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Testimony of

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to a hearing titled "Pushing the Envelope: The Looming Crisis at USPS"

by the

Subcommittee on Federal Workforce, Postal Service and Labor,

Committee on Oversight and Government Reform, U.S. House of Representatives

March 2, 2011

Good morning Chairman Ross and Ranking Member Lynch, and greetings to the other members of the sub-committee. I am pleased to be here today on behalf of the nearly 290,000 members of the National Association of Letter Carriers. Letter carriers are proud to be the public face of the Postal Service. Together with hundreds of thousands of other postal employees, we provide the only truly universal delivery and communications network in the United States – a network that serves every corner of this country, from the most rural areas of Montana to each and every city block of Manhattan, six days a week. Together, we have made the Postal Service the most highly trusted federal agency in America for several years running. Thank you for inviting me to testify on the future of the Postal Service, an agency mandated by the U.S. Constitution, and therefore one of America's oldest and most-essential institutions.

The crisis at the Postal Service is not looming. It's here and it has been evident for at least four years. Addressing this crisis is vitally important to the U.S. economy and to the millions of workers employed by the mailing industry, not just to the Postal Service and the hundreds of thousands of workers who serve the nation as postal employees. The Postal Service is a vital infrastructure service that not only remains a key element of the country's financial payments system, but also a key facilitator of business and communications for the 150 million homes and businesses it serves six days a week. According to a 2009 study by the USPS the value of transactions moving through the mail exceeds $30 trillion annually – an astounding figure that underlines the importance of the Postal Service to the health of our economy.

The past four years of recession have been the most difficult in the history of the USPS and of the mailing industry in general. Although the economy has begun to recover, we are not out of the woods yet. As we prepare for the NALC's 19th annual "Stamp Out Hunger" national food drive on the second Saturday in May, we know that tens of millions of American families are still suffering in the aftermath of the crash of 2008. For the Postal Service, a full recovery won't come until the housing sector stabilizes and the 25 million Americans who are still unemployed or underemployed find good jobs. So even as we discuss postal reform today, Congress and the administration must also work together to address the nation's jobs crisis if postal reform is to be at all effective.

Over the past four years, the Postal Service has reported what appear to be jaw-dropping losses amounting to more than $20 billion. But these results are misleading and cannot be accurately compared to those reported by other companies.
There are three main causes for the Postal Service's losses. In order of importance they are: the $20.9 billion cost since 2007 of pre-funding future retiree health benefits, the large drop in mail volume and revenue caused by the Great Recession and the ongoing impact of mail volume lost to Internet diversion. By far, the congressional mandate to pre-fund future retiree health benefits is the most important – and urgent -- of these factors, though the conventional wisdom often flips the order of these factors. Indeed, in the absence of the pre-funding mandate, which no other agency or private company in America faces, the USPS would have recorded a net surplus of $611 million over the past four years, despite the worst recession since the Great Depression of the 1930s and despite continued electronic competition. (See the table below).

USPS Finances ($billions): 2007-2010

	2007	2008	2009	2010	2007-2010
Reported Net Income	-5.142	-2.806	-3.794	-8.505	-20.247
Pre-funding payments to of the PSRHBF*	8.358	5.600	1.400	5.500	20.858
Income w/o PSRHBF pre-funding payments	3.216	2.794	-2.394	-3.005	0.611

***Note: PSRHBF = Postal Retiree Health Benefits Fund created by the PAEA. The 2007 figure includes the mandated transfer of $2.958 billion from the escrow account established by P.L. 108-18 and the $5.4 billion pre-funding payment mandated by P.L. 109-435 (PAEA).**

Let me emphasize this point – in operational terms, the Postal Service has been profitable. In the first quarter of fiscal 2011, it posted an operational profit of $226 million as mail volume grew and the economy showed more signs of recovery.

So the financial crisis facing the Postal Service was not primarily caused by the recession or the Internet – it was an unintended consequence of decisions made by 109th Congress and President Bush in 2006 to require the Postal Service to massively pre-fund the health benefit costs it expects to incur over the next 75 years for current and future retirees. I know the highly accelerated schedule of prefunding payments (some $55 billion over 10 years) provided for in the 2006 Postal Accountability and Enhancement Act was driven by short-term CBO scoring concerns, but it is clear in hindsight that it was a terrible mistake – particularly with the onset of the deep recession just around the corner.

The Postal Service, its employees and its unions have responded with tremendous resilience to the crisis, which began for us in 2006 when the housing bubble began to burst and the credit crunch took hold. Thanks to the flexibility of the parties in finding solutions at the collective-bargaining table, the USPS has reduced the size of its workforce by more than 100,000 employees since 2007 while maintaining high-quality service at the most affordable postage rates in the developed world. I am proud to say that my union, the NALC, has been a responsible and reliable partner in helping the Postal Service react to the steep decline in mail volume stemming from the Great Recession. Working together we strove to negotiate flexible and fair methods for adjusting all 160,000 city letter carrier routes to ensure 8-hour assignments -- boosting efficiency and saving hundreds of millions of dollars. In fact, thanks to these negotiations, we adjusted routes nationally three times over 18 months and are now undertaking a fourth round of adjustments. Using the pre-crisis method of adjusting routes would have taken years.

But endless downsizing and cutting service is not the answer to the Postal Service's financial problems, nor to ensuring its future. Congress should sensibly and permanently reform the pre-funding provisions of the law and allow the Postal Service to use its surplus in the CSRS pension fund to meet its future retiree health obligations. This is what any rational business would do in similar circumstances. We also respectfully urge you not to embrace reforms that will do more harm than good – such as eliminating Saturday delivery or interfering with postal collective bargaining in ways that will prevent the postal community from finding win-win solutions to the Postal Service's long-term challenges.

Congress should fix the pre-funding policy first

The Postal Service is the only enterprise in America, public or private, that is required to pre-fund future retiree health benefits. But it's even worse than that. We are being forced to massively pre-fund for benefits payable 75 years out into the future – that is, for employees that have not even been hired yet. In the private sector, pre-funding retiree health benefits is optional. Most companies handle such benefits on a pay-as-you-go basis. Nearly two-thirds of Fortune 1000 companies do not pre-fund retiree health benefits at all and those few that do pre-fund have set aside far less of their future retiree health liability than the Postal Service. (See Attachment #1, the 2010 report on post-retirement benefit funding produced by Towers Watson, p. 20 Figures 27 and 28.) Indeed, with a balance of $42.5 billion, the Postal Service Retiree Health Benefit Fund is large enough to cover expected costs for the next 25 years.

The Postal Service's heavy pre-funding of retiree health care costs in recent years makes it impossible to compare its recent financial results with those of any other company. No private company would have done what the Postal Service has done over the past several years, which was to borrow massively to pre-fund future retiree health benefits in the middle of a recession. In short, the USPS has been forced by law to use most of its borrowing authority to make $20 billion in payments to pre-fund retiree health benefits, rather than to invest for the long term or to restructure its operations. In view of these facts, we believe the single most important thing this sub-committee should do to address the crisis facing the Postal Service is to permanently reform the pre-funding provisions of the law.

Fortunately, there is a way to do this without retreating from the goal of pre-funding retiree health benefits. As we learned from independent reviews by two highly reputable private sector actuarial services firms, the Office of Personnel Management has effectively overcharged the Postal Service for some $50 billion to $75 billion in pension costs associated with service performed for the taxpayer-funded Post Office Department (P.O.D.) before the U.S. Postal Service was reorganized in 1971. Both the Hay Group's study for the USPS Office of Inspector General and the Segal Company's report for the Postal Regulatory Commission concluded that the methods used by the OPM unfairly shifted tens of billions of costs from the tax-payer backed P.O.D. to the rate-payer supported USPS. Thanks to hearings conducted jointly by this sub-committee and its counterpart in the Senate last year, a number of legislative proposals have emerged to instruct the OPM to fairly recalculate the Postal Service's balance in the Civil Service Retirement and Disability Fund and to allow the Postal Service to use the resulting surplus in the Fund to meet the cost of its retiree health prefunding obligations. On the Senate side, a bipartisan consensus has formed on this crucial reform – both Senators Tom Carper and Susan Collins have endorsed this solution and have drafted legislation to implement it. I am happy to learn that Rep. Gerry Connolly of this sub-committee has prepared a bill that addresses this issue among others. Chairman Ross, we hope that you and your colleagues in the majority on this committee will embrace this bipartisan consensus on pre-funding reform.

Such reform would correct what independent experts agree is a grossly unfair allocation of costs made by OPM in 2007, and allow Congress to repeal the hard-wired and crushing pre-funding schedule in the Postal Accountability and Enhancement Act of 2006. And it would also grant the Postal Service the financial space to restructure itself for the Internet age.

Congress should retain six-day delivery

As you know, the Postal Service has asked Congress to give it the authority, without congressional approval, to reduce the frequency of delivery from the currently mandated six days per week. For now, it is proposing to eliminate Saturday mail delivery, but giving the USPS this authority could open the way for further reductions in service in the years ahead. We shared our strongly held views on this issue with this sub-committee last year and presented extensive evidence to the Postal Regulatory Commission during its review of the Postal Service's proposal to eliminate Saturday delivery. (See Attachment #2, the NALC's brief submitted to the PRC.) In our view, eliminating Saturday delivery would be a strategic business blunder of the first order. It would save very little money and risk the loss of far more revenue over time. Cutting service (and inconveniencing millions of customers) is not a way to strengthen the Postal Service. In America, business is conducted 24 hours a day, seven days a week. Millions of businesses, especially small businesses (such as Amazon.com re-sellers), rely on Saturday delivery and reducing the speed and quality of service will simply drive customers away. Almost 4,000 of these small companies have asked NALC to contact the PRC to express their opposition to the plan. Firms like e-Bay and mail-order prescription drug companies like Medco are huge users of Saturday delivery, as are the customers of FedEx and UPS who use the Parcel Select service that allows them to purchase low-cost last-mile delivery services from the Postal Service. When *The Economist* magazine learned that the USPS was proposing to end Saturday delivery in America, it reluctantly started testing alternative methods for Saturday delivery. Weekly newspapers and direct advertisers who value Saturday delivery will follow suit. If implemented, the elimination of Saturday delivery would jeopardize the Postal Service's future, slashing delivery service by 17% in return for a questionable 4% reduction in costs.

At a time when the nation is suffering an acute jobs crisis, throwing 80,000 decent jobs away in a moment of panic does not make sense – especially when there are better alternatives without negative side-effects. Both the Obama administration and a bipartisan majority of the House that co-sponsored H. Res 173 in the 111th Congress oppose the elimination of Saturday delivery. We urge you to reject this proposal as well – because it is not in the nation's interest.

Congress should not tamper with postal collective bargaining

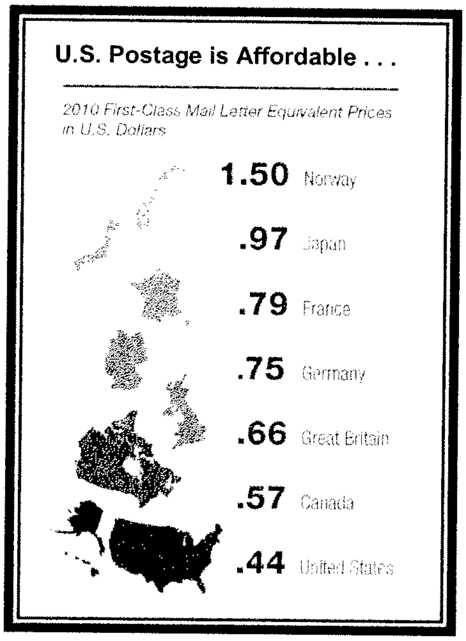
As this hearing takes place, a huge national debate is going on about the merits of public employee collective bargaining at the state and local level. Although we are federal employees and negotiate with an agency funded by the customers we serve (and not by taxpayers), we are gratified that the American public supports collective bargaining rights for public employees by a 2-1 margin, according to a recent Gallup poll published in the *USA Today*. The 40-year history of postal collective bargaining supports the wisdom of the public's view.

Over that period, NALC and the Postal Service negotiated seven national agreements (often in conjunction with other unions) without resort to arbitration, including the last two agreements which covered 2001-2006 and 2006-2011. During that same 40-year period, we arbitrated four agreements and partially negotiated and partially arbitrated one contract (the 1978-1981 national agreement). The experience of our sister unions has been very similar. The process has worked well not only for the USPS and its employees, but also for the public interest as well.

For the nation's 200,000 letter carriers, the existing process has enabled us to preserve the purchasing power of our hourly wages, which in real terms increased slightly (3.4% from 1972-2009) – even as postal labor productivity has increased by more than 43 percent. Of course, the real cost of our benefits has increased as the cost of insurance from FEHBP has soared along with private sector health care costs, but not more than the rise in productivity and not enough to drive postages rates up in real terms.

For the country in general, the current process has ensured reliable service -- there has never been a strike, lock-out or a disruption of essential postal services since the Postal Service was created. It has also permitted the Congress to completely eliminate taxpayer subsidies that once covered nearly a quarter of the Postal Service's costs. And it has ensured stable and affordable postage rates for the nation's mailers. Indeed, our postage rates are among the lowest in the industrialized world and adjusted for inflation, overall U.S. postage costs (as measured by the Producer Price Index for Postage calculated by the Bureau of Labor Statistics) have increased less than the overall

Consumer Price Index since the Postal Service was created in 1971. Moreover, since 1997 when the BLS began measuring a Consumer Price Index for private Delivery Services, postage rates have increased much less than private delivery rates – up just 48% for postage compared to an increase of 141% for private delivery.



