-26, 32-37.

The proposed change to measure service performance at the 5-Digit ZIP Code level will require substantial changes to SPM. For example, the Postal Service will have to generate separate First-Mile on-time estimates for 5-Digit ZIP Codes subject to RTO (mailpieces from which will generally be expected to receive the scan at cancellation demarking the end of the First Mile and start of the Processing phase on day 1) and 5-Digit ZIP Codes not subject to RTO (mailpieces from which will generally be expected to receive the scan at cancellation on day 0 as they currently would). Because all such mailpieces are currently processed and receive the cancellation scan in the same operation at the same facilities on day 0, the Postal Service does not currently have an operational way to distinguish between mail that, once RTO is implemented, originates in RTO and non-RTO 5-Digit ZIP Codes. Further, SPM currently records information for only a limited percentage of 5-Digit ZIP Codes on a weekly basis. For the First Mile, SPM currently includes sample data for 0.2 percent of the mail under the working

assumption that most mail is picked up and cancelled on day 0.¹⁵⁸ Once RTO is implemented, it will not be possible to tell if it is day 0 or day 1 for a given mailpiece at cancellation operations under current operating procedures, and SPM is not otherwise equipped to measure the First Mile on a 5-Digit ZIP Code basis in an accurate, reliable, and representative manner.

This is just one example of a number of novel problems that the Postal Service must address in order to ensure that service performance measurement aligns with both the proposed changes to the service standards and the Postal Service's altered operations. However, the Postal Service has not detailed or tested a plan to resolve this issue or other issues arising from measuring service performance at the 5-Digit ZIP Code level in the altered service standard and operational environment proposed in this proceeding. As a result, the Commission has substantial concerns about the Postal Service's ability to accurately, reliably, and representatively measure service performance under the new proposed service standards and concludes that the Postal Service has not demonstrated to date that it will be able to generate accurate, reliable, and representative service performance results under the proposed service standards and operational changes.

3. Conclusion

The Commission finds substantial issues with the Postal Service's approach to the two primary categories of substantive change to SPM necessary to effectuate the service standard and operational changes proposed in this proceeding.

With respect to the proposal to exclude Sundays and holidays as transit days for measurement purposes for mail and packages that are entered into the Postal Service's

¹⁵⁸ *Id.* at 23. See Docket No. RM2024-9, Response of the United States Postal Service to Questions 1-26, and 28-39 of Commission Information Request No. 1, August 14, 2024, question 18 (detailing that, in FY 2023, 19,717,170 Single-Piece FCM Letters and Postcards and 5,511,057 Single-Piece FCM Flats were sampled in the First Mile). These 25,228,227 pieces amount to 0.207 percent of 12,186,822,929 total Single-Piece FCM volume in FY 2023. See *id.*; USPS-T-2 at 3.

network on Saturday or the day before a holiday, the Commission finds that the proposed change will result in expected delivery taking an extra day (or more) for substantial portions of Market Dominant mail and thus is an additional way that substantial portions of Market Dominant mail will experience service downgrades as a result of the Postal Service's proposed changes. The Commission also finds that despite the Postal Service's representations that the Single-Piece FCM service standards will retain the current 2- to 5-day range, the reality is expected delivery for some affected Single-Piece FCM mail will extend to 6 (or more) days as a result of this proposed change. Given the change has not been transparently presented, the Commission strongly encourages the Postal Service to seek out ways to clearly communicate this change with customers, including how it affects the expected cancellation date and delivery expectation for mailpieces and in its presentation of expected service in its proposed 5-Digit to 5-Digit ZIP Code lookup tool.

With respect to the proposal to measure service performance at the 5-Digit ZIP Code to 5-Digit ZIP Code level, the Commission finds that the Postal Service needs to make substantial changes to SPM in order for it to accurately, reliably, and representatively measure service performance under the new proposed service standards. In this proceeding, the Postal Service has not demonstrated that it has developed the methodological changes necessary to address the novel issues that arise from the service standard and operational changes proposed in this proceeding, nor has the Postal Service demonstrated that it is operationally or strategically prepared to accurately, reliably, and representatively measure service performance under the new proposed service standards. The Commission recommends that the Postal Service develop, test, and present to the Commission and the public a measurement system capable of accurate, reliable, and representative service performance measurement at the 5-Digit ZIP Code level before moving forward with its proposed service standard changes. The Commission will consider specific changes to SPM related to the service standard and operational changes the Postal Service proposes in this proceeding in

Docket No. RM2024-9 in conjunction with its evaluation of whether SPM is producing accurate, reliable, and representative results.

G. Local Changes, Customer Communication, and Election Mail

1. Overview

The Postal Service makes a number of assertions pertaining to the effect the LTO pilot had and the RTO initiatives will have on retail offices, customers, and election mail. These aspects of the Postal Service's proposal can be difficult to assess. In the Commission's review, it must consider the consequences of changes to retail offices for both retail users and the Postal Service, including concerns that customers might have with changes, and the impact on election mail from these changes.

2. Commission Analysis

Using witness testimony (USPS-T-3), interrogatory responses, and associated library references, the Commission evaluates whether the RTO initiative will affect retail offices, customers, and election mail, and if they were to have an effect, to what extent. In the sections that follow, the Commission recounts what has been said on the relevant matters and discusses whether the impacts result in a net improvement for the Postal Service and its stakeholders.

a. Local Changes

The Postal Service states that "RTO will change the time that originating mail and packages are picked up from affected local Post Offices for transportation to the applicable processing facility." USPS-T-3 at 4. Further, "[a]t retail locations subject to RTO, the retail cut-off time (i.e., the latest time at which mail deposited at a location will receive a service standard predicated on the day that it was deposited) will be adjusted to 11:59 p.m. on the night before originating collected mail is dispatched." *Id.* at 4-5. This means that "originating mail (e.g., mail collected from mailboxes on routes, blue

collection boxes, lobby, drops, and across the retail counter), that would previously have been transported from the local Post Office to the applicable processing facility in the evening, will be held overnight for pickup and transported to the processing facility with the next business day's transportation." *Id.*

Regarding the use of physical space at a retail office, the Postal Service states that it anticipates "that overnight storage of collected mail awaiting morning dispatch will require some reorganization of space at some RTO post offices." Response to POIR No. 3, question 24. To prepare for the LTO rollout, the Postal Service coordinated with district industrial engineers regarding standard work instructions and appropriate staging areas. *Id.* The Postal Service's experience with LTO showed that the modifications did not impact any customer-facing activities, and the Postal Service expects a similar approach going forward. *Id.* Thus, the Postal Service states that it "does not expect that RTO will noticeably impact the retail experience at RTO post offices, including wait-time-in-line." *Id.* While emphasizing that wait-time-in-line was negligibly affected, the Postal Service did not actually provide any supporting data on wait-time-in-line for the offices currently affected by LTO. Because mailers that deposit their mail at RTO offices will no longer receive a postmark on the day their mail is received by the Postal Service, the only way to receive a postmark on the day of mailing at an RTO Post Office will be to go to the retail counter, which could result in increased wait times.

There exist security concerns as well. The Postal Service acknowledged a need to reorganize space regarding storage for overnight mail, but failed to include discussion on any additional measures to ensure that mail remains safe. Response to POIR No. 3, question 24. The Commission is concerned that mail stored overnight, which could include bill payments or correspondence containing personal identifiable information, might become a target.

b. Customer Communication

The Postal Service asserts that it “will undertake steps to educate mailers about the changes [from the LTO and RTO initiatives].” USPS-T-3 at 6. To assist customers, the Postal Service puts forth two solutions; the first is continuing customers’ ability to inquire about expected delivery dates at the retail window and the second is “to prominently place notices that will include instructions on how to access specific service expectations for 5-Digit to 5-Digit ZIP Codes.” *Id.*

The Commission sought further details from the Postal Service on the means to educate customers and inquired about the timing necessary, use of existing mail channels to supplement education, and what research went into the aforementioned notices along with potential design details. See POIR No. 3, question 25. In its response, the Postal Service clarifies that it is “evaluating the methods it will use to educate mailers about the changes and when those methods will be rolled-out but expects that such methods will include an internet accessible 5-Digit to 5-Digit ZIP Code service expectation calculator, retail clerk interactions, and notices prominently placed at retail locations[.]” See Response to POIR No. 3, question 25. The Postal Service reiterates that “such notices could include signs that announce the nature of the change and provide a link or scannable QR code to the 5-Digit to 5-Digit ZIP Code service expectation calculator.” *Id.*

The importance of educating postal customers is to ensure that reality meets expectations and satisfaction is achieved. Further, it empowers customers to know the relevant terms and their distinctions, such as the difference between service standards and service performance. In his rebuttal testimony, Carlson remarks “[t]he point here is that service standards, even if they were easily accessible and were a resource that customers would routinely consult, do not accurately communicate information about service levels, either now or after implementation of RTO, because a large gap exists between service standards and service performance.” DFC-RT-1 at 8.

When asked about the use of market research and surveys to assess the impact of its proposal on customer satisfaction, the Postal Service's witness repeatedly expressed that she was either unaware of or not involved with any means to gauge the impact on customer satisfaction. Tr. 1/492-93. This stands in contrast to Docket No. N2021-1, where the Postal Service did make an effort to conduct market research when it lengthened First-Class Mail service standards. Further, the lack of consideration seemingly given to the Postal Service's more vulnerable users, such as the elderly, lower income Americans, and veterans, does not convince the Commission that the Postal Service did an adequate job ensuring that this initiative is a benefit for all members of the public or aligned with the principles of universal service.

c. Election Mail

The Postal Service states that “[i]mportantly, LTO and RTO will not affect election mail in the 2024 general election as it will not be implemented until at least calendar year 2025.” USPS-T-3 at 5. While stressing that the LTO and RTO initiatives will not affect current election mail, the Postal Service expands on their statement and clarifies that:

For currently operating LTO Pilot locations, [it has] developed a uniform policy that will apply for both primary elections and the general election whereby the Postal Service deploys extra transportation and other resources to connect Election Mail to its intended destination or the next stage in Postal Service processing as needed. These activities are designed to avoid unintended impacts on ballot mail during the initial rollout of the initiative and include, but are not limited to, transportation to centralized hub locations from spoke Post Offices to facilitate postmarking—and delivery of ballots to Boards of Elections or processing plants as applicable.

Id. at 5-6.

The Postal Service states that during the election and for the benefit of the customer, “a voter can ensure that a postmark is applied to his or her return ballot by visiting a Postal Service retail office and requesting a postmark from a retail associate

when dropping off the ballot.” *Id.* at 6. The Postal Service confirms that due to the nature of the LTO and RTO initiatives, “such a postmark would reflect the actual day the item is deposited at the post office, not the day when it is transported to the serving RPDC.”¹⁵⁹

The Postal Service emphasizes its deployment of “extraordinary measures,” which include, but are not limited to, expedited handling, extra deliveries, and special pickups. USPS-T-3 at 5. These methods have been successfully used in past elections to connect blank ballots entered by election officials to voters, or complete ballots returned by voters entered close to or on Election Day to their intended destination. *Id.*

Finally, the Postal Service states that going forward it will evaluate what specific measures or other changes, if any, are necessary concerning election mail for RTO locations.¹⁶⁰ However, it provides no specific details of how its extraordinary measures might have to change to adapt to either the RTO or the RPDC/LPC proposals. The Commission will continue to seek information on how extraordinary measures will be updated to adapt to the shifting network of the future, namely what needs to change within extraordinary measures to ensure any challenges for election mail are met. For example, 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 states¹⁶¹ in the contiguous United States that will not have an RPDC located within them.