. . . And Overall Postage Has Tracked Inflation: 1972-2010

Year	PPI-USPS (1989=100)	CPI-All Items (1982-84 =100)
1972	36.6	41.8
2010	187.7	218.1
Pct Inc	413%	422%

Note: PPI = Producer Prices; CPI = Consumer Prices

Source: Bureau of Labor Statistics

Under the current interest arbitration process, an arbitration board must give labor and management a full and fair hearing and arbitrators are bound to consider all the evidence presented by the parties when rendering their decisions -- see Section 1207 (c)(2) of Title 39. The Postal Service has proposed changes to this section of the law, seeking to highlight managerial objectives among the factors to be considered by arbitration boards while neglecting to mention any employee objectives that are typically presented to arbitrators. Most specifically, it would like to instruct arbitration panels to give extra weight to the financial condition of the Postal Service when rendering their decisions. Such a change would needlessly disrupt the balance and fairness of the existing process for resolving collective bargaining impasses in the Postal Service that has served the parties very well for more than 40 years.

Unfortunately, the Postal Service has played fast and loose with the facts on the issue of interest arbitration. Its so-called fact sheet on arbitration says that arbitrators are "not required to take the fiscal health of the USPS into account." This is flatly untrue and the Postal Service knows it. Arbitrators are required to consider all the evidence presented to them by the parties. Postal interest arbitration is a tripartite process and the Postal Service has at least one appointed arbitrator on every arbitration board – to serve alongside a union-appointed arbitrator and a neutral chairman of the board. There is no way for an arbitration board to avoid considering the finances of the Postal Service in their decisions – unless the Postal Service wants Congress to believe that its advocate arbitrators and lawyers sometimes fail to present evidence on postal finances. If any past arbitration board failed to consider the financial condition of the Postal Service – which I can tell you has never happened – then the only party to blame would be the Postal Service for appointing incompetent advocates and arbitrators. But in reality at least one of the parties (union or management) has presented evidence and testimony on the financial condition of the Postal Service to every arbitration board that has been established. And even if the law did not require arbitrators to consider all evidence, they would do so as a matter of well established professional practice. Therefore, giving this factor special status is unwarranted. We don't think Congress should put its thumb on the scale in favor of management (or labor). The existing law is fair to both sides. In layman's terms, let's not fix what's not broken – there are plenty of other things to fix in the Postal Service.

Conclusion

While reforming the pre-funding problem will dramatically improve the immediate financial picture, NALC fully understands that more must be done. The internet is changing the mailing needs of the American people and the American business community; there will be less demand for letter mail and more demand for small package delivery. We should note, however, that overall mail volume is now, for the first time in four years, increasing even as the level of First Class remains problematic. Still we know that in order to help the Postal Service survive and adapt to an uncertain post-crash economy, two things are essential. First, postal employees and their unions will have to embrace innovation and seek win-win solutions with the Postal Service at the bargaining table. And second, beyond developing and passing legislation that permanently addresses the crisis caused by the pre-funding mandate, Congress should give the USPS enough freedom to explore new ways of using its existing networks to serve the public and the U.S. economy.

Congress should clear the way for the Postal Service to develop new uses of its retail and delivery networks to serve the needs of businesses and the public. We believe Section 3(b) of the bill introduced by Senator Carper last year (S. 3831) will spur the kind of innovation needed to preserve universal mail service for decades to come by permitting the Postal Service to partner with companies, non-profits and state and local governments to better use its retail, processing and delivery networks to offer new services. NALC believes that such innovation can help spur economic growth and create jobs inside and outside the Postal Service. In fact, in September of this year, we are sponsoring an international conference on postal innovation in Washington, D.C. Our colleagues from postal unions all over the world will be here to share examples of how innovative postal companies around the world are adapting to meet the needs of 21st Century economies. The examples of innovative postal services can help us in the United States re-imagine the possibilities of our own national networks. In an era of rapid change, where communications are more important than ever for economic and national security purposes among others, we should strengthen – not compromise – our universal communications networks. If we can overcome the challenge of the pre-funding crunch, the entire postal community – including management, the unions, the mailers and Congress – can use our experience and energy to help the Postal Service adapt to the evolving needs of the country.

Let me conclude by congratulating all the new Members of Congress who are serving on the subcommittee. We believe the Postal Service is a non-partisan issue and that the tradition of bipartisan cooperation that has long been a hallmark of this subcommittee is worth continuing and nurturing. We very much look forward to working with all of you on postal issues and are convinced that a bipartisan solution to the challenges facing the Postal Service can be found. NALC has demonstrated repeatedly in recent years that it is prepared to do its part to help preserve the long-term viability of the USPS. Just as we have worked with the Postal Service at the bargaining table in recent years to adjust routes, reduce costs and effectively deal with the steep decline in mail volume as a result of the recession, we are prepared to work with the members of this sub-committee to craft legislation that will serve the best interests of the country as well as our members. Our goals are to preserve decent middle-class jobs for our members and to maintain the integrity of the Postal Service, while serving the American people and helping the businesses that rely on universal service to grow and prosper.

Thanks again for inviting me to testify. I am ready for any questions.

Perspectives

Accounting for Pensions and Other Postretirement Benefits, 2010

Reporting Under U.S. GAAP Among the *Fortune* 1000

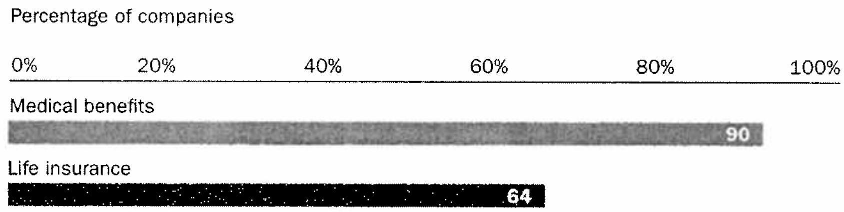
TOWERS WATSON

Other Postretirement Benefits

As noted above, nearly all of the 576 companies in this report disclosed information about pension plans. The figure shows the percentage of companies in this survey that maintain postretirement medical and/or life insurance benefits. *Figure 20* includes all companies regardless of their fiscal year-end dates.

Most companies that maintain DB pension plans also maintain DB postretirement medical and life insurance plans, but postretirement life insurance benefits are less prevalent.*

Figure 20. Percentage of companies maintaining postretirement medical or life insurance benefits, FY 2009



* A firm is classified as maintaining a postretirement medical or life plan if it is still managing the plan liabilities. Many postretirement benefit plans are closed to new entrants and are not being offered to current employees. According to Towers Watson's 2009 COMPARISON Statistical Summary Report, 42% of companies offer retiree medical plans to newly hired employees, and 21% offer retiree life insurance.

Measure of Other Postretirement Benefit Costs and Obligations

The determination of the costs and obligations for postretirement benefits other than pensions is based on the actuarial present value of the postretirement benefits that are expected to be paid to, or on behalf of, the employee under the terms of the plan and the attribution of that amount to periods of service. Generally, the attribution period is from the date of hire to the date the employee attains full eligibility for the benefits. Benefits are allocated equally to each year of service.

The APBO, as of a particular date, is the actuarial present value of expected benefits attributed to service rendered by the plan participants to that date. A postretirement benefit plan's APBO includes salary progression if the plan's benefits are pay-related, which may be the case with life insurance benefits.

Actuarial assumptions are used to determine the present value of expected benefits. The following actuarial assumptions are required to be disclosed:

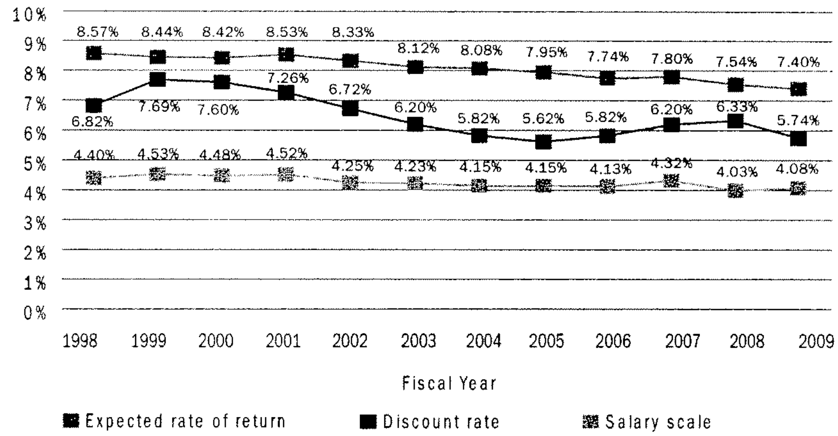
- The discount rate
- The health care cost trend rate
- The salary scale assumption
- The expected long-term rate of return on plan assets

Figure 21 shows the discount rate, salary scale and expected-rate-of-return assumptions from the current and past reports. These assumptions and trends are often the same as or similar to the assumptions for the pension plans, except for the expected return on assets assumptions, in which companies are utilizing lower rates for their other postretirement plans compared to what is used for their pensions.

For the minority of companies that have assets associated with their postretirement benefits, the average expected rate of return reported in the survey has declined by more than 100 basis points during the last eight years.

Only companies with a fiscal year ending after September are represented in Figure 23 (page 18) and the subsequent figures in this report.

Figure 21. Trends in postretirement average discount rate, salary scale and expected-rate-of-return assumptions, FY 1998 – 2009



The Discount Rate

Assumed discount rates are to "reflect the time value of money as of the measurement date in determining the present value of future cash outflows currently expected to be required to satisfy the postretirement benefit obligation."

Plan sponsors generally should use rates based on the rates of return on high-quality, fixed-income investments with maturities matching the timing of the expected future benefit payments. The rate at which the obligation could be effectively settled may be used if the obligation can be settled with third-party insurers on a nonparticipation basis.

Discount rates for all companies ranged from 4.60% to 6.86% at FYE 2009, with an average value of 5.74%. By comparison, discount rates at FYE 2008 for companies included in this year's report ranged from 4.95% to 8.60%, with an average value of 6.34%.

Thirty percent of companies with postretirement medical benefits and pension plans use a discount rate for their postretirement medical plans that is the same as the discount rate for their pension plans; 21% use a higher rate for FAS 106 than for FAS 87 purposes, and 49% use a lower rate.

Salary Scale

Comparison of the salary scale assumptions for pension and other postretirement benefit purposes shows that most sponsors use the same salary scale assumption for both types of plan. Reasons for different assumptions include different employee groups covered under the plans.

The salary scale assumption for FAS 106 purposes ranges from 1.48% to 6.00%, with an average value of 4.08%.

Sixty-two percent of companies reporting a salary scale for their postretirement benefit plans use the same rates for their pension plans, 20% use a salary scale assumption that is greater and 18% use a lower assumption.

The Health Care Cost Trend Rate

The health care cost trend rate is one of several assumptions unique to measuring the obligation for and cost of postretirement health care benefits. Other assumptions unique to these measurements are the per capita claim cost at each age at which the participant is expected to receive benefits and medical costs expected to be covered by other providers, such as Medicare. Of these assumptions, only information on the health care cost trend rate is a required disclosure item in the annual report, in particular on the expected health care cost trend rate for the coming year, the ultimate rate and the number of years the ultimate rate is expected to be reached.

Initial and Ultimate Health Care Cost Trend Rates

Figure 22 shows the health care cost trend rates from FYE 1998 to FYE 2009. The figure represents companies that reported a blended health care cost trend rate for retirees above and below age 65.

The initial health care cost trend rate continued to decline at FYE 2009. The initial health care trend rate has decreased by 181 basis points since FYE 2003, and the ultimate health care trend rate has declined by 15 basis points since FYE 2003.

Figure 23 shows the distribution of the initial health care cost trend rate for companies that use a single rate. Seventy-eight percent of companies in this report had an initial heath care cost trend rate between 7.01% and 9.00%.

Roughly 1% of companies in this year's report had a current-year health care cost trend rate equal to their ultimate rate.

Figure 24 shows the distribution of the ultimate health care cost trend rate. The majority of companies in this year's report have an ultimate health care cost trend rate of 5.00%.

For those companies that reported a blended rate, the average value of the initial health care cost trend rate is 8.12%, with a range from 3.00% to 11.00%. The initial health care cost trend rate reported in the prior year ranged from 3.00% to 10.40%, with an average of 8.30%.

The median initial health care cost trend rate is 8.00% for FYE 2009. The average of the ultimate rate is 4.96%, with a range of 3.00% to 6.50%.