Recapping the election, the Postal Service states that it was able to deliver at least 99.22 million ballots to or from voters.¹⁶² Of these ballots, 97.73 percent were

¹⁵⁹ Response of United States Postal Service Witness Johnson-Frick to Intervenor Mailers Hub’s Interrogatories MH/USPS-T3-1-4, November 6, 2024, question 2.

¹⁶⁰ Response of United States Postal Service Witness Johnson-Frick to Intervenor National Association of Postal Supervisors’ Interrogatory NAPS/USPS-T3-1, November 12, 2024.

¹⁶¹ They are Arkansas, Connecticut, Delaware, Mississippi, New Hampshire, Rhode Island, South, Dakota, Vermont, West Virginia, and Wyoming. See Library Reference USPS-LR-N2024-1-12.

¹⁶² United States Postal Service, 2024 Post-Election Analysis Report, Delivering the Nation’s Election Mail Securely and Effectively, December 2, 2024, available at

returned from voters to election officials in fewer than 3 days and 99.64 percent were returned within 5 days. Post-Election Report at 3. Overall, 3.37 billion pieces of political and election mail were delivered in 2024. *Id.*

3. Conclusion

The local changes to the retail office are limited in scope and impact. Customer experience at the retail office appears to be only negligibly affected. The biggest change is reorganizing the retail space in order to hold collection and retail counter mail overnight before transporting it to the processing facility. Internal reorganization of a Post Office to accommodate this new practice is reasonable. However, the Postal Service has not fully considered some impacts, particularly of the RTO, on local Post Offices including securing mail overnight and increases in Post Office traffic and wait times.

The Postal Service's proposed communication with customers does not meet the standards expected to successfully educate those mailers, as it lacks content, breadth, and timeliness. The Postal Service emphasizes using notices to educate mailers but does not provide evidence that much thought has been put into preparing these notices. It appears that the Postal Service finds posting QR codes in lobbies across the nation an appropriate means of educating its customers. The Commission finds that the Postal Service should make more of an effort to educate mailers on the significant changes being made and suggests that the Postal Service mail flyers to affected residences or place notices in PO Boxes. In addition, the lack of a timeline regarding when the Postal Service will begin communicating with customers is concerning.

Election mail in the current state of the network does not appear to present a problem. However, it is important to note that the handling of election mail in the current

network does not necessarily equate with its handling in the future and final state of the initiative. The Commission intends to monitor the handling of election mail in the future.

With the determination that the Postal Service's current handling of election mail is reasonable, the Commission recommends that the Postal Service generate a plan to address election mail in future elections for the final state of the network with consideration given to the unique rules of each state's election board.

H. Financial/Cost-Savings Analysis

1. Overview

The Postal Service claims that its proposed changes will reduce costs across various operational categories and yield significant annual cost savings. Request at 23; USPS-T-5 at 6-7. The Postal Service attempts to quantify the cost savings across five primary categories: (1) Leg 1 Local Transportation; (2) Leg 2 Surface Transportation; (3) Leg 2 Air Transportation; (4) Mail Processing Efficiency; and (5) Real Estate. USPS-T-5 at 8. Each expert witness develops a cost savings estimate based on modeled productivity improvements specific to their area of expertise.¹⁶³ Witness Whiteman consolidates these estimates and gathers the FY 2023 cost corresponding to each area to establish a baseline from which modeled cost will be compared.

Witness Whiteman estimates the total savings for each category by deducting the estimated costs identified by the subject matter expert from the corresponding FY 2023 baseline cost. Whiteman applies a unique capture rate specific to each of the five categories to account for what he explains as uncertainties relating to implementation time and other unpredictable macroeconomic shifts that may affect the realization of full cost savings. *Id.* at 7-8. The Postal Service explains that the purpose of using capture

¹⁶³ For Leg 1, Mail Processing and Real Estate Footprint, experts model the cost savings, Whiteman applies the capture rate to estimate the projected savings. For Leg 2 Surface and Leg 2 Air, expert models the costs, Whiteman calculates cost savings by comparing them to the FY 2023 baseline and applies the capture rate to estimate the projected savings.

rates is to reduce the total modeled savings by a certain percentage, and to calculate a more conservative estimate of projected cost savings. *Id.* After applying the capture rates to each category, Whiteman obtains estimates of the total projected cost savings (which are between \$3.5 and \$3.7 billion). *Id.* at 16. Table VII-H1 summarizes cost savings for each of the five categories.

**Table VII-H1
Summary of Projected Savings**

Category	Savings Available to Capture (\$ Million)	Capture Rate (%)	Lower Range (\$ Million)	Upper Range (\$ Million)
Leg 1	\$930	70%	\$651	\$651
Leg 2 Surface	\$1,518	70%	\$1,062	\$1,062
Leg 2 Air	\$1,001	70%	\$701	\$701
Mail and Package Processing	\$1,523	70-80%	\$1,066	\$1,219
Real Estate Footprint	\$116	70%	\$81	\$81
Total	\$5,089		\$3,562	\$3,714

Source: USPS-T-5 at 16.

a. Leg 1 RTO

Witness Hagenstein estimates that the proposed service standard and operational change through the RTO will reduce mileage, translating into 33 percent cost savings. USPS-T-1 at 12, 17. Witness Hagenstein bases the RTO savings on results from 23 LTO pilot sites, which served as benchmarks. USPS-T-1 at 16, 17. In FY 2023, the Postal Service spent approximately \$2.82 billion on Leg 1 local transportation. USPS-T-5 at 10. To estimate the modeled cost savings, witness Whiteman multiplies the FY 2023 Leg 1 baseline cost by 33 percent then applies a 70 percent capture rate to adjust for potential variations. This calculation yields approximately \$651 million in savings. *Id.*

b. Leg 2 Surface Transportation

Witness Hagenstein estimates that the proposed network redesign would reduce surface transportation mileage by 31 percent. USPS-T-1 at 31-32. In FY 2023, the Postal Service allocated \$4 billion to Leg 2 Surface transportation. USPS-T-5 at 11. Witness Hagenstein calculates the savings by applying a cost-per-mile assumption to the modeled mileage total, then subtracts the modeled costs under the assumption of a fully implemented RPDC/LPC network from the FY 2023 baseline for surface transportation costs.¹⁶⁴ Whiteman then applies a 70 percent capture rate to the calculated savings of \$1.52 billion, which generates approximately \$1.06 billion in projected savings. USPS-T-5 at 11.

c. Leg 2 Air Transportation

Witness Hagenstein indicates that air network savings will come from a redesigned air network to align with RPDC service points. USPS-T-1 at 32. This redesigned network allows for volume consolidation, which the Postal Service anticipates will lower costs by reducing the number of trips and optimizing air capacity. *Id.* In FY 2023, the total cost of Leg 2 Air transportation was \$3.07 billion. USPS-T-5 at 12. Witness Hagenstein estimates the projected air savings by identifying mail volumes that cannot meet service standards through ground transportation, applying the renegotiated unit air cube rate cost, and subtracting this number from the FY 2023 baseline air transportation costs. USPS-T-1 at 32-33. The renegotiated air cube unit cost rate accounts for a significant portion of Leg 2 Air savings.¹⁶⁵ Witness Whiteman then applies a 70 percent capture rate to witness Hagenstein's projections to estimate approximately \$701 million in projected savings. USPS-T-5 at 12.

¹⁶⁴ See USPS-T-1 at 32; see also Library Reference USPS-LR-N2024-1 NP2, October 17, 2024, Excel file "PROTECTED_Network Model High Level KPI Comparison (REV.10.17.24).xlsx."

¹⁶⁵ See Library Reference USPS-LR-N2024-1-NP2, Excel file "PROTECTED_Network Model High Level KPI Comparison(REV.10.17.24).xlsx."

d. Mail Processing

Witness White estimates that the efficiency gains from the proposed changes to RTO and the RPDC/LPC network redesign would reduce workhours within its mail processing facilities by 16.1 percent. USPS-T-4 at 30, 39. In FY 2023, the Postal Service spent \$9.3 billion in mail processing. USPS-T-5 at 14. Witness Hagenstein calculates the savings by multiplying the reduction in workhours by a labor cost rate, yielding about \$1.36 billion. *Id.* at 13. Additionally, witness White expects the insourcing of STC operations to contribute additional cost savings of \$168 million by reducing the third-party workload payments. See USPS-T-4 at 23; see *also* USPS-T-5 at 13. Witness Whiteman applies capture rates of both 70 percent and 80 percent to the estimated \$1.52 billion, and estimates cost savings in the range from \$1.066 billion to \$1.219 billion, depending on the capture rate applied. USPS-T-5 at 13-14.

e. Real Estate

Witness White estimates that the proposed network redesign would lead to savings on facility costs by reducing unnecessary lease payments and facility maintenance. See USPS-T-4 at 21, 23; see *also* USPS-T-5 at 14. He calculates the facility savings based on the lease contracts associated with each facility. See Response to POIR No. 2, question 23; see *also* USPS-T-4 at 21. Whiteman estimates cost savings of approximately \$81 million after adjusting for the 70 percent capture rate. USPS-T-5 at 15.

2. Commission Analysis

The Commission reviewed witness testimonies and accompanying library references, responses to interrogatories and POIRs; the Postal Service's 10-year strategic plan, and the Postal Service's recent financial documents as part of its analysis for the Postal Service's claim that the proposed operational and service standard changes will reduce costs and improve the Postal Service's financial viability.

The Commission identifies several concerns with the cost savings methodology applied by the Postal Service. These include:

- the uncertainty around the realization of the savings reflected by the capture rate the Postal Service uses to control potential variations in its estimates,
- potential measurement inaccuracy,
- an undefined timeline for savings realization, and
- lack of clarity about the overall effect on the Postal Service's financial health.

a. Capture Rate

The Commission finds that capture rate assumptions underlying the Postal Service's projected cost savings lack a basis in objective, data-driven analysis and rely primarily on business judgment.¹⁶⁶ The Postal Service asserts that these rates are prudently set to address uncertainties, including timing and macroeconomic risks that could impact the feasibility of savings. USPS-T-5 at 7-8. However, when determining capture rates, the Postal Service relies entirely on managerial discretion, and does not apply any statistical methods, data available from previous projects, or results of operational testing.¹⁶⁷ This absence of objective verification introduces a risk that the capture rates may not accurately reflect achievable savings levels.

The Commission finds that the Postal Service's judgment-based capture rate assumptions introduce substantial uncertainty into its cost savings projections. In

¹⁶⁶ In its response to NPPC Interrogatories, the Postal Service confirmed that capture rates were based on judgement rather than empirical analysis. See Response of United States Postal Service Witness Whiteman to Intervenor National Postal Policy Council's Interrogatories NPPC/USPS-T5-1-4, October 31, 2024, question 3 (Whiteman Response to NPPC/USPS-T5-1-4). NPPC shares the same concern regarding the Postal Service's lack of empirical analysis of past successes. See also NPPC Statement at 19.

¹⁶⁷ See Response to POIR No. 1, question 21.b.; Response to POIR No. 3, question 44.a.; Response of United States Postal Service Witness Whiteman to Intervenor Mailers Hub's Interrogatories MH/USPS-T5-1, 3, 4(A)-(C), (E), 5-7, MH/USPS-T5-6, November 6, 2024 (Whiteman Response to MH/USPS-T5-1, 3, 4(A)-(C), (E), 5-7).

projecting the realization of estimated savings, the Commission finds that data-driven approaches involving the use of historical benchmarks or testing in comparable real-world settings are of critical importance. The Postal Service should utilize methods that provide a validated baseline for assumptions. The Postal Service's reliance on subjective assessment rather than objective, data-backed validation severely limits the reliability of its capture rates. Without empirical support, the Postal Service cannot demonstrate that its assumptions reflect the actual likelihood of realizing these savings.

Additionally, the Postal Service's capture rates lack sensitivity testing,¹⁶⁸ a critical method used to evaluate how projections respond to potential changes in key variables, such as fuel prices, labor costs, mileage, volume decline or logistical disruptions. For instance, an increase in mileage due to unforeseen logistical adjustments, such as rerouted transportation lanes, could significantly offset anticipated efficiency gains in surface transportation, reducing the projected cost savings. When combined with increases in fuel prices or labor costs, the impact could be even more substantial, magnifying the deviation from the projected savings. This lack of robust analysis is particularly concerning for rural areas, where operational costs and logistical challenges may differ significantly from urban regions. Sensitivity testing is essential in rigorous projection, as it offers a range of outcomes—best-case, worst-case, and most likely scenarios—helping to understand the risks and adaptability of capture rate assumptions under varying conditions. Without sensitivity testing, the Postal Service's capture rates remain untested against real-world fluctuations, reducing the ability to gauge how external factors might impact projected savings.

The Commission finds that the Postal Service's reliance on judgment-based capture rates, without data-backed validation or sensitivity testing, undermines the credibility of its cost-saving projections. Thus, the Commission suggests that the Postal

¹⁶⁸ See Response to POIR 3, question 44.a.; see also Response to NPPC/USPS-T5-3; Response of United States Postal Service Witness Whiteman to Intervenor News/Media Alliance Interrogatory NMA/USPS-T5-3, November 12, 2024 (Response to NMA/USPS-T5-3.)

Service apply a more robust approach, grounded in quantitative evidence and real-world testing, when determining capture rates to meet the standards of reliability necessary for sound capture rate and financial projections.

b. Measurement Accuracy

As discussed in Section VII.B., the Postal Service has not conducted an RTO pilot to gather empirical data on actual cost savings before estimating savings at full deployment. This lack of pilot testing introduces a significant risk to the Postal Service's financial projections, as there is no baseline to verify whether the estimated savings are realistic or achievable. As the Public Representative explains, the RTO proposal is not ready for implementation. She states that “[t]o give the estimate of its financial impact is misleading.” PR Brief at 25. The Commission finds that without pilot-based evidence, it cannot determine with confidence whether these projected savings are accurate and will be realized.

Moreover, as discussed in Section VII.D., the Postal Service estimates mail processing cost savings by applying an average percentage workhour reduction of 16.1 percent to all operations. The 16.1 percent workhour reduction was calculated based on LDC operations where workhours can be directly observed and then applied to support operations, such as allied operations, where workhours cannot be directly observed.¹⁶⁹ This generalized approach overlooks the unique characteristics and requirements of indirect workhour operations, which account for a substantial portion of the total projected mail processing savings.¹⁷⁰ The Commission's analysis found that such an approach may result in overestimated savings, particularly if the operational

¹⁶⁹ USPS-T-4 at 39. See USPS-T-4 at 29, where witness White describes for the purpose of this testimony that Function 1 LDC modalities are categorized as either sources of direct workhours, where productivity is directly measurable through scan-recorded data (e.g., LDC 11-14, 16, 17.1), or sources of indirect workhour, where productivity relies on estimates or lacks scan-based proxies (e.g., LDC 14.1, 14.2, 17, 18).

¹⁷⁰ Library Reference USPS-LR-N2024-1-NP8, Excel file “PROTECTED_LDC Productivity Rates and Workhours.xlsx.”

differences between direct workhours and indirect workhours activities are more pronounced than assumed. By adopting this methodology, the Postal Service again risks inaccuracies in its savings projections. Therefore, the Commission cannot determine that the projected mail processing savings are accurate and will be realized.

Additionally, as discussed in Section VII.F., the Postal Service plans to implement a 5-Digit to 5-Digit ZIP Code service performance measurement system without modeling the associated costs. USPS-T-2 at 3-6, 18. Witness Saleem testifies that the Postal Service aims to ensure no additional operational costs. Tr. 1/641, 439-440. However, the Commission observes that the implementation will likely require infrastructure updates, software development, personnel training, and ongoing maintenance. Tr. 1/641, 439, 448-452. Therefore, the Commission finds that the failure to model these implementation costs introduces a significant risk of overstating the projected \$3.5 billion to \$3.7 billion in savings, undermining the accuracy and reliability of the financial projections.

c. Unclear Timeline Around Savings Realization

The Postal Service has not provided a specific timeline indicating when its projected savings will be fully realized or begin to impact its financial condition.¹⁷¹ The Postal Service confirms that it has not set a year by which all cost savings will be achieved but anticipates some degree of cost savings during the implementation phase, continuing until full implementation.¹⁷² Moreover, regarding the RTO initiative, the Postal Service states that it will establish a timeline only if it decides to implement RTO on a nationwide basis. Response to POIR No. 1 question 17. This lack of a defined timeline, with clear milestones, creates uncertainty about when the expected savings

¹⁷¹ See Responses of United States Postal Service Witness Whiteman to Intervenor Greeting Card Association's Interrogatories GCA/USPS-T5-1-6, October 29, 2024, question 6; see also Whiteman Response to MH/USPS-T5-1, 3, 4(A)-(C), (E), 5-7, question 4.

¹⁷² See Response to POIR No. 3, question 48; see also Whiteman Response to NPPC/USPS-T5-1-4, question 1.

will contribute to the Postal Service's financial stability and limits the reliability of the cost savings projections.

The Commission notes that the absence of such a timeline reduces transparency, leaving stakeholders uncertain as to when these savings will meaningfully impact the Postal Service's financial condition. Furthermore, without defined milestones, the Postal Service's ability to evaluate the effectiveness of its initiatives in real-time is constrained, weakening the overall accountability of its cost savings strategy.

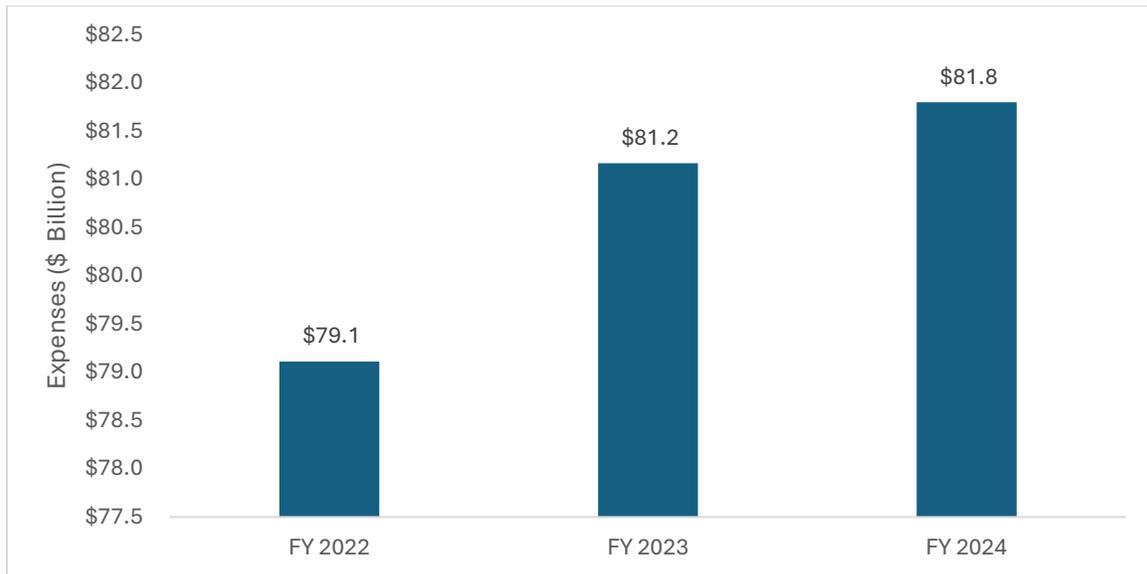
The Postal Service would benefit from adopting a detailed timeline with measurable milestones for each cost-saving initiative. Developing a structured approach would allow the Postal Service to assess the financial impact systematically, make informed adjustments, and provide stakeholders with greater confidence in the financial projections.

d. Improvement in Postal Service Financial Condition

Even assuming the cost savings projections are reliable and accurate, it is essential to view the projections within the broader context of the Postal Service's financial sustainability. The Postal Service's projected cost savings of \$3.6 billion presented in Table VII-H1, amount to approximately 4.4 percent of both FY 2023 and FY 2024 operating expenses.¹⁷³ This modest percentage suggests limited potential to significantly improve USPS's financial position.

¹⁷³ See Figure VII-H2. See Docket No. ACR2023, *Financial Analysis of United States Postal Service Financial Results and 10-K Statement*, Fiscal Year 2023, June 17, 2024, at 12; see also United States Postal Service, Annual Report on Form 10-K, November 14, 2024, available at <https://prc.arkcase.com/portal/filings/132790> (FY 2024 Form 10-K).

Figure VII-H1
Total Operating Expenses (\$ Billions), FY 2022–FY 2024



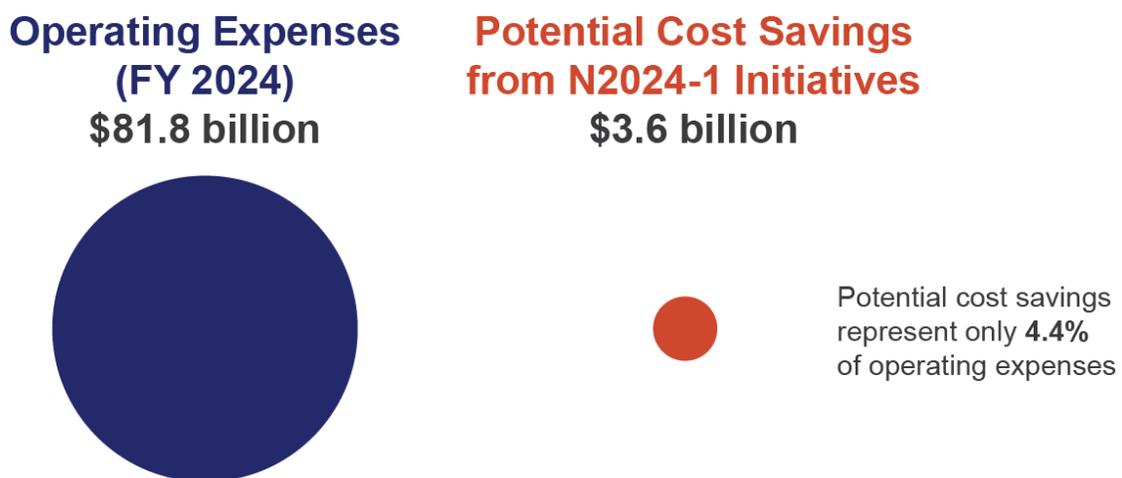
Source: FY 2024 Form 10-K; Postal Service FY 2023 Form 10-K, November 14, 2023, available at <https://prc.arkcase.com/portal/filings/126922>; Postal Service FY 2022 Form 10-K, November 10, 2022, available at <https://prc.arkcase.com/portal/filings/57538>.

The Postal Service asserts that these projected savings will enhance net income and increase cash available for operational expenses and investments. Response to POIR No. 1, question 63.a. However, the Postal Service acknowledges that it has not modeled the impact of these savings in different scenarios to provide supporting evidence of how they will affect financial outcomes. *Id.* question 63.b.