Figure 22. Current-year and ultimate health care cost trend rates for companies using a single trend rate, FY 1998 – 2009

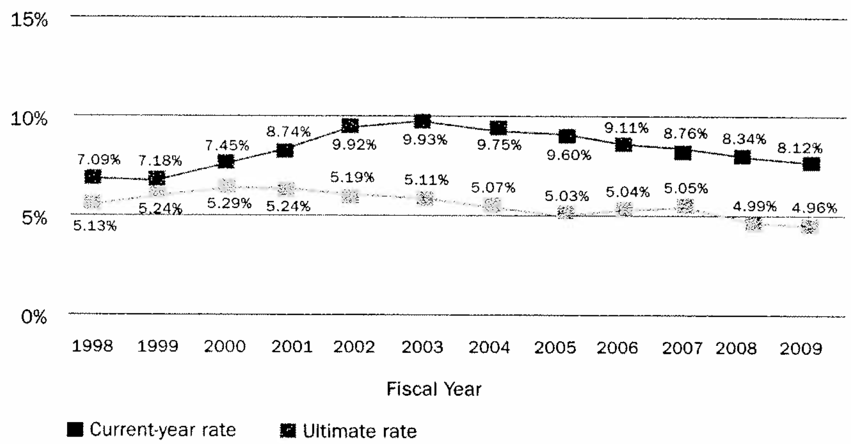


Figure 23. Distribution of current-year health care cost trend rates for companies using a single rate, FY 2009

Percentage of companies

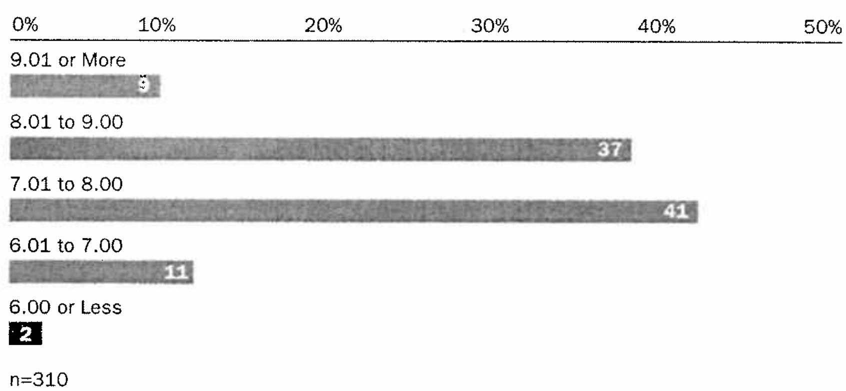
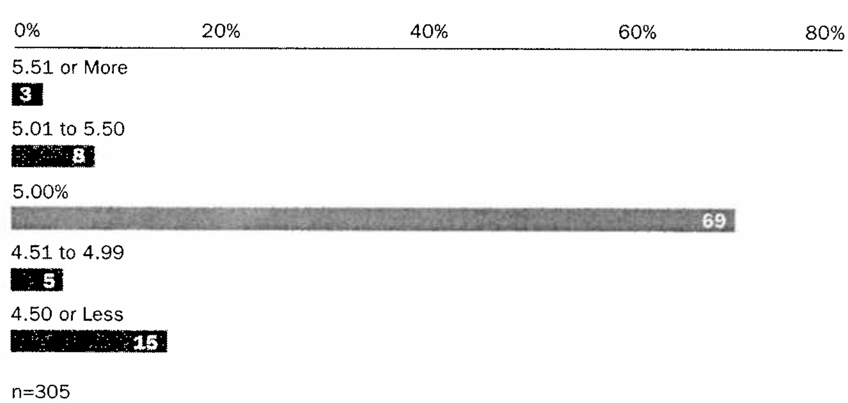


Figure 24. Distribution of ultimate health care cost trend rates for companies using a single rate, FY 2009

Percentage of companies



Years to Reach Ultimate Health Care Cost Trend Rate

Figure 25 shows the distribution of the years in which the ultimate health care cost trend rate is achieved.

For 58% of companies, the ultimate health care cost trend rate is expected to be achieved between 2014 and 2017.

The median number of years to reach the ultimate health care cost trend rate is seven. On average, the ultimate health care cost trend rate is expected to be achieved in 2018.

The Spread Between the Discount Rate and the Ultimate Health Care Cost Trend Rate

Figure 26 shows that the discount rate exceeds the ultimate health care cost trend rate for almost all companies.

Overall, 94% of companies reported a discount rate that exceeded the ultimate health care cost trend rate.

The spread between the discount rate and the ultimate health care cost trend rate ranges from -1.90% to 2.75% at FYE 2009, with an average value of 0.77%.

Companies Reporting Separate Health Care Trend Rates for Retirees Below Age 65 and Above Age 64

Some plan sponsors elect to use two health care trend rates, one for retirees below age 65 (pre-Medicare) and one for retirees above age 64 (Medicare eligible).

About 14% of the companies that disclosed health care trend data reported separate health care trend assumptions for retirees below age 65 and retirees above age 64.

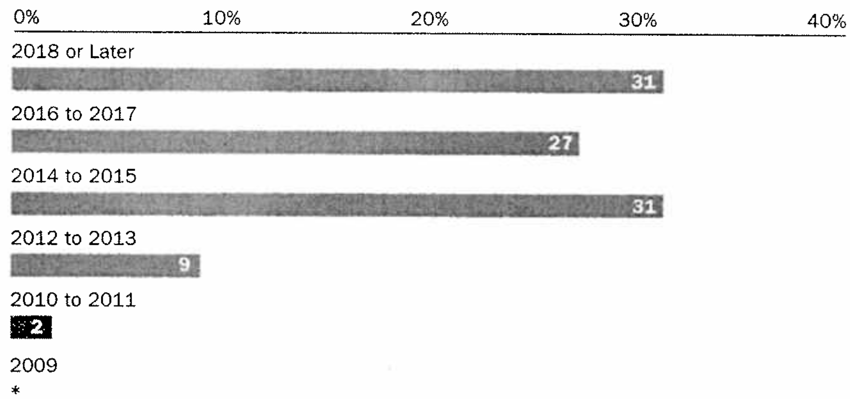
The average initial health care trend rate for retirees below age 65 is 8.30% at FYE 2009, with values ranging from 5.21% to 11.00%.

For retirees above age 64, the average initial trend rate is 8.99% at FYE 2009; values range from 3.50% to 28.00%.

The ultimate health care cost trend rates are, on average, 4.95% for retirees below age 65 and 4.99% for retirees above age 64 at FYE 2009.

Figure 25. Distribution of years in which the ultimate health care cost trend rate is achieved, FY 2009

Percentage of companies



n=298 *less than 1%

Figure 26. Spread between the discount rate and the ultimate health care cost trend rate, FY 2009

	Percentage of Companies
Discount rate greater than ultimate health care cost trend rate	**94%**
2.00% or More	2%
1.50% to 1.99%	6%
1.00% to 1.49%	25%
0.50% to 0.99%	48%
0.01% to 0.49%	13%
Rates are the same	**2%**
Discount rate less than ultimate trend rate	**4%**
Total	100%

n=304

Expected Long-Term Rate of Return on Assets

An expected long-term rate of return on plan assets was reported by about 37% of companies that provide postretirement benefits.

The rates of return for postretirement benefit plan assets range from 2.00% to 9.30% at FYE 2009, with an average value of 7.40% and a median value of 7.78%. Some companies with low expected long-term rates of return disclosed that their rate was on an aftertax basis.

Due to the lack of a tax-effective method for prefunding the promises to provide other postretirement benefits, most postretirement benefit plans other than pensions will remain unfunded. As noted above, 37% of companies with postretirement medical benefits report an expected long-term rate of return. For those companies with assets supporting their postretirement benefit plan, the median level of assets as a percentage of APBO was 33% at FYE 2009.

Figure 27 depicts the APBO funding levels for companies that have funded postretirement benefits from FYE 1999 to FYE 2009. Over the last 10 years, APBO funding levels have remained in the 23% to 36% range.

Figure 28 shows the percentage of companies that offer postretirement benefits that are not funded, from FYE 1999 to FYE 2009. While this ratio has declined over the last 10 years, the vast majority of plan sponsors still are choosing not to fund their other postretirement benefits due to the lack of tax-effective vehicles. Instead, contributions are made that cover the benefits paid to retirees as they arise each year.

Companies in this report with an FYE after September had roughly $326 billion in postretirement obligations at the end of FY 2008; this value declined to $287 billion at the end of FY 2009.

Figure 27. Median APBO funding levels for firms with funded postretirement benefits, FY 1999 – 2009

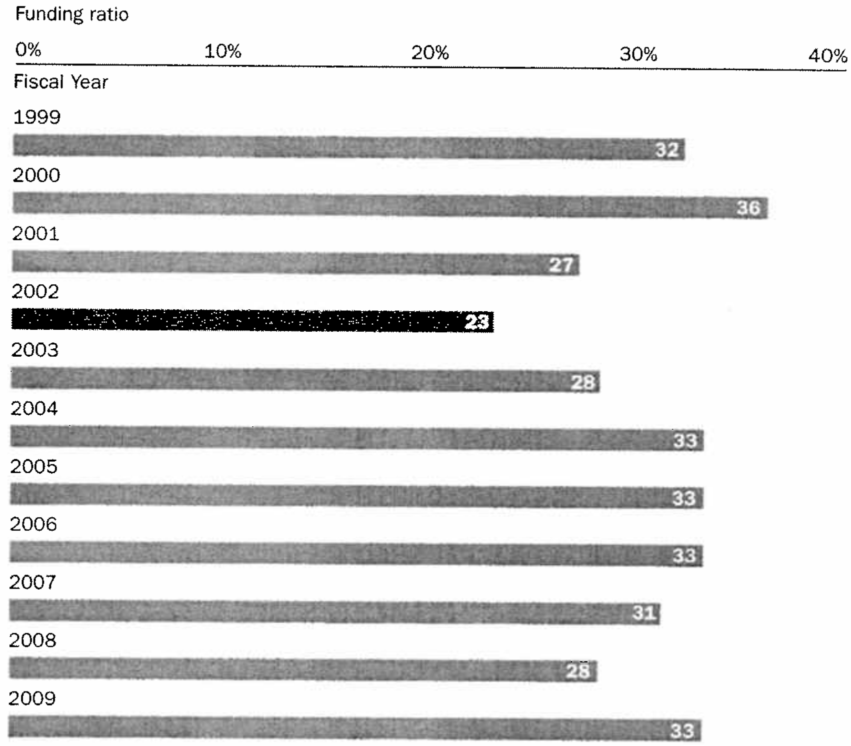
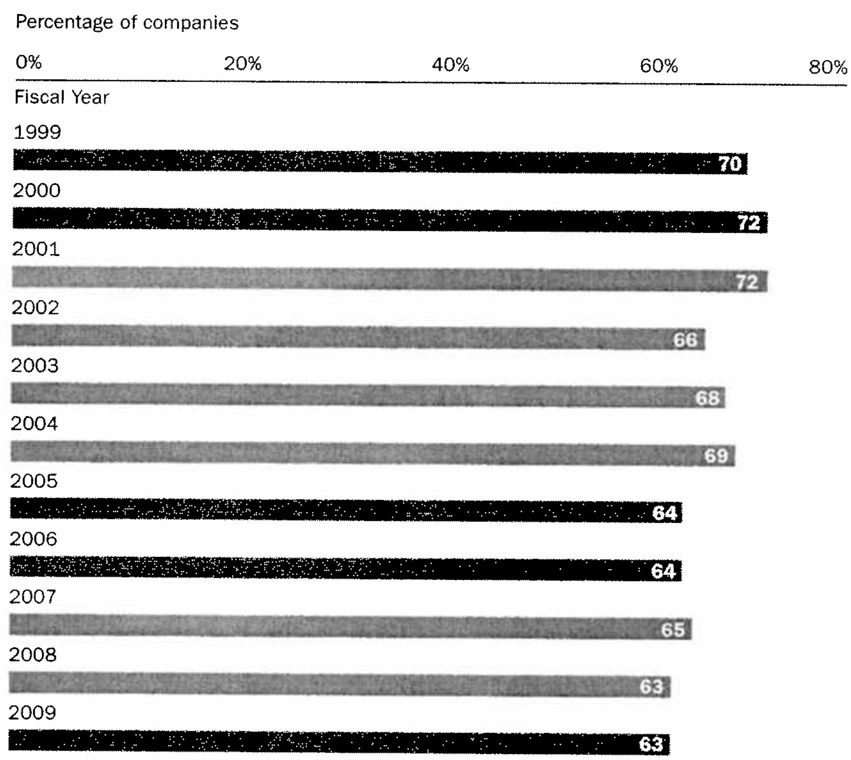


Figure 28. Percentage of companies without funded postretirement benefits, FY 1999 – 2009



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BEFORE THE
POSTAL REGULATORY COMMISSION

SIX-DAY TO FIVE-DAY STREET DELIVERY AND RELATED SERVICE CHANGES, 2010	Docket No. N2010-1

BRIEF OF INTERVENOR NATIONAL ASSOCIATION OF LETTER CARRIERS, AFL-CIO

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SUBJECT INDEX

Intervenor National Association of Letter Carriers, AFL-CIO ("NALC") respectfully submits this brief in opposition to the service changes proposed by the United States Postal Service ("USPS") in the above-referenced case, particularly the elimination of Saturday mail delivery.

STATEMENT OF THE CASE

Pursuant to 39 U.S.C. §3661(b), USPS requests an advisory opinion from the Commission on certain proposed changes in postal service, primarily the elimination of Saturday mail delivery.

STATEMENT OF POSITION

NALC strongly opposes the elimination of Saturday delivery. Americans have been receiving mail on Saturdays since modern postal service began in this country nearly a century and a half ago. Ending six-day delivery would thus be a radical change in operations -- one that is not necessary and that would in the long-term weaken USPS and threaten its viability.

USPS is facing a liquidity crisis as a result of the unique and unfair statutory obligation imposed on it by Congress to pre-fund retiree health benefits. The effects on mail volume of a remarkably severe recession have added to its current plight. Apart from these two factors, however, USPS's operating revenues and costs are not fundamentally misaligned and its business is otherwise solid. But for the pre-funding obligation, and even with the recession, USPS would have been in the black in the three years preceding FY 2010 and would now have billions in cash on hand.