The Postal Service claims that any realized savings would improve their financial condition under all scenarios, yet it offers no supporting data or scenario analyses to verify this claim. *Id.* The Commission finds that the Postal Service's reliance on general statements, without specific evidence, weakens confidence in the projected impact of these savings. Given the increase in total operating expenses in years FY 2023 and FY 2024, it remains unclear whether the projected savings will materially benefit the Postal Service's financial health or simply offset a larger increase in other expenses.

Additionally, the FY 2025 Integrated Financial Plan projects that controllable expenses will increase, underscoring the limited impact of the proposed savings.¹⁷⁴

Figure VII-H2
FY 2024 Operating Expenses and Projected Cost Savings



Source: FY 2024 Form 10-K; USPS-T-5 at 6-7.

While the projected savings offer some financial relief, the trade-offs involved—particularly the potential service downgrades in rural areas—appear to present a greater cost to the Postal Service's overall well-being. As discussed in Section VII.E., rural communities may experience a higher multi-day service degradation, which could severely affect customers who rely on postal services for medical prescriptions,

¹⁷⁴ The Integrated Financial Plan is a Postal Service report that includes the operating plan, capital investment plan, and financing plan for the fiscal year. This document is required to be filed as a periodic report pursuant to the 39 C.F.R. part 3050. United States Postal Service, Integrated Financial Plan (IFP), Fiscal Year 2025, December 13, 2024 (IFP Report), available at <https://about.usps.com/what/financials/integrated-financial-plans/fy2025.pdf>.

essential communication, and business operations. As illustrated by Figure VII-H2, with the projected savings representing only 4.4 percent of the FY 2024 Postal Service's operating expenses, the benefits of these savings may not justify the service disruptions and potential loss of customer trust, particularly in rural regions. The Postal Service acknowledges that a decline in reputation for reliable service could adversely affect business operations and reduce operating revenue, counteracting any financial benefits from the projected savings. FY 2024 Form 10-K at 11. Thus, the Commission finds that the Postal Service has not sufficiently demonstrated how these savings will result in a net benefit to their overall financial health without causing disproportionate harm to service reliability in rural communities. The Commission concludes that the projected financial improvement lacks sufficient evidence and remains unclear, particularly when weighed against the potential negative impact on rural service reliability and the broader public interest.

3. Conclusion

The Commission concludes that although the Postal Service's methodology for estimating cost savings across various operational categories may appear theoretically sound, its practical application raises significant concerns. The Postal Service's projected cost savings rely on capture rate assumptions that lack empirical validation, relying instead on judgment-based estimates without scenario testing or sensitivity analysis. This absence of data-driven analysis introduces a considerable degree of uncertainty about whether these savings will materialize as projected. The Public Representative reiterates the concern that the Postal Service's use of capture rates is not based on outcomes of past cost-savings initiatives or by assessment of expected developments from its proposal. PR Brief at 35. The Commission notes that the Postal Service's Office of Inspector General has also highlighted in its report on the LTO initiative that the Postal Service did not establish a process to accurately track and calculate cost savings for LTO, which serves as a precursor to the RTO. See OIG Report No. 24-142-R25 at 13-14. The lack of validation in this foundational initiative

calls into question the accuracy and feasibility of the projected RTO savings. Without concrete data, the Postal Service has not shown that the capture rates accurately reflect the potential savings from initiatives. Therefore, the Commission is not able to confirm the Postal Service's projected cost savings and, based on substantial data outlined above, is doubtful of their existence.

Further, the Postal Service has not provided a specific timeline or defined milestones for when these savings will be fully realized, particularly for initiatives that may expand based on ongoing assessment. The Commission finds that the lack of a structured timeline will prevent the Postal Service from accurately tracking and evaluating the impact of these savings over time, leaving stakeholders uncertain about when—or if—the projected cost savings will substantively improve the Postal Service's financial condition.

Additionally, the Commission finds that the total projected cost savings, even if fully realized, represent approximately 4.4 percent of the Postal Service's FY 2024 operating expenses of \$81.8 billion. This modest proportion limits the potential for these savings to significantly improve USPS's financial condition, especially with operating expenses expected to increase in FY 2025. See IFP Report at 1.

Furthermore, the Commission finds that the disproportionate impact of service changes on rural communities raises additional concerns, as potential degradation in service quality may offset some of the projected financial benefits. Multiple commenters in this proceeding echo concerns about the proposed reduction in service quality. The PSA expresses concern that service downgrades from proposed RTO changes may negatively affect future competitive volume and revenue growth. PSA Statement at 6. It argues that an additional day of service added to expedited products, such as Priority Mail Express and Priority Mail, may accelerate recent volume losses.¹⁷⁵ Steve Hutkins

¹⁷⁵ *Id.* In FY 2024, Priority Mail Express and Priority Mail volume declined by 12.6 percent and 33.9 percent, respectively. See Revenue, Pieces & Weight (RPW) Report FY 2024, November 14, 2024, available at <https://prc.arkcase.com/portal/filings/132800>.

also discusses his concerns regarding the lack of an econometric analysis to determine impacts of volume, revenue, and contribution as the Postal Service has done in previous requests. Hutkins Statement at 14. He argues that in the absence of any analysis it is speculative to assume no material negative impact on revenue. *Id.*

Should the Postal Service proceed with implementing these initiatives, the Commission recommends that it closely monitor their progress to ensure that cost savings are realized and balanced with the maintenance of high-quality service standards. Moreover, the Commission encourages the Postal Service to validate its capture rates with empirical data, conduct scenario-based modeling to assess outcomes under varying conditions, and establish clear timelines and milestones to improve accountability and transparency in achieving its cost savings goals.

I. Review of Service Standards Objectives and Factors

The PAEA set forth objectives and factors to be considered when designing, establishing, or revising modern service standards. See 39 U.S.C. § 3691. The Commission reviews the applicable objectives and factors and brings attention to issues the Postal Service should be aware of as it further develops and implements the proposed changes. These objectives and factors work in conjunction with each other and can at times be in tension with one another.

39 U.S.C. § 3691(b)(1) requires service standards to be designed to achieve the following objectives:

- (A) to enhance the value of postal services to both senders and recipients;
- (B) to preserve regular and effective access to postal services in all communities, including those in rural areas or where post offices are not self-sustaining;
- (C) to reasonably assure Postal Service customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices; and
- (D) to provide a system of objective external performance measurements for each Market Dominant product as a basis for measurement of Postal Service performance.

39 U.S.C. § 3691(c) requires service standards to take into account the following factors:

- (1) the actual level of service that Postal Service customers receive under previous and current service standards;
- (2) the degree of customer satisfaction with Postal Service performance in the acceptance, processing and delivery of mail;
- (3) the needs of Postal Service customers, including those with physical impairments;
- (4) mail volume and revenues projected for future years;
- (5) the projected growth in the number of addresses the Postal Service will be required to serve in future years;
- (6) the current and projected future cost of serving Postal Service customers;
- (7) the effect of changes in technology, demographics, and population distribution on the efficient and reliable operation of the postal delivery system; and
- (8) the policies of Title 39 generally and such other factors as the Postal Service determines appropriate.

The Postal Service states that its proposal is in accordance with and conforms to the statutory policies. Postal Service Brief at 44. The Postal Service asserts that with the proposed changes it will achieve the objectives of 39 U.S.C. § 3691(b)(1) better than under the existing standards. Request at 45. It states that it has also taken into account the factors set forth in 39 U.S.C. § 3691(c), including the broader policies of Title 39, United States Code, as required by 39 U.S.C. § 3691(c)(8). Postal Service Brief at 18, 55. Additionally, the Postal Service states that by making the operational and service standard changes, it “can better balance and achieve the statutory purpose of tile 39 of providing reasonable high-quality service in a manner that enables the Postal Service to be financially self-sufficient.” *Id.* at 42.

The Postal Service explains that the changes, in light of what it views as “precipitous and irreversible” declining First-Class Mail volumes, maintain and enhance the value of Market Dominant products to senders and recipients. *Id.* at 44. The Postal Service continues to assert that for “most volume,” the proposed changes will maintain the level of service at existing standards, and for those that will see a change, more Market Dominant volume will receive an upgrade rather than a downgrade, and reliability will improve. *Id.* Additionally, the Postal Service asserts that these proposed changes will “lengthen the distances to which a 2-3-day service standard applies,” which makes entering mail pieces at RPDCs “a higher-value proposition for many shippers.” *Id.* at 45. According to the Postal Service, this will “enhance the value of the mail by providing fast, reliable delivery to more areas” *Id.*

The Postal Services states that these improvements will also “enhance service reliability in the long term[,]” which it considers a key concern to consumers. *Id.* at 46. This is because RTO, with the added service day for Leg 1 (for ZIP Codes that are subject to RTO), “will create evenly distributed volume arrival profiles,” that, in turn, will create greater processing efficiencies. *Id.* at 45-46. This, along with the redesigned network centered around RPDCs and LPCs, will create a more streamlined transportation network. *Id.* Further, the Postal Service asserts that the proposed move

to express service standards at the 5-Digit to 5-Digit level provides customers “a more transparent, understandable, and workable set of expectation” *Id.* at 46.

The Postal Service states that the proposed changes will preserve “existing access to retail services, including in rural areas and where Post Offices are not self-sustaining.” *Id.* Additionally, the Postal Service states that regardless of where a customer lives, most will “see the same or faster speeds, with improved service overall” *Id.* It projects significant cost savings, which will ensure the Postal Service can continue to deliver on its mandate to provide universal service. *Id.* at 46-47. It notes that while “many rural ZIP Codes may be subject” to the RTO initiative, which will add an extra day in the service standards, “neither delivery operations, nor Leg 3 service standards, will change.” *Id.* at 47. And, according to the Postal Service, earlier dispatches that the RTO initiative enables will accelerate Leg 2 service and will result in customers receiving “the same or faster delivery of mail and packages than they do under the current standards.” *Id.* The Postal Service emphasizes that this is true for all Market Dominant products, including critical mail such as bills or checks encompassed in presort mail, and packages mailed from the shipping point within the 50-mile distance of an RPDC. *Id.*

Further, the Postal Service claims that the service standard changes proposed in this docket would reasonably assure customers delivery reliability, speed, and frequency consistent with reasonable rates and best business practices. *Id.* at 48. The Postal Service explains that this is in part due to the fact that the service standards permit the Postal Service to implement the RTO initiative on a nationwide basis, which it contends will “allow processing operations to leverage improved volume arrival profiles.” *Id.* at 50. This in turn will improve delivery reliability, reduce the potential for delays, and increase “the velocity of volume through processing and allowing faster, more reliable dispatch of volume into the network.” *Id.* The Postal Service claims that standardized processes at the RPDCs and LPCs will also allow for improved processing and operational efficiencies. *Id.* The proposed service standards will eliminate

“unnecessary regional transportation trips” and increase utilization on the trips the Postal Service does run. *Id.* The Postal Service stresses that delivery frequency does not change under the proposed service standards. *Id.*

The Postal Service asserts that the proposed service standards are also consistent with best business practices related to cost reductions. *Id.* at 50-51. Given the “limited avenues by which to reduce” costs, the Postal Service suggests that the proposed service standards and operational changes that are necessary to enable them, provide it with “a meaningful opportunity” to reduce its controllable costs so that it can obtain “financial integrity,” consistent with the objectives and factors. *Id.* at 51. The Postal Service maintains that under the proposed changes, “[m]ost [of the] volume will receive the same or better service than today, and only a small portion of volume will receive a downgrade, but still within the day ranges of the current service standards.” *Id.* It concludes that such change will have an overall positive impact on speed. *Id.* The Postal Service states that it is committed to “promptly addressing” any temporary disruptions to service and that these temporary disruptions are “far outweighed” by keeping the status quo. *Id.* at 51-52. The Postal Service makes clear that it considered these potential negative impacts when conducting the balancing and weighing required by section 3691. *Id.* at 52.

Finally, the Postal Service states that the proposed service standards will provide a system of objective external performance measurements for each Market Dominant product to measure its performance. *Id.* The Postal Service indicates that it plans to modify the SPM systems to account for the proposed changes. *Id.* The Postal Service claims that adjusting its business rules to move to a 5-Digit to 5-Digit ZIP Code service standard level and exclude Sundays and holidays as transit days for mail pieces entered on Saturdays and days before holidays will provide additional granularity for customers, promote transparency, and make the data more understandable and meaningful. *Id.* at 52-53. The Postal Service states that it plans “to update the SPM

plan, systems, and methodology to enable statistically accurate measurement at the 5-Digit level to align with changes to service standards.” *Id.* at 53.

The Postal Service also asserts that it considered the statutory provisions in 39 U.S.C. §§ 101, 403, and 3661, and “concluded that by implementing these operational initiatives and the new standards to which they are aligned” that it will “be able to better balance and achieve these statutory purposes.” *Id.* at 55. It states that it gave the highest consideration to the policies set forth in section 101(e) and (f) when selecting the appropriate transportation modes and conclude that the proposed changes allow it to better achieve the statutory purposes of title 39. *Id.* at 57. It states that while it estimates that 6 percent of Market Dominant mail will receive a downgrade, it still balances this with the goals of title 39 as a whole. *Id.* It concludes that this change was “necessary . . . to better achieve the goals of title 39 as a whole.” *Id.* at 57. It also reiterates that despite the downgrade, that volume of mail will still be within the day ranges of the current standards. *Id.*

The Postal Service justifies the changes in its transportation network by projecting cost savings of \$3.6 to \$3.7 billion. *Id.* at 58. The Postal Service claims that the proposed changes also further the objective in section 101(b) by increasing the use of reliable, efficient, and cost-effective transportation to deliver Market Dominant and Competitive products. *Id.* Through the greater route efficiency, and increased utilization of its trucks, the Postal Service states that it will improve “the overall efficiency of the postal transportation network” *Id.* The Postal Service states that the changes are necessary for it to maintain its universal service obligation. *Id.* The Postal Service concludes that overall, “the significant financial and operational benefits of these changes,” coupled with the service-related benefits, strike an appropriate balance of the requirements of title 39. *Id.* at 60.

1. Section 3691 Objectives and Factors

- a. Objectives

APWU argues that the proposed changes do not comply with the objectives outlined in 39 U.S.C. § 3691(b)(1). APWU Brief at 18. According to APWU, slowing the mail does not “enhance the value of that mail to either senders or recipients[]” and it is not designed to “meet the needs of mailers” *Id.* APWU also argues that slowing the mail elevates the Postal Service’s strategic plan over the “speed and frequency of First-Class Mail” *Id.*

GCA argues that the Postal Service has violated section 3691(b)(1)(B) by failing to preserve effective access to postal services in rural communities. GCA Brief at 6-8. Further, GCA argues that the proposed changes and supporting testimonies from Postal Service witnesses reflect a failure to balance efficient operation with the needs of the public, instead only reflecting the Postal Service’s desire to change service standards to facilitate an operational plan that “is still in a somewhat fluid state.” *Id.* at 7-8.

N/MA argues that the proposed service standards do not “enhance the value of Periodicals mail or assure[] delivery reliability or speed” as required by 39 U.S.C. § 3691(b)(1). N/MA Statement at 3.

NPPC indicates that “[n]ot counting Sundays or holidays as transit days for mail entered on the preceding day will not improve actual service; at most, it will make service look better than it actually is.” NPPC Statement at 14.

PostCom asserts that the removal of Sundays and holidays as transit days “does not improve service, it simply allows the Postal Service to avoid performing . . . processing and potentially still transport the mail within the service standard.” PostCom Statement at 9. According to PostCom, this coupled with the fact that the Postal Service acknowledges that “a significant number of customers will receive worse service after implementation of the changes[,]” demonstrate that “the proposed changes are unlikely to ‘enhance the value of postal services to both senders and recipients’ or

‘preserve regular and effective access to postal services in all communities[]’” or assure the Commission that the changes will “reasonably assure . . . customers delivery reliability, speed and frequency consistent with reasonable rates and best business practices.” *Id.*

The Public Representative states that the Postal Service’s position that the benefits of its proposal, which include “service reliability and consistency, efficiency gains, cost savings, and financial sustainability[,]” outweigh any downgrade in service standards is based on faulty premises that render the “proposal unreliable.” PR Reply Brief at 4. She argues that the record lacks a solid foundation to evaluate the Postal Service’s claims about the balancing of the statutory factors in light of the statutory objectives because there is too little known about the timeline of the changes and the Postal Service continues to state that it is subject to continual adjustments, changes, and variations. *Id.*

b. Factors

APWU argues that because the Postal Service has not considered the needs of its customers, who are unwilling to “trade quality for consistency[,]” it fails to comply with the factors contained in 39 U.S.C. § 3691(c). APWU Brief at 18.

N/MA asserts that the Postal Service’s proposal is not in line with the requirements of 39 U.S.C. § 3691(c), because the proposal does not demonstrate how the Postal Service will “improve the speed by which Periodicals are delivered,” and also fails to consider the needs of customers, who want faster delivery, with no additional delays. N/MA Statement at 6.

NPPC believes that a shift to a 5-Digit to 5-Digit ZIP Code measurement, if implemented in a cost-effective manner, should “lead to more precise information and measurement.” NPPC Statement at 11.

c. Other Statutory Provisions

APWU argues that the proposed changes do not comply with section 101(a) because they result in disproportionately slower service to rural communities. APWU Brief at 17. It also argues that the proposed changes do not comply with section 101(e) because the Postal Service is not giving the highest consideration to providing “expeditious collection, transportation, and delivery of important letter mail.” *Id.* Further, APWU argues that the proposed changes do not comply with section 101(f) because holding mail for certain ZIP Codes for an additional day “cannot be squared with the ‘primary goal’ of achieving overnight transportation of ‘important letter mail’” *Id.*

Carlson argues that the proposed service changes do not comport with the requirements of 39 U.S.C. § 101(e), because the Postal Service’s proposals deemphasize speed because they add “a day to delivery for 39 percent of single-piece First-Class Mail” Carlson Brief at 4. Carlson argues that because the Postal Service fails to provide evidence that it “considered the needs of customers for any aspects of RTO or the elimination of postmarks and processing of outgoing mail collected from non-RTO post offices on Saturdays and eves of holidays[]” it fails to comply with 39 U.S.C. §§ 403(a), 403(b)(2), and 3661(a). *Id.* at 6-7.

GCA argues that the proposed changes disproportionately affect Single-Piece First-Class Mail in violation of section 101(e). GCA Brief at 8. According to GCA, section 101(e) requires that the Postal Service “give[s] the highest consideration” to the “expeditious collection, transportation, and delivery of important letter mail[]” and the Postal Service’s statements that it will do so “when it is economical” fail to match this statutory requirement. *Id.* at 8-9. Instead, it is an indication that the Postal Service is making changes to its service standards “in the hope of making the Delivering for America plan work as projected.” *Id.* at 10 (emphasis omitted). Additionally, GCA argues that the proposed changes violate sections 101(a) and (b), because they will disproportionately affect rural areas. *Id.* at 14.

PostCom argues that the proposed changes violate the provisions of section 101(a), 101(f), 403(a), 403(b), and 3661(a), because “any mention of the financial self-sufficiency of the Postal Service” is “[n]otably absent” in those provisions. PostCom Statement at 3-4.

PSA asserts that the Postal Service fails to demonstrate how the RTO initiative comports with 39 U.S.C. §§ 101(a)-(b), (e), or 3691. PSA Statement at 3. PSA states that these “statutory mandates protecting rural communities are unambiguous” and the Postal Service “makes no attempt to meaningfully explain how the RTO initiative complies with these policies” and cites instead to prior Commission orders stating that the Postal Service must use its discretion when balancing any competing policy provisions. *Id.* at 3-4. PSA continues that the RTO initiative illustrates why the Postal Service should not “determine the scope of its own responsibilities” under these statutes because it “represents a fundamental shift in U.S. postal policy masquerading as an operational change[]” and will only lead to further downgrades in service. *Id.* at 4.

2. Commission Analysis

Section 3691 contains four objectives and eight factors, several of which have competing priorities. The statute does not require service standards to achieve certain objectives more than the others or that certain factors must be given greater consideration over others. In addition, sections 101(a), (e)-(f), 403(a), and 3661(a) provide additional policy considerations and requirements. Taken together, these provisions require the Postal Service to consider speed, efficiency, economy, and reliability in all aspects of its operations. Therefore, the Postal Service must balance these often-competing provisions when developing service standards.

The Postal Service states that it designed these proposed changes to achieve the objectives considering the factors and other statutory provisions. It states that in doing so it balances competing factors and objectives and reminds both the Commission and interested parties that the statute invests it with the authority to

conduct this weighing and balancing act. After conducting that balancing test, the Postal Service contends that the proposed changes will modernize its network, reduce its costs, which in turn will promote its financial stability and sustainability, and provide a greater overall level of service reliability for postal consumers. Postal Service Reply Brief at 18.

Critically, the Commission's advisory capacity is limited to determining whether the Postal Service considered the four objectives and eight factors in section 3691, as well as the additional policies contained in sections 101, 403(a), and 3661(a). In evaluating the Postal Service's proposal as a whole, the record lacks a solid foundation to evaluate the Postal Service's claims about balancing the objectives and factors set forth in 39 U.S.C. § 3691. There is too little known about the timeline of the changes and the Postal Service asserts that they are subject to continual adjustments, changes, and variations.

Additionally, the Commission shares the concerns of the parties and commenters about the proposed changes, particularly those related to the effects these proposed changes have on rural customers whose outgoing mail will likely be slowed as a result. Recent developments have heightened those concerns, as the latest report from the Postal Service OIG has concluded that the LTO initiative increased transportation expenditures and produced service performance declines for First-Class Mail across all regions, with an even greater decline in Single-Piece First-Class Mail in rural areas after LTO was implemented.¹⁷⁶ The Postal Service avers, however, that it took the lessons learned from the LTO initiative when designing the RTO initiative. However, considering the findings from the OIG that the Postal Service failed to build on prior RPDC activation

¹⁷⁶ United States Postal Service, Office of Inspector General, Report No. 24-142 R25, Network Changes: Local Transportation Optimization, December 18, 2024, available at <https://www.uspsoig.gov/reports/audit-reports/network-changes-local-transportation-optimization> (OIG Report No. 24-142 R25).

issues when activating the Atlanta RPDC, the Commission is skeptical of whether this is anything other than lip service. OIG Report No. 24-074-R24 at 1, 4, 9-10.