Ending Saturday delivery will not, even under USPS's optimistic projections, yield enough savings, and will certainly not yield them fast enough, to rescue USPS from its cash crisis. And if Congress eases the cash crisis by reducing the crushing pre-funding obligation, and if the economy improves, as it inevitably will, ending Saturday delivery to produce some short-term savings will simply not be necessary.

Moreover, if credited with the amount that it overpaid in pension contributions, USPS would have more than enough to fund fully its retiree health benefits, as well as pay current retiree health insurance premiums and pay down its debt. Indeed, the Postmaster General has conceded that if the pension overpayment issue were rectified, there would be no need to consider going to five-day delivery.

It would be a short-sighted and grave error for USPS to respond to a short-term financial challenge by abandoning a valuable and long-standing part of its business. Cutting Saturday service is a flawed strategy that would only shrink the business and invite competition, making USPS more vulnerable in the future to further shrinkage and further competition.

To a large extent, USPS bases its case for eliminating Saturday delivery on its prediction that the decades' long increase in mail volume (recently interrupted by the recession) will reverse course in future years, due principally to electronic diversion. But there is nothing in the record in this case supporting this prediction; USPS has not presented a single expert witness nor entered any documentary evidence into the record supporting its claim of a long-term future decline in mail volume. USPS apparently wants the Commission to simply accept as an article of faith that the internet will cause mail volume to decline in the future. But electronic diversion is nothing new -- it dates back to the advent of the telegraph and the telephone -- and there is no unanimity regarding how the internet will impact mail volume in the long-run. Past predictions of electronic diversion, made by numerous experts after careful study, have been wildly inaccurate and indeed entirely wrong: mail volume increased steadily in the years after the electronic diversion alarm was first sounded.

Eliminating Saturday delivery will almost certainly produce less in savings than USPS anticipates. Most of the anticipated savings would come from the elimination of Saturday letter carrier costs . But USPS fails to account for the fact that increased mail volume on other days, caused by the elimination of Saturday delivery, would cause a jump in letter carrier overtime, thus eroding anticipated savings. USPS's savings projection is also based on the assumption that increased mail volume on other days would not require it to add any new city delivery routes. This is a highly questionable assumption, particularly since as a result of recent route adjustments, excess capacity has been squeezed out of routes.

USPS also underestimates the amount by which mail volume will drop if Saturday delivery were ended. USPS's prediction of a modest, one-time loss of business rests entirely on marketing research that posed a hypothetical question to survey respondents regarding what their mail use would be in a five-day delivery environment. The market research not only rested on speculation about a hypothetical future but was conducted in 2009, a recession year in which the sharp drop in business activity likely caused survey respondents to underestimate how much they would be impacted by five-day delivery in normal times. The market research also systematically adjusted downward respondents' estimates of how much they would change their mail use, by improperly multiplying their estimates by a percentage "likelihood" factor. USPS failed to back up the results of the market research with any rigorous econometric analysis, even though USPS has a long history of using econometric studies to measure the elasticity of the demand for mail and even though econometric studies have been used by others to estimate the impact of changes in postal operations.

USPS appears to take comfort in its focus group findings that customers will accept five-day delivery, but those findings were flawed: not only were the focus group participants not statistically representative of the American population, but when they said that they would accept five-day delivery, they were choosing that alternative over a posited 10% postal rate hike.

USPS also overestimates the savings it would realize from its proposal by failing seriously to account for the transition costs that it would incur from changing to five-day delivery. Transitioning to five-day delivery would pose a daunting logistical challenge, requiring a change in nearly every aspect of USPS's operations. That an enormous organization like USPS could carry off such an unprecedented change in operations seamlessly, without significant unanticipated transition costs, is simply unrealistic. USPS also made no effort to assess how much a change to five-day delivery would cost its business customers, in delayed receipt of payments, adjustment to recordkeeping and IT systems, and increased mailroom staffing to meet heightened Monday volumes. The prospect of such increased costs would likely drive many business customers to seek alternatives, causing a greater decline in mail volume.

More important, USPS's assumption that abandoning Saturday delivery would cause a one-time drop in mail volume fails to account for the dynamics of the marketplace. Existing or future private-sector competitors will undoubtedly rush to fill the gap in service, delivering everything from newspapers to advertising flyers to parcels to the doorsteps of USPS's customers. Once established on Saturdays, these competitors -- which, like USPS, would depend on volume for their success -- would try to expand to other days, and would likely even clamor for access to the mailbox. Indeed, local newspapers that need Saturday delivery have already warned that they will establish or expand private delivery services and that such services would deliver more than just newspapers.

If Saturday delivery is abandoned, USPS would be facing the threat of this new competition at precisely the same time that it would have lost a vital connection to its customers and to the public. Since most people work during the week, the only chance they have to see and get to know their letter carrier is on Saturday. By reducing its presence in the eyes of those it serves, USPS would be weakening its brand, eroding the loyalty of its customers, and making itself more vulnerable to its competition, including to efforts by competitors to end USPS's mailbox monopoly.

Despite USPS's claim that its proposed service change will impact the public uniformly, ending Saturday delivery will inevitably fall harder on those vulnerable members of society who rely more on the mail -- particularly the poor, the elderly and those in rural areas. Perhaps hardest hit by a reduction in delivery frequency would be remote rural communities, including those in Alaska and Hawai'i, where people rely on the mail to deliver newspapers bearing local news, to deliver medicines in areas where pharmacies can be miles away, and even to deliver perishable produce.

Taking letter carriers off the street one additional day per week will also reduce the social benefits of their presence: in deterring crime, in responding to emergencies, and in monitoring whether elderly, infirm or disabled residents who have not collected their mail may be in distress. It would also almost certainly spell the end of the NALC annual food drive, the largest single hunger relief project in America, an event which takes place -- and for practical purposes could probably only take place -- on a Saturday.

USPS projects that ending Saturday delivery will cause a loss of 40,000 jobs, which would be a significant blow to a national economy already suffering from historically high rates of unemployment. Moreover, since USPS is a leading employer of veterans, the loss of employment opportunities will fall hard on those who served their country.

The truth is that USPS has long sought to rid itself of Saturday delivery, well before it could use the recent recession or the internet as an excuse for doing so. But abandoning Saturday delivery would be a mistake. And it would likely be an irreversible mistake. Even if, as will likely be the case, five-day delivery produces less in savings and more in lost business than USPS anticipated, once USPS has abandoned Saturday delivery, there will likely be no going back. Business customers who sink costs into adjusting their operations to five-day delivery would undoubtedly resist a change back, and residential customers who find alternatives to the mail after Saturday delivery ends would be unlikely to return.

Cutting costs by cutting service is a tempting strategy, especially for a management team eager for short-term results. But in evaluating USPS's proposal, the Commission should look beyond the immediate horizon, to what would best position USPS to succeed in the long-run, so that it can continue to support itself and also serve the American public.

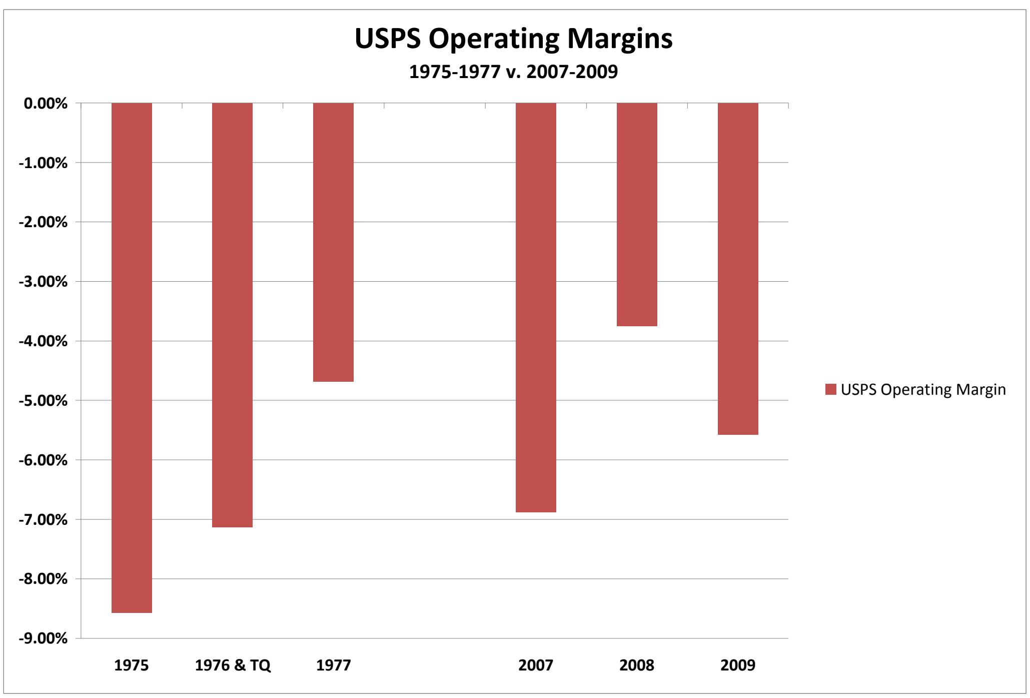
A postal service is a volume-dependent business and it is customers who drive mail volume. Rather than making its services *less* available to its customers, USPS should be seeking ways to make its services *more* available and attractive. USPS's delivery network, with its ability to deliver mail reliably and securely to every home and business in the land, is an unsurpassed asset. Rather than compromise it, USPS should try to make it more valuable to its users. Meeting customer demand, not cutting service, is the road to future success.

For these reasons, as explained more fully below, NALC opposes USPS's proposed service changes.

DISCUSSION

I. ENDING SATURDAY DELIVERY WOULD CONSTITUTE A RADICAL CHANGE IN POSTAL OPERATIONS

Ending Saturday delivery would constitute a radical change in postal operations. Americans have been receiving mail on Saturdays since the beginning of modern mail delivery, during the days of the Civil War. *See* NALC-LR-N2010-1/9, at 1-2 (USPS noting that free mail delivery in the United States began in 1863 and that "[f]rom the start, letter carriers delivered mail six days a week"); *see also* USPS-T-1 (Pulcrano), at 2 (noting six-day delivery dates from nineteenth century). A fundamental part of postal operations, Saturday mail delivery continued through the Great Depression and two world wars. In more modern times, it survived the agonizing economic morass of the mid-1970s -- a period during which USPS suffered even worse operating margins than it has in the last three years:



Operating margin is defined as operating income / revenue
Source of financial data: USPS Annual Reports
Note: Prior to 1977, the Postal Fiscal Year ended June 30. The bar "1976 & TQ" reflects USPS performance for FY 1976 and the transition period of June 30 - Sept. 30, 1976

Saturday delivery has also survived repeated waves of technological advances in electronic communication, from the advent of the telegraph, to the telephone, the fax machine and the computer. For example, from 1945 to 1973, widespread use of the telephone, allowing for instantaneous communication, caused the postal share of the communications industry to drop from over 34% to 20%. *See* NALC-LR-N2010-1/1, at 20 (Table 6). But despite the widespread adoption of new communication technology, postal operations, with six-day delivery, continued and even expanded.

Only once was Saturday delivery cancelled nationwide -- on Saturday, April 13, 1957 -- when the Postmaster General decided that the cancellation would help alleviate a budget crisis. *See* NALC-LR-N2010-1/9, at 2. Delivery resumed the next Saturday due to public outcry, *see id*., and it has continued on every Saturday since.

Ending Saturday mail delivery after a century and a half would be an unprecedented alteration to the way USPS does business. As USPS admits, six-day delivery "is regarded by many as an iconic feature of the national postal system," USPS-T-1 (Pulcrano), at 3. Getting rid of six-day delivery, therefore, is not a step that should be taken lightly, especially since, as explained below, once Saturday delivery is abandoned, there is likely no going back.

USPS, however, fails to make a compelling case showing that the proposed radical change in its operations is necessary, either in the short-term or the long-term. On the contrary, the record evidence suggests that USPS's proposal to abandon a valuable part of its enterprise and substantially cut service would weaken USPS and could threaten its viability.

II. USPS FAILS TO SHOW THAT ABANDONING SATURDAY DELIVERY IS NECESSARY

A. USPS Is Facing A Short-Term Liquidity Crisis Caused By The Unique Statutory Requirement That It Pre-Fund Retiree Health Benefits

To justify its proposal to eliminate Saturday delivery, USPS claims that it is "in dire financial condition" and that is suffering from a "grave and unsustainable financial imbalance." USPS-T-2 (Corbett), at 3. In fact, however, the fundamentals of USPS's business are sound. USPS's current distress is a short-term liquidity crisis caused by the unique statutory requirement that it pre-fund health benefits for future retirees, and aggravated by the effects of a severe recession. Indeed, the Commission recently found that "absent the RHBF prefunding obligation, the Postal Service would not have a liquidity problem." *See* PRC Order No. 547, *Order Denying Request For Exigent Rate Adjustments*, Docket No. R2010-4 (Sept. 30, 2010) ("Exigent Rate Case Order"), at 66. USPS's short-term liquidity crisis is not caused by six-day delivery and cannot be solved by eliminating Saturday delivery.

Unlike many large employers in financial distress, USPS does not suffer from large, unfunded "legacy" costs. Tr. 601-02 (Corbett). Its accrued pension obligations are virtually entirely funded, Tr. 601 (Corbett); *see* NALC-LR-N2010-1/6, at 46 (projecting for 2009 that $273.6 billion of the $276.4 billion in pension liabilities will be funded), and its retiree health obligations are substantially funded. Tr. 598-600 (Corbett)**;** *see* NALC-LR-N2010-1/6, at 48-49.