The Postal Service has, “as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people[]” and is required to “provide prompt, reliable, and efficient services to patrons in all areas and . . . render postal services to all communities.” 39 U.S.C. § 101(a). Additionally, the Postal Service must, when considering policies, “give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” *Id.* § 101(e). The Commission strongly advises the Postal Service to consider these obligations and reconsider the impact of its proposed changes to the service standards, particularly on rural areas and the rural citizens and businesses who rely most heavily on the Postal Service. Based on what the Postal Service has presented and the Commission’s analysis, the Postal Service’s proposed service standards appear inconsistent with the requirements of sections 101(a) and 101(e). The Commission’s analysis demonstrates that the proposed service standards likely will not provide postal services to individuals and businesses that are “prompt, reliable, and efficient . . . in all areas” because they will disproportionately impact rural communities. The Commission’s analysis also demonstrates that they likely do not “give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery” of mail because the proposed changes will likely result in slower collection, transportation, and delivery, particularly to and from rural areas.

Additionally, because the changes have not been implemented nationwide, and much of the Postal Service’s projections seem to rely on a “final” network redesign to reach the projected efficiencies, speeds, and economies, these impacts are theoretical at this point. That said, given the recent audit from the OIG about the effects of the LTO initiative on service, the Commission is doubtful that these projected efficiencies, speed, and economies will be produced if the Postal Service does not change course. The

Commission strongly advises the Postal Service to take into consideration the concerns expressed in this docket as it continues to develop and implement the proposed changes. Further, the Commission advises the Postal Service to closely monitor and measure the implementation of its planned changes to determine whether they actually achieve the objectives outlined above or whether some of the negative impacts projected by the Commission and concerned parties actually come to fruition.

J. Section 403 Analysis

Multiple parties discuss whether the proposed changes are consistent with 39 U.S.C. § 403(c), which focuses on whether the changes “make any undue or unreasonable discrimination among the users of the mails” See Section VI.A., *supra*. The Commission reviews these arguments and concludes, as discussed in this section, that while there are obvious differences in the forecasted impacts the proposed changes have on users of the mail (particularly between rural and urban users), the differences are not, at this juncture, facially “undue or unreasonable.” The Commission emphasizes, however, that the question of whether the changes result in “undue or unreasonable” discrimination is one of degree; therefore, if the Postal Service is unable to mitigate impacts to the degree expected, or in implementation proceeds in a manner that creates further disproportionate impacts, such a result could reach the threshold of “undue or unreasonable.”

1. Standard Applicable to 39 U.S.C. § 403(c)

39 U.S.C. § 403(c) prohibits undue or unreasonable discrimination or preference among or to users of the mails:

(c) In providing services and in establishing classifications, rates, and fees under this title, the Postal Service shall not, except as specifically authorized in this title, make any undue or unreasonable discrimination among users of the mails, nor shall it grant any undue or unreasonable preferences to any such user.

The standard applicable to the Commission's review of a potential violation of 39 U.S.C. § 403(c) is a three-part test: first, one mailer or mailers (non-preferred mailer) must be offered less favorable terms and conditions than another mailer or mailers (preferred mailer); second, both the non-preferred mailer and the preferred mailer must be similarly situated; third, there must be no rational or legitimate basis for the Postal Service to deny the non-preferred mailer the more favorable rates or terms and conditions offered to the preferred mailer.¹⁷⁷

2. Parties' Positions

GCA argues that the proposed changes will disproportionately affect rural areas. GCA Brief at 14. This, according to GCA, is in violation of 39 U.S.C. § 101(b), which requires the Postal Service to provide "a maximum degree of effective and regular postal services to rural areas" *Id.* (quoting 39 U.S.C. § 101(b)). From the proposed changes, it "seems evident" to GCA that rural and urban customers wishing to send a birthday card or bill payment are "similarly situated" such that the proposed changes might violate 39 U.S.C. § 403(c). GCA Brief at 14.

PSA states that the Postal Service's discussion of 39 U.S.C. § 403(c), is "unsatisfactory." PSA Statement at 5. PSA challenges the Postal Service's statement that the proposed changes do not unreasonably differentiate between similarly situated customers by arguing that customers in remote or rural locations, or 50 miles from an RPDC, might be similarly situated to postal customers in urban areas or within 50 miles of an RPDC. *Id.* PSA argues that the Postal Service's business judgment in drawing a line at 50 miles is insufficient to outweigh legitimate consideration under 39 U.S.C. § 403(c). *Id.* According to PSA, by making the decision to draw the line at 50 miles, the Postal Service also ignores "relevant timing and cost considerations caused by variable

¹⁷⁷ Docket No. C2009-1, Order on Complaint, April 20, 2011, ¶ 4021 (Order No. 718).

geography, population density, or other factors unique to various RPDC locations.” *Id.* at 6.

Hutkins argues that the Postal Service’s proposed changes violate 39 U.S.C. § 403(c), because under RTO, some mailers will be subject to a different set of service standards than others, despite possibly only living a few miles apart. Hutkins Statement at 3-4. He also argues that “[c]utting costs in itself cannot be a legitimate rationale for discriminatory practices.” *Id.* at 4. Hutkins asserts that “[m]ailers at RTO post offices will in [a] sense pay a higher quality-adjusted price than mailers at non-RTO offices.” *Id.* at 5. And, “[e]ven worse, the upgraded service standards that will be enjoyed by non-RTO single-piece mailers and presort mailers are *made possible* by the downgrades suffered by RTO mailers.” *Id.* Additionally, the Postal Service has determined that at least 36 LPCs will retain cancellation operations despite the fact that they are beyond 50 miles from an RPDC, creating a three-tiered system for First-Class Mail. *Id.* at 6.

While they do not reference section 403(c) directly, three parties reference the imbalanced impacts the proposed changes might have. The Members of Congress assert that the RTO initiative will have a disproportionate effect on rural America. Congressional Letter at 3. They point out that these rural Americans “arguably rely on the [Postal Service] the most for timely delivery.” *Id.* They argue that the changes the Postal Service are seeking to make “are overlooking our rural communities as part of a broader agency cost-cutting measure.” *Id.* Similarly, NRECA and VMDAEC assert that the proposed changes will disproportionately affect rural America and small businesses. NRECA Statement at 2-3; VMDAEC Statement at 1. Finally, according to APWU, the data provided further show an overall negative impact on rural communities, which APWU states will suffer the “greatest impact.” APWU Brief at 7. More than two-thirds of Single-Piece First-Class Mail originating in rural ZIP Codes will be subject to the RTO initiative, while just more than one-third of Single-Piece First-Class Mail that originates in urban ZIP Codes will be subject to RTO. *Id.* at 7-8.

The Postal Service states that the changes conform with 39 U.S.C. § 403(c). Postal Service Brief at 60. The Postal Service argues that to violate the first prong, a complainant must show “an explicit . . . differentiation among discrete categories of mail users, and/or disparate impacts on discrete categories of mail users arising *de facto* from the business rules’ implementation.” *Id.* at 61. The Postal Service asserts that because the proposed changes “do not single out discrete categories of mail users[.]” and are instead “based on reasonable considerations, and will be uniformly applied[.]” any differences in service expectations are due to the uniform application of the rules rather than discrimination. *Id.* at 62.

Additionally, the Postal Service states that “given the benefits in Leg 2, the addition of a day in Leg 1 for RTO-origin locations does not necessarily result in a longer service standard than the current expectations,” and even though there will be downgrades to volume, neither “do rural areas cluster disproportionately within those downgraded volume percentages[.]” Thus, according to the Postal Service, “the proposed rules would not have obviously disparate impacts on distinct categories of mail users.” *Id.* at 62. Further, the Postal Service argues that section 403(c) prohibits “undue or unreasonable discrimination among users of the mails,” and “[u]sers of the mail do more than send” Single-Piece First-Class Mail. *Id.* Because of the upgrades across the remaining Market Dominant products and the fact that the Postal Service assumes that “most mail users receive more mail than they send; and the majority of such volume is entered within 50 miles of an RPDC[.]” under a reasonable interpretation of section 403(c), the Postal Service posits that “it is far from clear than any discrete category of mail user will receive less favorable terms and service than other mail users under the proposed standards.” *Id.* at 62-63.

Regarding the second prong, the Postal Service argues that the proposed changes do not grant different terms and conditions on similarly situated postal customers, “for the simple reason that the standards differ only among mail users who are not situated similarly.” *Id.* at 64. It also points out that the Commission has

previously stated that the determination of whether postal customers are similarly situated is fact-specific, nuanced, and complex. *Id.* Because “no case-specific information sufficient for the purposes of such analysis has been presented in this docket,” the Postal Service argues that any conclusion that the proposed changes “differently affect similarly situated mail users would be speculative and ungrounded.” *Id.* at 65.

Finally, the Postal Service argues that even if the first two prongs of the section 403(c) test are met, since the proposed changes “are rationally related to achieving the Postal Service’s statutory mandate[,]” they do not violate section 403(c). *Id.* The Postal Service maintains that “the proposed changes accord with section 403(c) because, regardless of any conceived differing treatment among similarly situated mailers, the Postal Service and its witnesses have presented multiple, interrelated, rational bases for implementing RTO, accelerating middle mile operations, and revising service standards accordingly.” *Id.* at 66. Since the proposed changes “are amply supported by operational and cost considerations and are objectively reasonable and justified,” according to the Postal Service, the third element is satisfied. *Id.* at 67-68.

On reply, the Public Representative discusses 39 U.S.C. § 403(c) and states “that there is insufficient information on the record to render a definitive determination of whether the Postal Service’s proposal violates 39 U.S.C. § 403(c) at this time.” PR Reply Brief at 13. The Public Representative agrees that the Postal Service’s proposed changes mean that some mailers will be offered less favorable terms and conditions than other mailers based on whether they are inside or outside of a ZIP Code subject to RTO. *Id.* The Public Representative, however, states that whether two different groups are similarly situated would depend on the specific facts presented to the Commission, and “it is too soon to determine whether the Postal Service has a rational and legitimate basis for discriminating against mail users impacted by RTO.” *Id.* at 13-14.

On reply, the Postal Service maintains that the RTO initiative and the revised service standards, despite drawing the ire of many, do not “single out rural areas; they

are instead predicated on a uniform rule that applies equally across urban and rural areas and that affects more urban volume than rural volume overall.” Postal Service Reply Brief at 22. It reiterates that the arguments advanced by the parties look to originating Single-Piece First-Class Mail, while section 403(c) applies to “users of the mail” and encompasses more than originating Single-Piece First-Class Mail. *Id.* at 23. The Postal Service projects that many other products will be upgraded in both rural and urban areas and, therefore, “the proposed standards cannot reasonably be said to single out discrete categories of mail users.” *Id.*

Additionally, the Postal Service argues that the distance mail travels involves differing levels of “time, effort, and money” *Id.* And “[t]his aligns with a basic principle that all modern service standard articulations have followed: mail traveling longer distances receives a longer service expectation than does mail travelling a shorter distance.” *Id.* at 23-24 (citing Postal Service Brief at 64). Therefore, the proposed service standards do apply uniformly across the country because “they consider the distances between origin-points and originating processing facilities” Postal Service Reply Brief at 24. This means, according to the Postal Service, that the proposed service standards do not discriminate “any more than” the current service standards do. *Id.* Because, according to the Postal Service, “dividing lines must be drawn somewhere, the 50-mile criterion constitutes a reasonable basis to account for time and distance considerations in Leg 1.” *Id.* It concludes by stating that cost savings should play a role in whether there is “a reasonable justification within the wide latitude that [its] operational prerogatives afford.” *Id.* at 25.

3. Commission Analysis

The Commission discusses each part of the test applicable to section 403(c) in the following analysis.

a. Less Favorable Terms

The record in this case reveals that the Postal Service will change the Leg 1 service standards based on the distance from an RPDC. USPS-T-1 at 11. The Postal Service argues that the “different level of service” contemplated in the first prong means more than a different set of service standards because otherwise, this prong “would be satisfied always and by default.” Postal Service Brief at 61. It argues that for the condition to be more than an “empty formality,” it must require an analysis of whether there is an “explicit . . . differentiation” amongst specific categories of users of the mail, “and/or disparate impacts on discrete categories of mail users” that arise from implementation of the standards. *Id.*

The Commission has previously concluded that “[i]t is enough, to satisfy this prong of the test that a mailer be able to show a different level of service received by two mailers.” Docket No. N2021-1, Advisory Opinion at 175. And a finding of less favorable terms is not a de facto finding of undue or unreasonable discrimination, just the existence of imbalanced treatment. Nor is it an “empty formality” to apply the first prong in the manner the Commission has historically done. The factors proposed by the Postal Service suggest that the Commission should ask first whether the Postal Service intentionally discriminated among “discrete categories of mail users” or whether service rules have “obvious disparate impacts on distinct categories of mail users.” Not only is this reading not present in the text of the statute, but it also conflates the overall inquiry into whether there is a violation of 39 U.S.C. § 403(c) with the individual prongs of the test. Under the Commission’s interpretation of section 403(c), it makes no difference whether the Postal Service intentionally or unintentionally makes “any undue or unreasonable discrimination among users of the mails[;]” it is the harm that occurs

through the discrimination that the statute is designed to prevent and protect. 39 U.S.C. § 403(c). Employing the standard the Commission has consistently applied to this prong to the present record, the Commission concludes it would be possible for a mailer to demonstrate that the proposal would result in disproportionate service treatment compared to other mailers.

b. Similarly Situated

“Whether one mailer is similarly situated to another is a more fact-driven, nuanced, and complex inquiry than whether or not a different level of rate or terms exists between two mailers or groups of mailers.” Docket No. N2021-1, Advisory Opinion at 175. When making this determination, the Commission considers “a comparison of the relevant characteristics of different mailers” Order No. 718 at 45 (emphasis omitted) (citation omitted). The Commission has also acknowledged that “a determination of whether two mailers [or groups of mailers] are similarly situated is best determined on a case-by-case basis.” *Id.* at 59 (citation omitted). When deciding whether two groups are similarly situated, “the Commission would consider the product used, characteristics of the mail, and other relevant similarities or differences as applicable.” Docket No. N2021-1, Advisory Opinion at 175-76.

While the Commission is concerned that its analysis reveals that rural communities throughout the country will receive a disproportionate level of decreased service, and thus, the Commission can envision two different groups of mailers that will be disproportionately impacted by the proposed changes in the Request, it cannot at this time based on the limited record in the Advisory Opinion process, unequivocally determine that those two groups are necessarily similarly situated. Indeed, it is worth noting that many of the parties who raise the issue couch this prong as theoretical.¹⁷⁸ As stated above, the Commission would need to consider the product used,

¹⁷⁸ GCA states that it “seems evident” that two parties would be similarly situated. GCA Brief at 14; see *also* Hutkins Statement at 3-4; PSA Statement at 5.

characteristics of the mail, and other relevant similarities or differences, such as distance from an RPDC, to make this determination. Because that specific evidence is not presented in this docket, a specific finding that similarly situated groups receive a disproportionate level of decreased service cannot be made at this time.

c. Rational or Legitimate Basis

The Postal Service has wide latitude in creating service standards that provide a different level of service to different groups of mail users so long as any distinctions are reasonable.¹⁷⁹ One contention is that cost savings cannot constitute a rational or legitimate basis. Another contention is that the 50-mile RTO distance threshold lacks a rational basis. Finally, there is an implication that because the Postal Service's proposed changes do not comply with 39 U.S.C. § 101, there can be no rational basis for the changes. The Commission will address each of these in turn.

(1) Cost Savings

The Postal Service is required to consider efficiency and economy in all aspects of postal operations. See 39 U.S.C. § 101(a)-(f). Therefore, the Commission is not prepared to wholesale exclude cost cutting as a rational or legitimate basis for service standard changes. This does not prevent a party in a complaint proceeding from raising whether, as applied, cost savings do not constitute a legitimate or rational basis for a given policy as its applied in that specific case. Nor would it prevent a complainant with specific post-implementation data to argue that the Postal Service's policies are irrational or unreasonable because they target one specific category of mailing for degradation in order to generate cost savings.

¹⁷⁹ “[T]he Postal Service may provide different levels of delivery service to different groups of mail users so long as the distinctions are reasonable.” *Egger v. U.S. Postal Serv.*, 436 F. Supp. 138, 142 (W.D. Va. 1977).

(2) The 50-mile Distance

Presently, it is unclear how the 50-mile distance will apply because the Postal Service has determined that certain LPCs will retain cancellation operations despite servicing Post Offices that are more than 50 miles from the servicing RPDC. USPS-T-1 at 26-27; Tr. 1/313. Accepting this argument at this stage would seemingly prevent the Postal Service from fashioning policies that involve drawing operational dividing lines based on distance. The Postal Service advances several theories as to why this 50-mile distance is preferable, including the fact that it accounts for time and distance and provides “operational efficiencies, earlier network dispatches, expanded Leg 2 reach, and considerable transportation and processing-related cost savings that RTO facilitates” Postal Service Reply Brief at 24. These arguments, however, are premised on the Postal Service’s ability to achieve those results, which the Commission is not confident it can do. See Section VII.A., *supra*.

(3) Policies of Section 101

The postal policies prescribed by statute are located in 39 U.S.C. § 101. Section 101(a) provides that the Postal Service shall provide “as its basic function . . . postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people[]” and “prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities.” Next, section 101(b) requires the Postal Service to “provide a maximum degree of effective and regular postal services to rural areas, communities, and small towns where post offices are not self-sustaining . . . it being the specific intent of Congress that effective postal services be insured to residents of both urban and rural communities.” Additionally, section 101(e) states that “[i]n determining all policies for postal services, the Postal Service shall give the highest consideration to the requirement for the most expeditious collection, transportation, and delivery of important letter mail.” Finally, section 101(f) provides that when selecting a mode of transportation, “the Postal Service shall give highest consideration to the prompt, economical, consistent, and reliable delivery of all

mail[.]” and “[m]odern methods of transporting mail . . . designed to achieve cost-effective overnight transportation to the destination of important letter mail to all parts of the Nation shall be a primary goal of postal operations.”

While parties imply that the Postal Service’s proposal is not reasonable because it decreases the service standards for a substantial portion of the mail, the Commission has previously concluded that this position is “untenable” because “[i]t would require that any decrease in service standards would by default be inconsistent with the policies of section 101.” Docket No. N2021-1, Advisory Opinion at 177. But similarly, any argument here implying that the proposed changes have a rational or legitimate basis because of the increase in any of the factors discussed in Section VII.I., *supra*, necessarily depend on the ability of the Postal Service to realize those benefits, which it has not demonstrated to the Commission’s satisfaction that it can do. See Section VII.A., *supra*.

4. Conclusion

The Postal Service’s proposed plan does not facially violate 39 U.S.C. § 403(c). However, based on the Commission’s analysis, it is clear that a large portion of rural communities will experience worse service standards in relation to urban communities as it relates to outgoing mail pieces. The Commission is concerned about the disproportionate impact that the proposed changes will have on rural communities across America, but without more specifics, it is currently unclear based on this record in this proceeding whether or not the Postal Service’s proposal violates the specific prohibition contained in 39 U.S.C. § 403(c).

Neither the Postal Service nor any interested party should read this preliminary conclusion as the Commission’s belief that this is not a close call. It is not a stretch to say that the Postal Service is walking a fine line, and the preceding sections should illustrate how the Commission views these proposed changes. But they largely remain just that—*proposed* changes premised on *theoretical* optimizations, economies, and

cost savings. Should they prove correct, and, for example the Leg 2 efficiencies sufficiently mitigate the added service expectation day in Leg 1 such that RTO-eligible postal customers do not see widespread service degradation, then perhaps the Postal Service has not engaged in undue or unreasonable discrimination. But the Postal Service is cautioned that if it 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, the Commission stands ready to consider allegations that the Postal Service's proposed changes have unduly or unreasonably discriminated against certain users of the mail.

VIII. CERTIFICATION

It is the opinion of each of the Commissioners listed below, pursuant to 39 U.S.C. § 3661(c), that this Advisory Opinion conforms to the policies established under Title 39, United States Code.

Michael Kubayanda, Chairman
Robert G. Taub, Vice Chairman
Thomas G. Day, Commissioner
Ann C. Fisher, Commissioner
Ashley E. Poling, Commissioner

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ADDITIONAL VIEWS OF COMMISSIONER THOMAS G. DAY

USPS Modeling Methodology

The United States Postal Service annually receives and delivers over 107 billion items of mail from 167 million delivery points throughout our country. This translates to 2.8 quadrillion links throughout this physical network.

This is one of the most complex physical networks in the world. To further add to this complexity, the Postal network must deal with variation in size, shape, and volume of mail entered to the network each day.

Beyond the variation of what enters the network, there is also variation *within* the network—the time to travel to reach each facility in the network, the type and quantity of technology at each facility, and the daily staffing that is available.

The Postal Service is a large and complex physical network. The network includes the entry in the “First Mile,” transportation to/from processing centers, a variety of processing centers in the “Middle Mile,” transportation to the delivery units, and concluded with delivery to the final point of destination in the “Last Mile.”

Throughout this complex network there are ongoing variations for both input to the network and in the processing/transportation within the network.

To effectively create, modify, or adjust a network of this size and complexity, it is essential and standard practice that “Logistics Network Modeling” be conducted. In the case of the Postal Service, it is essential that the model accurately forecasts the impact upon both cost efficiency and service performance. The proper modeling techniques also provide the ability to create implementation plans, monitor the effectiveness of implementation, and continually track performance so the network can be adjusted as necessary.

Experts in Systems Engineering and Operations Research, as well as best practices, dictate that in logistics network optimization modeling there are two basic methods: Deterministic and Stochastic. Which one is selected is based upon the network under study as well as the data available.

A Deterministic model assumes fixed, predictable values for all variables, producing a single set of results. A Stochastic model, by contrast, incorporates randomness and uncertainty, generating a range of possible outcomes based on probability distributions. This is the most suitable approach in situations with fluctuating demand or variable lead times.

To better explain the differences between Deterministic and Stochastic modeling for the layperson, this is the result of a simple Google search and using AI. Here is the result:

In logistics networking, a “Deterministic model” assumes perfect predictability with fixed parameters, always producing the same outcome given the same inputs, while a “Stochastic model” incorporates randomness and uncertainty, providing a range of potential outcomes based on probability distributions, better reflecting real-world complexities like fluctuating demand or unpredictable delivery times.

Deterministic and Stochastic models are considered the two fundamental types of models used in optimization, with Deterministic models representing scenarios where all variables are known with certainty, while Stochastic models incorporate randomness and uncertainty into the optimization process, making them suitable for real-world situations where variables may fluctuate or be partially unknown.

Key Differences:

- Certainty vs. Uncertainty:

Deterministic models assume complete certainty in variables like delivery times and demand, while Stochastic models account for variability and randomness in these factors.

- Output:

A Deterministic model will always produce the same single result for a given set of inputs, whereas a Stochastic model will generate a range of possible outcomes with associated probabilities.

When to Use Each Model:

- Deterministic Model:
 - When planning for highly predictable logistics scenarios, like routine deliveries with consistent demand.
 - Useful for initial network design and optimization when a basic understanding of flow is needed.
 - Easier to implement and interpret due to its simplicity.
- Stochastic Model:
 - When dealing with fluctuating demand, unpredictable weather events, or other variables that introduce uncertainty.
 - To assess risk and potential disruptions in a logistics network.
 - Provides a more realistic representation of complex logistics systems.