Moreover, while USPS notes that the key metric of revenue per delivery point per day dropped substantially from 2000 to 2009, *see* USPS-T2 (Corbett), at 11, so to did cost per delivery point per day. *See* NALC/USPS-T2-10 (showing that while revenue per delivery point per day fell 46 cents from 2000 to 2009, cost per delivery point per day fell a substantial 38 cents). In FY 2009 alone, USPS reduced costs by $6 billion. *See* Exigent Rate Case Order at 80.

USPS has successfully driven down costs by becoming a far more efficient organization. From 2000 to 2009, USPS had eight straight years of productivity gains. *See* USPS-T2 (Corbett), at 5. Indeed, from 2000 to 2007, USPS's productivity grew at five times the pace of the prior thirty years. *See* NALC-LR-2010-1/7, at 39; *see* Exigent Rate Case Order at 86 (noting productivity "improved steadily" during those years). As a result, in 2007, it took only 684,762 postal employees to deliver 212 billion pieces of mail to 148 million delivery points, whereas in 2000, it took 787,538 employees to deliver 208 billion pieces to 135.9 million delivery points. *See* NALC-LR-2010-1/6, at 3. In other words, as a result of productivity growth, fewer employees delivered more mail to more addresses. *See* Tr. 622 (Corbett).

With NALC's cooperation, USPS has continued to become more productive. For example, in October 2008, NALC entered into a landmark agreement with USPS providing for expedited, joint labor-management route reevaluation. *See* NALCT-1 (Rolando); NALC-LR-2010-1/8. Since then, USPS has been able to eliminate about 11,000 city delivery routes, *see* NALC/USPS-T3-14; *see generally* Tr. 625-26 (Corbett), and, as a result, is expected to save over $1 billion per year, NALC-LR-N2010-1/11, at 36. Although USPS complains about the so-called "fixed-cost nature of the carrier network," USPS-T2 (Corbett), at 13, the current trend -- as evidenced by data from the second and third quarters of FY 2010 -- is that city delivery workhours are falling *faster* than mail volume. Exigent Rate Case Order at 85.

Although USPS is otherwise financially healthy, its cash is being steadily siphoned off by the requirement in the Postal Accountability and Enhancement Act of 2006 ("PAEA") that it pay billions per year into the Postal Service Retiree Health Benefit Fund ("PSRHBF"). *See* NALC-LR-1/6, at 48. USPS accurately describes this statutory requirement as a "unique" burden, USPS-T2-5, at 5, as it is a requirement borne by no other public or private employer, *see* NALC-LR-1/6, at 8; Tr. 596-97 (Corbett). Those private companies that do choose to pre-fund retiree health benefits do so at significantly lower levels that USPS. *See* Tr. 596 (Corbett). Indeed, a 2009 survey by Watson Wyatt of 591 Fortune 1,000 companies found that nearly two-thirds do not pre-fund retiree benefits at all. *See* F. Clemente, T. Wiley, *Congressional Mandates Account For Most of Postal Services Recent Losses* (Economic Policy Institute, Brief Paper #268) (June 2010), at 2.

To illustrate its purported "dire financial condition," USPS points to its "net loss in each of the last three fiscal years." USPS-T2 (Corbett), at 3. However, USPS would have been in the black in FY 2007 and FY 2008 but for the unique requirement that USPS pay into the PSRHBF. *See* Tr. 593-94 (Corbett)**;** *see* NALC-LR-N2010-1/6, at 2, 48 (indicating in FY 2007, USPS had a net loss of approximately $5.1 billion after paying $5.4 billion into PSRHBF and in FY 2008, had a net loss of approximately $2.8 billion, after paying $5.6 billion into PSRHBF). Indeed, but for the PSRHBF payments, USPS would have been profitable over the three years from FY 2007 through FY 2009, during which it had a cumulative net loss of approximately $11.7 billion, after paying a total of $12.4 billion into PSRHBF. *See* NALC-LR-N2010-1/6, at 2, 48; NALC-T-5 (Riley), at 3; Tr. 595 (Corbett). As the Commission has accurately summarized it, the PSRHBF payment schedule "has transformed what would have been considerable operating profits into significant losses." Exigent Rate Case Order at 72.

USPS would have lost money in each of the last two years even without the PSRHBF payments, but those losses would have been quite modest, showing that USPS performed well given the "extraordinary or exceptional" circumstances of the recession and the resulting decline in mail volume. *See* Exigent Rate Case Order at 3 (Commission finding recession and mail volume drop it produced to have qualified as "extraordinary or exceptional circumstance"). In 2009, but for the required payment of $1.4 billion into the PSRHBF, *see* NALC-LR-N2010-1/6, at 48, USPS would have had a net loss of only about $2.4 billion on net revenues of over $68 billion, *see id*. at 2, or a net operating margin of about negative 3.5%. *See* Tr. 603-04 (Corbett). As CFO Corbett conceded, *see* Tr. 607, such a modestly negative operating margin could hardly be considered "dire" given the macroeconomic context: in 2009 the nation was experiencing what USPS accurately described as "the worst economic downturn since the Great Depression," NALC-LR-N2010-1/6, at 57, with GDP having shrunk 3.9% from 2008 to 2009, private employment having fallen 7.3% and real investment spending having dropped 35.7%, *see* Statement of Joseph Corbett, Docket No. R2010-4, at 14. The FDIC in 2009 closed 140 banks, *see id*., and many companies lost money. Tr. 606 (Corbett). In addition, 2009 saw the largest drop of mail volume -- 12.7% -- *in postal history*. *See* USPS-T2 (Corbett), at 3. Given the economic carnage from the recession, and the unprecedented drop in mail volume in particular, USPS -- but for the required pre-funding payment -- would have fared relatively well.

The same is true for FY 2010. For FY 2010, USPS projected a net loss of $7.8 billion, *see* USPS-T2 (Corbett), at 4, but that projection assumed payment of $5.5 billion into the PSRHBF, *see* NALC-LR-N2010-1/6, at 49. Moreover, as of May 2010, USPS was $1.3 billion ahead of plan for FY 2010. Tr. 610 (Corbett).[1] But for the payment into the PSRHBF, USPS was on track to lose just $1 billion for FY 2010, which would have amounted to a modestly

[1] USPS would still have been ahead of plan as of August 2010 but for USPS's adjustment to the discount and inflation rates used for its estimated workers compensation claims, which added a "loss" of over $2 billion that was not in USPS's plan. *See* USPS's August 2010 Preliminary Financial Information (Unaudited). For an explanation of this adjustment, *see* USPS Form 10-Q For Period Ended June 30, 2010, at 15-16 (Note 9).

negative operating margin of about 1.5%, *see* Tr. 612 (Corbett).[2] Such a result would have been far from "dire," given that American business is still suffering from "the ongoing effects of the economic recession," USPS-T-2 (Corbett), at 4, and that many companies are still struggling financially, *see* Tr. 613 (Corbett).

The effect of the PSRHBF payments is seen not only in USPS's annual net operating losses but also in the cumulative and relentless drain that they have had on USPS's retained earnings. Without the payments, USPS as of FY 2010 would have had nearly $6 billion in cash. *See* Exigent Rate Case Order at 73 (Table 3). As it is, with the payments, at the end of FY 2010, USPS had a cash deficit of nearly $15 billion. *See id.*

Ending Saturday delivery will not solve USPS's liquidity crisis. Even under USPS's optimistic projections, ending Saturday delivery would not yield enough in savings to offset the over $5.5 billion that USPS will have to pay annually in PSRHBF payments. *See* Exigent Rate Case Order at 71 (Table 2); USPS-T2 (Corbett), at 15 (USPS projecting net savings from ending Saturday delivery of $3.1 billion). And the modest savings from ending Saturday delivery would certainly not get USPS out of the nearly $22 billion cash deficit that it is projected to be in by the end of FY 2011. *See* Exigent Rate Case Order, at 73 (Table 3).

More important, projected savings from ending Saturday delivery will not come *soon* enough to save USPS. USPS expects to run out of cash by September 30, 2011. *See* Exigent Rate Case Order at 63 (quoting testimony of USPS CFO Corbett). Even if USPS were permitted right now to end Saturday delivery -- which is not the case -- it would not start to see any savings until at least sometime after implementation, in the middle of 2011 or in 2012. *See*

[2] The most recently available financial data now show an even better performance: according to USPS's August 2010 unaudited Preliminary Financial Information, USPS's year-to-date FY 2010 "controllable operating loss" was less than $0.5 billion.

Tr. 232; Tr. 272 (Pulcrano: "We're just now starting to look at developing the implementation plan" for 5-day delivery).

There is no way around it: solving USPS's liquidity crisis will require an act of Congress, to lift or at least ease USPS's unique statutory obligation to pre-fund retiree health benefits. Ending Saturday delivery would be neither a sufficient, nor necessary, solution to USPS's short-term financial crisis.

Nor can ending Saturday delivery possibly be justified as a countermeasure to the recession. Although its effects linger, notably with high unemployment, the recession has already ended. *See* Exigent Rate Case, at 67. Savings from ending Saturday delivery, on the other hand, would not be realized for months or years to come. Moreover, although the nation continues to suffer from the effects of the recession, the American economy will eventually right itself. *See* Tr. 935 (Bradley) (USPS's expert witness explaining that recession is a "cyclical decline" and economy is expected to "recover to a previous peak of economic activity"). It would make no sense to address a temporary event like the recession with a change to operations which for all practical purposes would be permanent. *See infra* p. 48.

Another reason for USPS's cash crisis -- having nothing to do with six-day delivery -- is that, according to USPS's Office of Inspector General, USPS overpaid $75 billion into the Civil Service Retirement System ("CSRS"). *See* NALC-LR-2010-1/10, at 3. As USPS's CFO conceded, were this overpayment credited to USPS and transferred to PSRHBF, it would not only eliminate the need for USPS to pre-fund retiree benefits further, but would also allow USPS to avoid the over $2 billion that it currently pays each year in retiree health insurance premiums. *See* Tr. 614-15. Some of the refunded money from the CSRS overpayment could also be used to pay down USPS's debt. *See* Tr. 615. Indeed, USPS's CFO admits that "if the Postal Service were 'credited' and had access to $75 billion cash, the impetus for the shift to five-day delivery would be *unnecessary* for the foreseeable future." NALC/USPS-T2-9 (emphasis added). The Postmaster General made a similar admission in his March 18, 2010 Senate testimony, stating that if USPS is found to have overpaid $75 billion into CSRS, USPS would not have to cut the frequency of service: "… if that were to happen, we wouldn't have to go to … five day delivery." *See* http://www.c-spanvideo.org/program/292590-1 (at 49 minutes, 14 seconds into the recording). Saturday delivery should not be ended in response to USPS's short-term financial crisis when crediting USPS with its CSRS overpayments would alleviate the crisis.

B. USPS's Prediction of a Long-Term Drop in Mail Volume Due to Electronic Diversion is Speculative and Unsupported by the Record

In addition to pointing to its short-term liquidity crisis to justify its proposed elimination of Saturday delivery, USPS also points to its prediction that over the next ten years there will be a "long and steady decline in mail volumes." USPS-T-2 (Corbett), at 13. According to USPS, the "leading factor" that will cause mail volume to decline is the "electronic diversion" of communication to computer-based messages. *Id*. at 8; *see also* Tr. 631 (Corbett).

In fact, until recently, mail volume had been rising steadily for decades, even after the advent of the internet. *See* Statement of Joseph Corbett, Docket No. R2010-4, at 4 (noting "continuous growth in mail volume" for decades); *id*. at 3 (noting "ever-rising tide of mail volume"); Tr. 2346 (Riley) (former USPS chief financial officer noting that mail volume rose steadily in 1990's, even though by that time "use of emails was widespread both publicly and in business"). USPS is now predicting that this decades-long trend will reverse itself, not only due to the current economic downturn, but even afterwards and for years into the future.

The problem is that there is simply no *evidence* in the record in this proceeding supporting USPS's prediction of a long-term decline in future mail volume: USPS failed to offer any competent witness to testify on the subject. USPS CFO Corbett made statements in his testimony regarding future mail volume, *see* USPS-T2, at 15, but he is an accountant, not an expert on the mail, and in fact he has less than two years of postal experience, *see id.* at 1. USPS bases its ten-year mail volume projections on a 2009 study by the Boston Consulting Group. *See* NALC/USPS-T2-2; *see also* Tr. 629-30 (Corbett). But no one from the Boston Consulting Group testified in this proceeding, precluding either intervenors or the Commissioners from probing that organization's findings. Because the record in this case is devoid of competent testimony regarding future mail trends, there is no evidentiary basis for the Commission to accept USPS's projection of a future long-term decline in mail volume.

But even if USPS had presented evidence regarding how mail volume may fall in the long-term due to diversion to electronic transmission, such testimony would have to be taken with a healthy dose of skepticism. Alarm about electronic diversion causing future mail volumes to tumble have been sounded before, and past predictions have turned out to be dead wrong. Indeed, hand-wringing about technological threats to the mail is a long-standing postal tradition. As far back as 1872, the annual report of the Postmaster General fretted that "improvements in telegraphy render it by no means certain that in [the] future the telegraph will not to a very great extent *supersede the mail* as a means of correspondence." (emphasis added).[3]

A century later, in 1977, the Report of the Commission on the Postal Service warned that

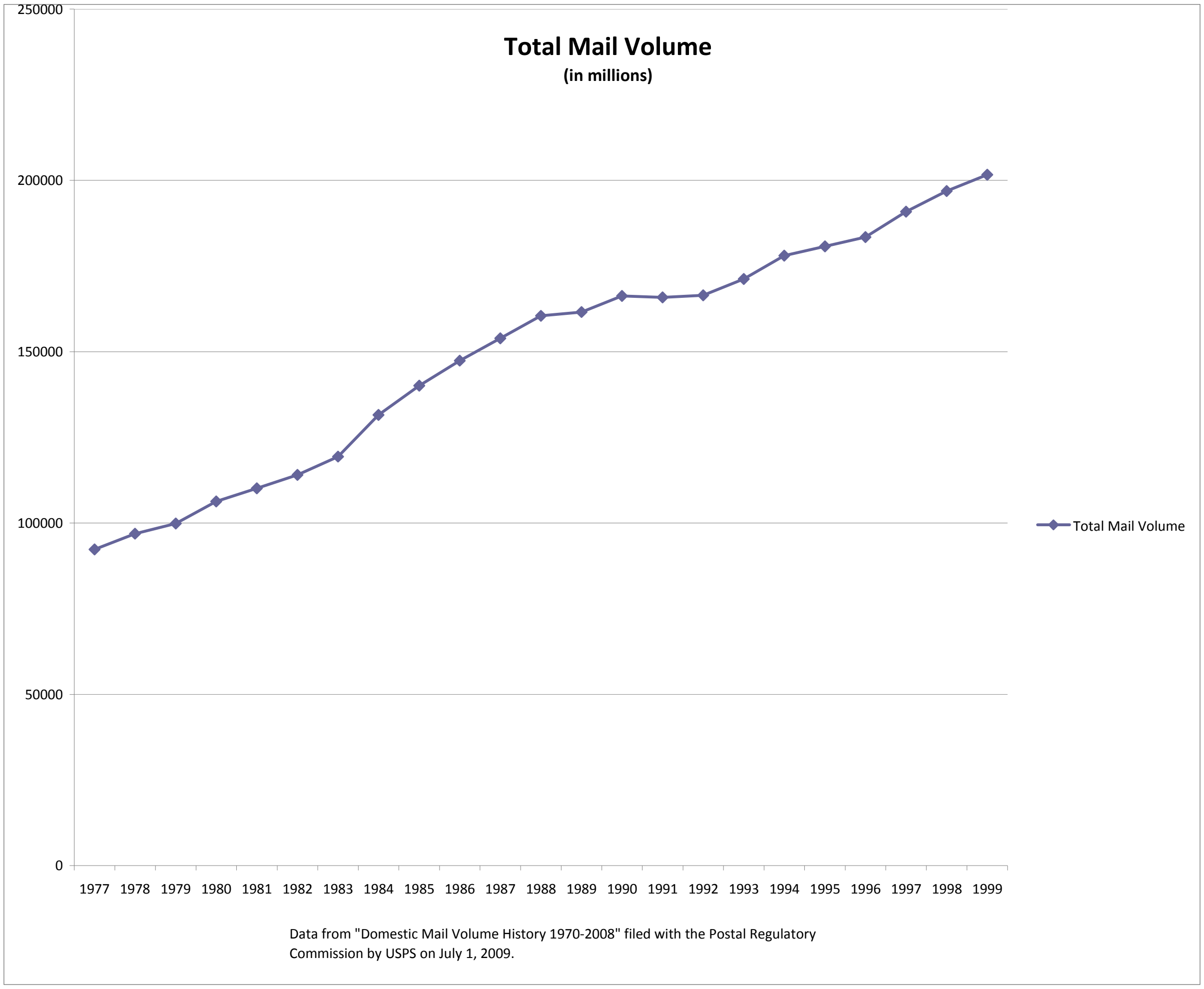
[3] Annual Report of the Postmaster-General of the United States for the Fiscal Year Ended June 30, 1872, at 29-30 (copy available in the USPS Library).

> Developments in electronic communications that began in the 1960's *portend disastrous consequences for the Postal Service*. Diversion of messages from the mail as the result of electronic communications has already started. *Mail volume will cease to grow in the immediate future* because growth in communications will be absorbed by electronic systems.

NALC-LR-2010-1/1, at 19 (emphasis added). Another report that same year, on the impact of the communications revolution, prepared for the Commission on the Postal Service by researchers at George Washington University, was only slightly less pessimistic, allowing that "total mail volume would still continue to grow until 1980." NALC-LR-2010-1/5, at 21.

Five years later, in 1982, the federal Office of Technology Assessment predicted that because of electronic diversion, "the volume of mail is likely to peak in the next 10 years and fall below today's level sometime in the 1990's." NALC-LR-2010-1/2, at 4.

Of course, all of these projections -- based on the best data and best thinking available at the time -- were wrong. Far from ceasing to grow after 1977, or peaking in the ten years following 1982, or falling below 1982 levels by the 1990s, mail volume more than doubled over the following twenty years. *See* Tr. 635-36 (Corbett):



Indeed, in 1994 congressional testimony, the GAO admitted that prior predictions regarding future mail volume had been "wrong," and that predicting mail volume is "an exercise in speculation":

> Predicting what will happen to mail volume and the Postal Service is *an exercise in speculation*. Well-reasoned predictions made in the early 1980s were *wrong*. Electronic mail was by now to have caused a significant decline in mail volume and the size of the Postal Service.

NALC-LR-2010-1/3, at 5 (emphasis added).

USPS's current projections may turn out to be just as wrong. While computer-based communication technologies have grown in recent years, there is nothing inevitable about a long-term decline in mail volume. For example, a 2003 report prepared for the President's Commission on USPS -- which USPS apparently never reviewed in preparing its proposal in this case, *see* Tr. 643-44 (Corbett) -- posited two "realistic possibilities" for mail volume through 2017, a path of decline and one of growth. *See* NALC-LR-N2010-1/4. The report explains that advertising through first-class mail could grow as advances in information technology allow business to better target and time their advertising to tailored groups of consumers, and advances in printing technology allow short, high-quality print runs on small decentralized printing facilities. *See id*. at 19-20. The report further explained how mail retains its attraction in the face of electronic competition:

> Consumer surveys consistently show that mail is consumers' preferred medium to receive messages from businesses. This is true not only of the average consumer but is strongest among those consumers that are regular users of online services. This strength of paper-based messages is that mailed messages must be initiated by business, it can be shared in any number of locations, it is unobtrusive and can be read at any time, it does not demand an immediate response, it leaves a permanent record for both sides of the interaction, and it usually carries the authority of a signature. Consumers will *retain a special level of confidence* in mail-based messages from business.

Id. at 17 (emphasis added). This is no reason the future -- like the recent past -- cannot be a world of extensive use of email and other electronic messaging *and* growing mail volume.

Indeed, USPS's projections of future mail volume are *already* wrong. In its FY 2010 Integrated Financial Plan, USPS forecast FY 2010 mail volume would be 166,142 million pieces, but actual mail volume during the first eight months of FY 2010 required that forecast to be adjusted upward to 169,281 million. *See* July 6, 2010 Statement of USPS Vice President for

Finance and Planning Stephen J. Masse in R2010-4, at 6 and Table 3.[4] USPS's inability to project mail volume accurately *one year* in the future casts grave doubt on the accuracy of its long-term mail volume projections.

It is possible that USPS or its consultants are now using a better crystal ball than the one used by those who made erroneous mail volume predictions in the past, but the future, particularly the long-term future, remains unknowable. To abandon a valuable part of USPS's enterprise *now* in anticipation of what *might* occur years in the future makes no sense.

III. ENDING SATURDAY DELIVERY WOULD LIKELY LEAD TO LESS SAVINGS THAN USPS ANTICIPATES

Ending Saturday delivery is not only unnecessary, but would likely lead to less in savings than USPS anticipates. By cutting one-sixth, or about 17% of its delivery days, USPS says it expects to save about $3.1 billion annually, *see* USPS-T2 (Corbett), at 15, or about 4% of its total costs, *see* NALC-LR-N2010-1/6, at 2 (USPS had about $72 billion in expenses in 2009). Eliminating 17% of delivery days for a 4% savings in expenses seems like a questionable strategy, even if the savings estimate were accurate. In fact, USPS will likely save far less.

Especially because eliminating Saturday delivery would be unprecedented, USPS's savings estimates are open to debate. Dr. Michael Bradley, USPS's expert witness on the estimated cost savings, admitted that USPS's estimate was uncertain and that reasonable experts could differ on the question. Tr. 940. In fact, an econometric study by PRC economist

[4] USPS's August 2010 Preliminary Financial Information (Unaudited) shows actual year-to-date FY 2010 total mail volume at about 156.4 billion pieces, compared to approximately 152.5 billion projected in USPS's plan.

Edward Pearsall estimates savings substantially below those projected by USPS. NALC-LR-N2010-1/13, at 19-20.[5]

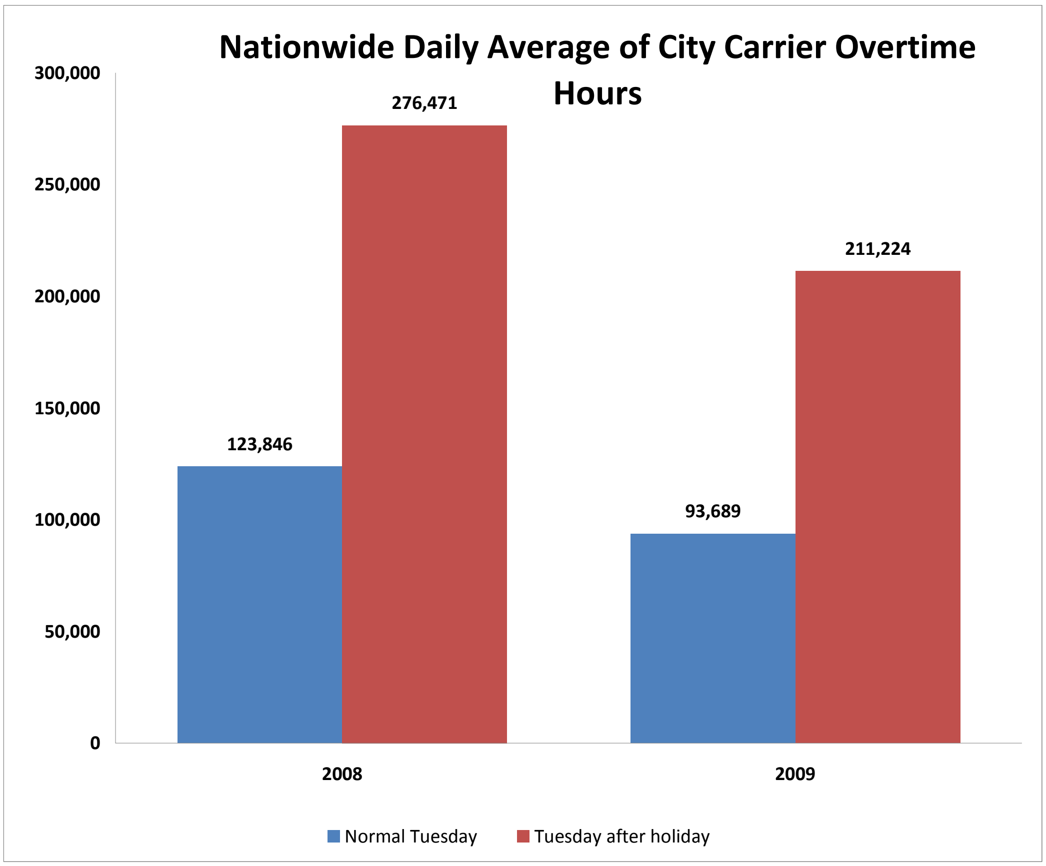
A. USPS's Gross Savings Estimate Fails To Account For The Cost Of Increased Letter Carrier Overtime And The Likelihood of New City Delivery Routes

USPS says that the bulk of savings from eliminating Saturday delivery would come from letter carrier cost savings. Tr. 453 (Granholm). In particular, USPS estimates that over $2.2 billion of its estimated gross savings of $3.3 billion would come from city letter carrier costs. *See* USPS-T7 (Colvin), at Attachment 3, pp.1, 2. USPS's gross savings estimate is likely overstated because it fails to account for how the elimination of Saturday delivery would cause letter carrier overtime on other days to increase and also likely require additional city delivery routes.

There is no dispute that eliminating Saturday delivery will cause mail volume to increase on other days, *see* Tr. 947-48 (Bradley), and that this increased mail volume would increase letter carrier work hours on those other days, *see* Tr. 454 (Granholm). As one of USPS's operational witnesses explained, increased mail volume will require letter carriers to spend more time in the office preparing their mail for delivery, *see* Tr. 458-59 (Granholm), and more time on the street delivering it, *see* Tr. 459 (Granholm). For example, as a result of increased volume, letter carriers might on a given day have more parcels or accountable mail, *see* Tr. 459 (Granholm), may have to stop at more delivery points, *see* Tr. 459-60 (Granholm), or, at an apartment building or cluster box, might have more mail slots in which to deposit mail, *see* Tr. 460-61 (Granholm).

[5] NALC witness Crew did not undertake a study of USPS's savings estimate and thus in his testimony did not endorse it as accurate. *See* Tr. 2590.