Examples:

- Deterministic:

Calculating the shortest delivery route based on fixed travel times between known locations.
- Stochastic:

Simulating delivery times considering potential traffic delays, weather disruptions, and variable customer demand using probability distributions.

In referencing both the written and oral testimony of the Postal Service witnesses, it is apparent that a Deterministic model was utilized. The only aspect of variation that was employed was to not use an average. Instead, they used the 85th percentile of the data distribution employed. While this does account for some level of variability, it does not consider the day-to-day variation that takes place throughout the Postal network.

To further reduce the validity, the Postal Service used two separate models—one for transportation and, illogically, a separate one for operations. During the

hearing in this case, we heard testimony from Postal Service witness who explicitly confirmed that the two models were never integrated.

When a complex logistics network like the Postal Service's separately models transportation and processing operations, they are certain to create "Sub-Optimization." It is understood within Systems Engineering and Operations Research that optimizing individual components of a network will invariably lead to "Sub-Optimization" of the total network.

Again, utilizing Google search and AI, the Waredock Logistics Glossary stated:

Key points about suboptimization in logistics:

- Focus on individual components:

When a logistics manager focuses solely on improving one aspect of the network, like getting the fastest delivery time from a single warehouse, without considering the impact on overall cost or inventory levels, it can lead to suboptimization.

- Negative consequences:

Suboptimization can result in increased costs, longer delivery times, poor customer service, and inefficient use of resources across the logistics network.

In the case of the Postal Service, this is not just referencing academic theory. As the Postal Service has implemented the Delivering for America (DFA) Plan, the decision to use these separate Deterministic models to create the plan has repeatedly failed to achieve improvement. In fact, the data from sites such as Richmond, VA and Atlanta, GA clearly demonstrate a sustained degradation of service performance and an inability to achieve operational efficiency.

The results of DFA implementation at the Postal Service have proven the academic concepts from Systems Engineering and Operations Research to be correct regarding Deterministic versus Stochastic modeling. The result of DFA implementation may serve as a case study in Systems Engineering and Operations Research textbooks as what not to do as far as the use of Deterministic models.

In developing the DFA Plan, the Postal Service utilized Deterministic modeling as a shortcut to find a quick and easy solution. It further degraded the effectiveness of the modeling by failing to integrate transportation with processing operations. By choosing this methodology, the Postal Service has committed itself to a fundamentally flawed plan. If the Postal Service had utilized a Stochastic model, it would have taken more time. However, it would have created a more effective plan to optimize both cost-effectiveness and service performance.

The Postal Service absolutely must revise its existing network. The significant changes in volume and types of mail dictate a change must take place. Status quo is universally understood as unacceptable.

While recognizing the need for change, it is also essential that the method to create that change must be valid and applicable.

DFA needs to be immediately paused. The logistics network model needs to be completely redone with valid historical data utilizing a Stochastic model.

There is no certainty that a Stochastic model will achieve “break-even” financial results or a restoration of 95-percent on-time service performance. It may be possible to achieve top-level financial and service targets, but this is also not guaranteed. What is guaranteed is that the Stochastic model will provide far better real-world performance than what can ever be achieved by the current DFA Plan.

Thomas G. Day

Appendix: Commission Recommendations**Regional Transportation Optimization (RTO) Recommendations**

RTO Recommendations	Section
The Commission recommends that the Postal Service better prepare for its announced changes, including creating RTO-specific plans and models, before rolling out the RTO initiative on a nationwide basis.	VII.A. at 96
The Commission urges the Postal Service to begin tracking metrics, such as the average number and length of nationwide layovers, before implementing RTO so that it has a baseline to which it can compare the success of the initiative.	VII.B. at 108
The Commission 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.	VII.B. at 109
The Commission notes that to maximize cost savings, instead of static thresholds, the Postal Service could leverage its extensive facility-level data to develop and rely on thresholds for specific Regional Processing and Distribution Centers (RPDCs) or even develop non-threshold methods for determining RTO designations.	VII.B. at 110
While the rollout of RTO requires successful implementation, the Commission recommends the Postal Service explore ways to categorize RPDC facilities and apply category-based thresholds to potentially increase the benefits of optimization and reduce the scope of downgrades without complicating implementation.	VII.B. at 111
The Commission 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, and measure the benefits of RTO against the service impacts.	VII.B. at 111
The Commission recommends that the Postal Service resolve the contradiction of advocating for a regional approach while still allowing certain Local Processing Centers (LPCs) to retain cancellation operations.	VII.B. at 113

RTO Recommendations	Section
The Commission recommends the Postal Service minimize the use of exceptions in implementing its initiatives by developing and implementing a systematic approach to capture the interactions between RTO and the network design.	VII.B. at 117
The Commission agrees with the National Postal Policy Council (NPPC) recommendations to tie RTO implementation to the operational launch of the servicing RPDC into operation in a specific region, and not nationwide all at once.	VII.B. at 118
The Commission recommends that the Postal Service learn from its negative experience implementing Dynamic Routing Optimization (DRO) to inform its preparation for implementing RTO.	VII.B. at 118
The Commission encourages the Postal Service to create a thorough implementation plan to facilitate the strong execution of its RTO initiative and set up relevant timelines.	VII.B. at 119
The Commission recommends a more measured approach to implementation strategy based on the Postal Service's experience with Local Transportation Optimization (LTO) pilots where "compressed" timelines created issues. This might include a testing period with RTO pilots.	VII.B. at 119
In order to establish an accurate representation for the potential impacts of RTO, the Commission recommends that the Postal Service initiate an RTO pilot before rolling the initiative out nationwide.	VII.B. at 124
The Commission recommends that the Postal Service address concerns regarding outdated and inappropriate source data and assumptions to improve the internal validity of the LTO Model going forward.	VII.B. at 125
The Commission recommends that the Postal Service develop a model that accurately reflects the nature of transportation under RTO as the LTO Model results cannot serve as an adequate proxy. Such a model should ideally include cost and service impact data from RTO pilots in which RPDC activations and other network changes are introduced along with RTO.	VII.B. at 130

RTO Recommendations	Section
The Commission recommends the Postal Service conduct further preparation before beginning the RTO initiative to improve its likelihood of achieving implementation success, including finalizing the list of post offices eligible for RTO, creating a detailed project implementation plan for RTO beginning with a RTO pilot, and creating a model to estimate RTO transportation cost savings specifically.	VII.B. at 131

Leg 2 Transportation Recommendations

Transportation Recommendations	Section
The Commission strongly recommends that the Postal Service develop a comprehensive and integrated model to capture and analyze the interaction of all elements of the network (e.g. facility location selection, Leg 1 transportation, Leg 2 transportation, and mail processing) to observe and understand the overall impact on performance and cost savings.	VII.A. at 100
The Commission recommends the Postal Service develop a stochastic network model, which will allow for more variability in the modeled network and provide more detailed outputs which can better inform the placement and designation of RPDCs.	VII.C. at 149

Processing Efficiencies Recommendations

Processing Efficiencies Recommendations	Section
The Commission strongly recommends that the Postal Service use more rigorous methods or models to prove its estimates instead of just relying on its business judgment when adjusting how RPDCs and LPCs function.	VII.A. at 99
The Commission encourages the Postal Service to review and analyze its facility-level data to ensure that the productivity improvements are achievable and that the proposed operational changes will have their intended effect.	VII.D. at 176

Processing Efficiencies Recommendations	Section
The Commission recommends the Postal Service evaluate its implementation procedures to minimize issues that arise during the process.	VII.D. at 176
The Commission urges the Postal Service to model the arrival profiles under RTO in order to better plan for the subsequent changes to operations.	VII.D. at 179
The Commission urges the Postal Service to adopt more rigorous methodologies to ensure that the proposed changes will provide all the benefits described, including to study and incorporate data and lessons from past RPDC implementations.	VII.D. at 191
The Commission encourages the Postal Service to provide specific metrics, related to each change, for assessing the success of its initiatives.	VII.D. at 191

Effects on Service Recommendations

Effects on Service Recommendations	Section
In light of the Commission's analysis concerning the disparate negative impacts on Market Dominant mail, the Commission strongly advises the Postal Service to closely monitor the impact of its proposed changes to the service standards on Market Dominant mailers and customers and to modify its plans and take immediate mitigation measures if service impacts are greater than expected.	VII.E. at 207
In order to minimize negative service performance impacts, the Commission concludes that the Postal Service must identify and learn from its mistakes as quickly as possible and not overlook or ignore systemic challenges in its determination to implement the proposed network and operational changes.	VII.E. at 226

Service Performance Measurement (SPM) Recommendations

SPM Recommendations	Section
Should the Postal Service determine to move forward with implementing the change, the Commission strongly encourages the Postal Service to seek out ways to clearly communicate with customers this change and how it affects postmarking and delivery expectations for mailpieces.	VII.F. at 238
The Commission urges the Postal Service to clearly and transparently communicate the impacts of proposed service standard and service performance measurement changes when those changes impact the underlying service received by customers.	VII.F. at 238-39
Given the change has not been transparently presented, the Commission strongly encourages the Postal Service to seek out ways to clearly communicate this change with customers, including how it affects the expected cancellation date and delivery expectation for mailpieces and in its presentation of expected service in its proposed 5-Digit to 5-Digit ZIP Code lookup tool.	VII.F. at 243
The Commission recommends that the Postal Service develop, test, and present to the Commission and the public a measurement system capable of accurate, reliable, and representative service performance measurement at the 5-Digit ZIP Code level before moving forward with its proposed service standard changes.	VII.F. at 243

Local Changes, Customer Communications, and Election Mail Recommendations

Local Changes, Customer Communications, and Election Mail Recommendations	Section
The Commission finds that the Postal Service should make more of an effort to educate mailers on the significant changes being made and suggests that the Postal Service mail flyers to affected residences or place notices in PO Boxes.	VII.G. at 249
With the determination that the Postal Service's current handling of election mail is reasonable, the Commission 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.	VII.G. at 250

Financial/Cost Savings Recommendations

Financial/Cost Savings Recommendations	Section
The Commission suggests that the Postal Service apply a more robust approach, grounded in quantitative evidence and real-world testing, when determining capture rates to meet the standards of reliability necessary for sound capture rate and financial projections.	VII.H. at 255-56
Should the Postal Service proceed with implementing these initiatives, the Commission recommends that it closely monitor their progress to ensure that cost savings are realized and balanced with the maintenance of high-quality service standards.	VII.H. at 263
The Commission encourages the Postal Service to validate its capture rates with empirical data, conduct scenario-based modeling to assess outcomes under varying conditions, and establish clear timelines and milestones to improve accountability and transparency in achieving its cost savings goals.	VII.H. at 263

Service Standards Objectives and Factors Recommendations

Service Standards Objectives and Factors Recommendations	Section
The Commission strongly advises the Postal Service to consider its obligations under 39 U.S.C. § 101(a) and (e), and reconsider the impact of its proposed changes to the service standards, particularly on rural areas and the rural citizens and businesses who rely most heavily on the Postal Service.	VII.I. at 274
The Commission strongly advises the Postal Service to take into consideration the concerns expressed in this docket as it continues to develop and implement the proposed changes.	VII.I. at 274-75
The Commission advises the Postal Service to closely monitor and measure the implementation of its planned changes to determine whether they actually achieve the objectives outlined above or whether some of the negative the impacts projected by the Commission and concerned parties actually come to fruition.	VII.I. at 275