The increased volume from eliminating a day of delivery would almost certainly cause a jump in letter carrier overtime, the cost of which would diminish USPS's expected savings. In FY 2008 and FY 2009, in those weeks when a Monday holiday reduced delivery days to five, Tuesdays had over twice the letter carrier overtime than normal Tuesdays:



Source: Response of USPS Witness Dean J. Granholm (USPS-T-3) to Interrogatories NALC/USPS-T3-5 and NALC/USPS-T3-6

Note: In 2008, there were 45 normal Tuesday service days and 6 Tuesday service days after a Monday holiday. In 2009, there were 46 normal Tuesday service days and 5 Tuesday service days after Monday holidays.

An increase in volume now, compared to FY 2008-FY 2009, would likely create an even more pronounced surge in letter carrier overtime. Following a substantial drop in the number of city delivery routes, *see* Tr. 382 (NALC/USPS-T3-14), such routes now average over eight hours, leaving little or no excess capacity, *see* Tr. 380 (NALC/USPS-T3-12).

In fact, to assess how five-day delivery would increase overtime, one cannot look just at what happened on *Tuesdays* when there was a Monday holiday: in FY 2008 and FY 2009, weeks with Monday holidays also had elevated mail volumes, and elevated letter carrier work hours, on Wednesday, Thursday and Friday as well. Tr. 369-371 (NALC/USPS-T3-2, -3, -4).

Although eliminating Saturday delivery would likely cause a substantial increase in letter carrier overtime, USPS does not know, and has no estimate for, the amount by which overtime may increase. *See* Tr. 462 (Granholm). It therefore has no way of knowing the amount by which this increased overtime would erode its anticipated savings from eliminating Saturday delivery.

To avoid overburdening existing routes, and incurring the cost of substantial overtime, USPS would likely have to create new routes. According to a 2008 study for the Commission conducted by researchers at George Mason University ("George Mason study"), if delivery frequency were reduced, "existing routes would probably have to be cut back in terms of delivery points to reach the eight-hour workday target, and new routes would then have to be added to handle the excess volume." NALC-LR-N2010-1/12, at 9. A recent study co-authored by PRC economist Edward Pearsall concurs that new routes would be required, explaining that "USPS will be obliged to redesign its delivery network by shortening carrier routes and by laying out more of them in order to preserve the single-carrier single-day standard." NALC-LR-N2010-1/13 , at 17. Even Dr. Bradley, USPS's economic expert on cost savings, explained that "[t]he most important way the city carrier delivery network adjusts to changes in volume is through route reconfiguration -- changes in the number of routes." USPS-T6 (Bradley), at 13.

Of course, the labor costs associated with having to staff new routes would erode USPS's anticipated savings. In fact, the Pearsall study found that eliminating six-day delivery would yield less in savings than USPS estimates, primarily because new city delivery routes would have to be created and staffed. *See* NALC-LR-N2010-1/13, at 20.

Despite the likelihood that USPS would have to increase the number of routes after eliminating Saturday delivery, USPS's savings estimate rests on the assumption that it would *not* have to do so. *See* Tr. 946 (Bradley); Tr. 433, 470-71 (Granholm). USPS bases this assumption on two dubious propositions.

First, USPS assumes that most of the additional mail volume resulting from ending Saturday delivery would be "absorbed," due to increased productivity on the remaining delivery days. *See* USPS-T6 (Bradley), at 16-17. This reasoning comes from USPS's analysis of absorption rates on Tuesdays following Monday holidays in FY 2008 and FY 2009. *See* USPS-T6 (Bradley), at 16; USPS-LR-N2010-1/3, at pp.4-5. But the absorption rates on Tuesdays following Monday holidays in FY 2008 and FY 2009 were likely higher than the absorption rates would be on Mondays if Saturday delivery were ended. As Dr. Bradley conceded, absorption rates will be lower on a day with more pre-existing volume. Tr. 955-56 (Bradley). Mondays are heavier volume days than Tuesdays, *see* NALC/USPS-T3-9, and so are likely to produce lower absorption rates. Moreover, in FY 2008 and FY 2009, city delivery routes were on average under eight hours, so had excess capacity. *See* Tr. 428 (NALC/USPS-T3-12). Dr. Bradley, in making his savings estimate, assumed that city delivery routes still have excess capacity. *See* USPS-T6 (Bradley), at 16 ("there is available capacity on the street"). In fact, as a result of the recent route adjustments made possible through NALC's agreement with USPS, city delivery routes are now on average *over* eight hours. *See* Tr. 428 (NALC/USPS-T3-12), meaning they have less absorptive capacity.

Second, USPS assumes that it will not have to create new city delivery routes because it predicts that in the long-run mail volume will continue to decline. *See* USPS-T6 (Bradley), at 16. As USPS witness Granholm put it, "the [Boston Consulting Group] analysis clearly shows that volume will continue to decline." Tr. 471. However, as already noted, the Boston Consulting Group projections are not part of the record in this proceeding and, indeed, the record is devoid of any expert testimony or other evidence supporting a projected long-term decline in mail volume. Moreover, as noted, long-term mail volume projections have been wrong in the past and continue to be unreliable. Accordingly, it is questionable at best for USPS to assume that continued shrinking mail volume will allow it to avoid creating new routes.

In sum, because it will likely incur the cost of additional letter carrier overtime and will likely have to create new city delivery routes, USPS will probably realize less in gross savings from ending Saturday delivery than it estimates.

B. USPS's Gross Savings Estimate Is Inflated For Other Reasons As Well

In addition to failing to account for the cost of additional letter carrier overtime and delivery routes, USPS's gross savings estimate is inflated for other reasons.

For example, USPS's gross savings estimate fails to account for how USPS's reducing the costs of its operations overall would reduce the savings that could be realized from eliminating a sixth day of such operations. *See* Tr. 3290 (USPS witness Boatwright conceding that savings may be less than the anticipated $3.1 billion due to overall cuts in USPS expenses). In FY 2009 alone, USPS wrung $6 billion in additional savings from its operations. *See, e.g.,* Exigent Rate Case Order at 80

In addition, as USPS expert witness Bradley (USPS-T-6) conceded, USPS will achieve less in savings than it projects because the letter carriers who will lose their jobs as a result of the move to five-day delivery will be those, such as transitional employees, with lower than average wages. *See* Tr. 976-78.

C. Ending Saturday Delivery Would Likely Cause A Larger Drop In Mail Volume Than USPS Anticipates

There is no question that abandoning Saturday delivery will cause USPS to lose business. Frequency of delivery is one of the attributes that constitute the quality of a mail service, so reducing frequency means reducing quality. *See* NALC-T4 (Crew), at 3; *see* Tr. 3186 (Boatwright). There is no dispute that, everything else equal (including price), a reduction in the quality of a product or service causes demand for that product or service to drop. *See* NALC-T4 (Crew), at 3; Tr. 3191 (Boatwright).

It is easy to see how less frequent delivery would cause USPS to lose business. *See* NALC-T4 (Crew), at 3. The George Mason study concluded that "customer dissatisfaction resulting from fewer delivery days would likely cause more rapid diversion of First-Class Mail to electronic alternatives and parcel volumes to competitors' services." NALC-LR-N2010-1/12, at 15. USPS itself noted in a 2001 report that a typical customer response to a possible move to five-day service was that "[c]uts in service will force us to go to alternate delivery." USPS-LR-N2010-1/16 (document entitled "Section Three, Marketplace," at 58). For example, if Saturday mail delivery ended, local retailers who now time their advertising mail to reach customers' mailboxes on Saturdays would likely seek alternative means of advertising, such as local newspapers or radio. *See* Tr. 1314-15 (Whiteman); NALC-T1 (Rolando), at 3; NALC-T4 (Crew), at 3; USPS-LR-N2010-1/16 (document entitled "Section Three, Marketplace," at 54)

(USPS market research concluding that with five-day delivery, "small to medium businesses would start or increase use of other advertising media.").[6]

While USPS acknowledges that it will lose business from ending Saturday delivery, it assumes that the amount of lost business would be small. In particular, it estimates a drop in mail volume of 0.71%, producing a decrease in contribution of $206 million. *See* USPS-T9 (Whiteman) (revised as of July 15, 2010), at 2. USPS bases its estimate of the drop in mail volume entirely on quantitative marketing research conducted by Opinion Research Corporation ("ORC") in the fall of 2009, in which ORC asked businesses and consumers to project how the volume of their mail use would change if five-day delivery were implemented. *See* USPS-T-9 (Whiteman), at 1; *see generally* USPS-T-8 (Elmore-Yalch).

Despite the apparent precision in USPS's estimate of the amount by which mail volume would drop, its estimate is highly unreliable. As we show below, ORC's survey was seriously flawed and prone to bias. Ending Saturday delivery may cause mail volume to drop much further than USPS anticipates.

To estimate how much ending Saturday delivery would reduce mail volume, ORC asked survey respondents to estimate how the quantity of mail they would send would differ in a six-day and five-day delivery environment. *See, e.g.,* USPS-T-8 (Elmore-Yalch), at 30, 104 (Q7). The projections by the surveyed businesses and consumers were necessarily hypothetical: in the real world, Saturday delivery has not been eliminated. *See* NALC-T4 (Crew), at 4. The respondents in ORC's survey were describing how they *thought* they or their firms *would* change their mailing behavior *if* Saturday delivery were eliminated. As with any hypothetical study, the

[6] USPS questions whether local retailers do in fact time their advertising mail to arrive on Saturday. But as National Newspaper Association witness Cross explained, research shows that Saturday remains the biggest shopping day of the week and that advertisers target Saturday because they want their "ad in people's hands when they are ready to buy." Tr. 2793.

results are inherently uncertain and must be treated with caution. *See id.* at 4. Moreover, unless they had studied the matter, respondents -- especially consumers -- would likely be unable to estimate accurately how the elimination of Saturday delivery would impact their mail use. *See id.*

Another problem is that ORC conducted its quantitative market research during just one limited period of time, in September-October 2009. *See* USPS-T-8 (Elmore-Yalch), at 4, 12. Estimates that survey respondents give during just one short timeframe provide scant basis for predicting how they will behave for years to come. *See* NALC-T4 (Crew), at 5. This problem is exacerbated here by the fact that the timeframe used for ORC's survey was highly atypical: in 2009, the economy was suffering from what the Postal Service accurately describes as the worst economic downturn since the Great Depression. *See* NALC-LR-N2010-1/6, at 57. The year 2009 also saw the largest annual mail volume decline in postal history. *See* USPS-T-2 (Corbett), at 3. It is hard to imagine that such an extreme macroeconomic environment failed to color the perspective of the respondents in the ORC survey. *See* NALC-T4 (Crew), at 5. Indeed, USPS's expert on survey research conceded that "[t]he economy itself was one possible dynamic in the environment at the time that the quantitative data were collected (October 2009), when economic uncertainties were frequent media topics." USPS-RT-1 (Boatwright), at 22. A business experiencing severely diminished activity as a result of the recession might have seen five-day delivery as impacting it less than during times of normal business activity, causing it to underestimate how the change to five-day delivery would impact its mail use. *See* NALC-T4 (Crew), at 5.[7]

[7] USPS expert witness Boatwright (USPS-RT-1) explained that often when there is an extended lag time between market research and launch date, additional or supplemental research is done closer to the launch date, to make sure the findings of the original market research are

ORC's results are also unreliable because the questions posed to respondents were flawed. For example, to get an apples-to-apples comparison, ORC should have used the *same timeframe* to compare the respondents' estimated mail use with versus without Saturday delivery. Tr. 3234 (Boatwright). But ORC asked respondents to compare their estimated mail volume with six-day delivery "in the *next* 12 months" -- meaning from October 2009 to October 2010, *see* Tr. 3241(Boatwright) -- against their estimated mail volume "in the first 12 months after the change" to five-day delivery "is implemented." USPS-T8 (Elmore-Yalch), at 104 (Question #7) (emphasis added). There is no evidence in the record as to when respondents believed five-day delivery might be implemented or what they were told about when it might be implemented. *See* Tr. 3242-43 (Boatwright). Because respondents may have believed (correctly) that five-day delivery would not be implemented immediately, the timeframe for their estimate of mail use with five-day delivery likely differed from the timeframe for their estimate of mail use with six-day delivery. *See* Tr. 3244 (USPS Boatwright admitting to "possible difference in these two time periods"). This is an especially significant flaw because the effects of the recession likely lowered respondents' estimates of their mail use in the twelve months after October 2009, reducing the difference between that estimate and respondents' estimates of mail use with five-day delivery at some future time when the economy might be more robust.

Further, as experts for both NALC and USPS agree, surveys like ORC's are subject to biases. *See* NALC-T4 (Crew), at 4; USPS-RT-1 (Boatwright), at 14 (USPS expert conceding that "survey research entails many potential sources of bias"). Bias could have

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still valid. *See* USPS-RT-1, at 17-18; *see also* Tr. 3214 (Boatwright explaining that "[t]he further out you're forecasting the greater the uncertainty because there is a recognition that more may happen in the intermediate time.") Here, however, even though there may be a gap of years between when ORC conducted its market research in fall 2009 and when USPS may implement five-day delivery, and even though macroeconomic conditions may have changed significantly, there is no evidence that USPS has any intention to update the ORC market research.

occurred here, for example, when ORC asked respondents to estimate how their mail use would change with five-day delivery *after* telling them that "[d]espite very aggressive cost cutting, the USPS is projecting financial losses for this and the next several years." *See* USPS-T-8 (Elmore-Yalch), at 26. Respondents may have said five-day delivery would have little impact on their mail use because they sensed that was the answer USPS wanted. *See* Tr. 2514 (Dr. Crew noting that the respondent may "come up with a low figure" out of a desire "to please the interviewer"); USPS-RT-1, at 16 (USPS expert witness Boatwright conceding that "Dr. Crew is correct" that the bias to please the interviewer -- called the "social desirability bias" -- "does occur"). More important, respondents concerned about a possible postage rate hike as the alternative to five-day delivery may have given a low estimate out of self-interest, believing that USPS would more likely implement five-day delivery, rather than a postage rate hike, if it thought mail volume would be little affected. *See* NALC-T4 (Crew), at 5.

USPS witness Boatwright argues that although bias may have crept into ORC's survey, bias that affected ORC's results a few percentage points in either direction would not make a material difference in the accuracy of ORC's estimate of an anticipated drop in mail volume of 0.71%. *See* USPS-RT-1 (Boatwright), at 19. But Boatwright conceded having no empirical data to support the conclusion that ORC's figure was off by only a few percentage points. *See* Tr. 3295.[8]

[8] ORC should have provided a "confidence interval" -- meaning a range of uncertainty, *see* Tr. 3251 (Boatwright) -- for its conclusion of a .71% drop in mail volume. According to USPS witness Boatwright, providing a confidence interval is the "better statistical practice." Tr. 3252. However, the record contains no confidence interval from ORC. USPS witness Boatwright (USPS-RT-1) did attempt after the fact to provide a "confidence interval" for ORC's findings, but the approach he used was flawed. Boatwright used the formula for a "binomial" distribution (*i.e.*, a distribution where there are only two possible outcomes). However, ORC's estimate of future mail use was not "binomial." *See* Tr. 3263-65 (Boatwright). For a discussion of the flaws

Indeed, there is no basis in the record to determine even how certain the survey respondents were of *their own* projections. In conducting its survey, ORC asked respondents to judge, on a scale of zero to ten, the likelihood that they would change their mail behavior if five-day delivery were implemented, with zero being "extremely unlikely" and ten being "extremely likely." *See* USPS-T8 (Elmore-Yalch), at 30-31, 36; *see, e.g., id*. at 104 (Question #10). To the extent respondents gave answers towards the extremes of the scale -- extremely unlikely (0) or extremely likely (10) -- they indicated substantial certainty that they would (or would not) change their mail use. *See* Tr. 3249 (Boatwright). But to the extent respondents answered toward the middle of the scale (closer to 5), they expressed substantial uncertainty about whether Saturday delivery would affect their mail use. *See* Tr. 3249-50 (Boatwright). Since the record nowhere indicates whether respondents' answers tended toward the extremes or the center of the likelihood scale, *see* Tr. 3231, 3234 (Boatwright), the record in this proceeding provides no way to judge how certain respondents were of their own mail change estimates.

Another critical flaw in ORC's approach was its use of the "likelihood" scale to systematically understate respondents' estimates of how much they would reduce their mail use in a five-day environment. *See* NALC-T4 (Crew), at 5. In calculating how much five-day delivery would reduce mail volume, ORC converted the "likelihood" scale to percentages, with ten equal to 100%, nine equal to 90%, etc., *see* USPS-T8 (Elmore-Yalch), at 31, 36, and then multiplied each respondent's likelihood percentage against the respondent's estimate of how its mail volume would change in response to five-day delivery. *See id.* at 30, 36; Tr. 1289-90 (Whiteman). For example, if a business respondent estimated mailing 10,000 fewer pieces of first-class mail in the year after Saturday delivery ended, but responded that the business was

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in Boatwright's analysis, see the "Technical Appendix" at the end of this brief, prepared by Dr. Crew (NALC-T4) and his colleague Paul Kleindorfer.

only 50% likely to change its mailing practices in response to five-day delivery, ORC calculated a 5,000 piece reduction in first-class mail for that business. *See id.* at 31 (Figure 13); Tr. 3229 (Boatwright agreeing that ORC's method essentially cut in half the respondent's estimated drop in mail volume due to five-day delivery).

Because all respondents, except those who believed the changes would be "extremely likely," had a "likelihood" percentage of less than 100%, multiplying this "likelihood" factor against the respondent's estimate of mail use change reduced the magnitude of the estimated change.

As Dr. Crew explained, by applying this "likelihood" factor to adjust downward respondents' estimates of reduced mail use, ORC artificially and arbitrarily decreased the extent to which the businesses and consumers surveyed estimated their mail volume would fall. *See* NALC-T4 (Crew), at 6 (Dr. Crew noting that such a downward adjustment constituted a "serious flaw" in the ORC's analysis.) If respondents gave their best estimate of how much their mail use would change with five-day delivery, there is no reason for ORC to have adjusted those estimates downward. *See id*. According to Dr. Crew, if ORC wanted to capture the uncertainty of respondents' estimates, it should have used the familiar practice of treating the respondents' estimates as a mean, with both upside *and* downside possibilities. *See id*. ORC's method guaranteed a downward bias in its estimate of volume decline. *See id*. at 6-7.

To illustrate: imagine a group of people being asked to predict how often a hundred flips of a coin would land on heads. Most would give an estimate near 50. But then if they were asked how likely they thought their estimate would be accurate, they would express less than 100% certainty -- say, 80%. It would obviously be wrong to multiply this uncertainty factor of 80% by 50 to conclude that the respondents' best estimate of the number of heads would be 40! But ORC employed exactly this sort of illogic.

If use of the "likelihood" factor were not bad enough, ORC added to the distortion by using a confusing, compound question to elicit respondents' likelihood estimates. ORC did not simply ask how likely it was that five-day delivery would cause a respondent to change the amount of mail they sent; it also asked, *in the same question*, about the likelihood of a change in "the way you send it." USPS-T8 (Elmore-Yalch), at 104. A respondent not anticipating any change in the *manner* in which it sent mail (as opposed to the *amount* of mail it sent) may have been confused by the question and given an answer low on the "likelihood" scale. Such a low "likelihood" percentage, when multiplied against the respondent's estimate of how much its mail use would drop with five-day delivery, would have substantially reduced that estimate.

Even if market research is flawless (and ORC's was far from it), a customer survey alone is a thin reed on which to make a decision to implement an unprecedented and likely irreversible change in operations. *See* NALC-T4 (Crew), at 7. At the very least, USPS should have also undertaken an econometric analysis as another means of predicting how ending Saturday delivery would impact the demand for mail. *See id*. However, USPS failed to undertake any such study. Tr. 1286-87 (Whiteman).

USPS has a long history of using econometric analysis to measure elasticity of demand, including to predict, using historical data on price increases, how a future price increase may impact mail volume. *See* NALC-T4 (Crew), at 7. While USPS has no historical data on reductions in delivery frequency, Dr. Crew, a leading expert in postal economics, explained that it would be possible to estimate how such a quality reduction would impact demand by estimating the value to customers of the reduction in quality. *See* NALC-T4, at 7; *see also* Tr.

959-60 (Bradley) (USPS economic expert explaining that "a reduction in service is in essence an increase in cost"). Indeed, postal operators elsewhere in the world have used econometric studies when seeking to assess demand elasticity in connection with contemplated service changes. *See* NALC-T4 (Crew), at 7. There is no basis to conclude therefore that USPS could not have performed one here. USPS's failure to engage in any rigorous economic analysis of the demand effects of their proposal, but rather to rely solely on the ORC's study, further puts in doubt its projection of how ending Saturday delivery would impact mail volume. *See id*. at 7-8.[9]

Rather than engage in rigorous economic analysis to try to confirm the findings of ORC's quantitative market research, USPS appears to take comfort from ORC's qualitative focus group research, from which it concluded that "most business and consumers … would accept five-day delivery." USPS-T9 (Whiteman), at 2. But as USPS concedes, the focus groups that ORC used were "*not* statistically representative," USPS-T9 (Whiteman), at 3 (emphasis added), meaning, for example, that the share of focus group participants who were high-income, or were non-rural, could have been greater than the portion of those groups in the general population. *See also* Tr. 1124 (Elmore-Yalch) (ORC witness noting that focus groups were "not the ideal mix"). Because the focus groups were not statistically representative, the level of

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[9] USPS witness Boatwright (USPS-RT-1) opined that any additional information provided by an econometric study would be outweighed by the cost of the study, particularly by the cost to USPS of delaying implementation of five-day delivery pending the outcome of the study. *See* USPS-RT-1, at 25-26. But Boatwright conceded on cross-examination that the cost of conducting an econometric study, given the magnitude of the dollars at stake in this case, would be trivial. *See* Tr. 3276, 3277-78. Furthermore, since Boatwright estimated an econometric study would take six months, *see* USPS-RT-1, at 25, performing such a study would have caused no delay in implementation had it been undertaken concurrently with ORC's market research in 2009. *See* Tr. 3279 (Boatwright). Even if USPS began conducting an econometric study now, it would cause no delay, since implementation of five-day delivery will almost certainly not take place in the next six months. *See* Tr. 3279 (Boatwright); *see also* Tr. 232 (Pulcrano); Tr. 272 (Pulcrano).

acceptance of five-day delivery expressed by the focus groups was not representative of the views of the general population.

ORC's focus group research may also have overstated the general public's willingness to accept five-day delivery. ORC framed the issue as a choice between ending Saturday delivery or facing a 10% increase in postal rates. *See* USPS-T8 (Elmore-Yalch), at 8. As USPS witness Whiteman explained, "[d]uring the focus groups, we provided the participants two alternatives which the Postal Service could implement to resolve its financial problem. One alternative was implementation of five-day delivery and the other was a significant price increase." NNA/USPS T9-2. Focus group participants may have expressed a willingness to accept five-day delivery just to avoid the posited postage increase.

Nor were focus group participants given a choice of alternatives to improve USPS's financial situation. *See* 1300, 1326-28 (Whiteman). ORC told the focus group participants that USPS was projecting financial losses for years to come, in part due to the requirement to pre-fund retiree health benefits, *see* USPS-T9, at Appendix A (first bullet point), but ORC did not suggest that Congress could eliminate or alleviate this requirement, *see* Tr. 1301 (Whiteman), nor were focus group participants told that USPS had overpaid billions in pension payments, Tr. 1304 (Whiteman). Focus group participants may have expressed less willingness to accept a cut in delivery days if they were told that legislative measures could eliminate or ease USPS's short-term financial crisis.

In addition to likely underestimating the adverse reaction its customers would have to a move to five-day delivery, USPS also failed to account in any serious way for the costs that eliminating Saturday delivery would impose on its customers. USPS acknowledges that the shift to five-day delivery would impose costs on its customer. *See* Tr. 162 (Pulcrano).

Businesses, for example, would lose money from delays in receiving payments mailed to them. *See* Tr. 1306-07 (Whiteman); *see also* Joint Statement of The Financial Services Roundtable/National Association of Mutual Insurance Companies (docketed Aug. 4, 2010), at 1-2 (noting that "[c]ompanies would lose interest on delayed receipts"). They may also have to change their recordkeeping or IT systems, *see* Tr. 162 (Pulcrano), or add staff to handle the increased mail volume that would arrive in their mailrooms on Mondays, *see* USPS-T9 (Whiteman), at 10; *see also* Joint Statement of The Financial Services Roundtable/National Association of Mutual Insurance Companies (docketed Aug. 4, 2010), at 2 ("staffing levels would have to be reconfigured, and computer systems reprogrammed"). CVS-Caremark, which ships prescription drugs, estimates that the elimination of Saturday delivery would cause it to incur $50 million more per year in the use of private carriers to cover the gap in USPS service. *See* Transcript of Chicago Field Hearing, at 38 (statement of Ken Czarnecki).

USPS, however, made no effort to estimate the costs that a shift to five-day delivery would impose on its customers. *See* Tr. 163 (Pulcrano); *see also* Tr. 975 (Bradley); Tr. 1307 (Whiteman). If the cost on customers of adjusting to five-day delivery is higher than USPS anticipates, that would dampen demand for mail even further as customers seek alternatives. *See* NALC-T4 (Crew), at 11.

If it turns out that USPS's projection understates the extent to which five-day delivery would decrease mail volume, the savings it anticipates from ending Saturday delivery could be significantly eroded. Assume, for example, that rather than the 0.71% decline in mail volume that USPS is projecting, ending Saturday delivery causes a 2% decline, which was the figure used in the 2008 George Mason study. *See* NALC-LR-N2010-1/12, at 15.[10] A 2% decline would mean an annual loss of contribution of $563 million, *see* NALC-T4 (Crew), at 8. Rather than having a net annual savings of $3.1 billion, as the Postal Service projects, *see* USPS-T-2 (Corbett), at 15, the annual savings would be close to $2.5 billion, *see* NALC-T4 (Crew), at 8, assuming that USPS's $3.3 billion gross savings figure is accurate (which it is highly unlikely). And that is not even considering that any initial savings would likely be further eroded as private-sector competition grows in later years in response to USPS abandoning Saturday delivery. *See infra* IV.A.

D. USPS Is Likely Underestimating The Transition Costs <u>That It Would Incur In Implementing Five-Day Delivery</u>

USPS may realize less in savings from ending Saturday delivery than it projects not only because mail volume may drop more than estimated, but also because USPS may be grossly underestimating the transition costs related to implementing five-day delivery.

USPS estimates that in implementing five-day delivery it will incur just $110 million in transition costs, and that these transition costs would be incurred only once, during the first year of five-day delivery. *See* USPS-T-2 (Corbett), at 16. When compared to the $3.3 billion in gross annual savings that USPS hopes to realize from ending Saturday delivery, *see* USPS-T-2 (Corbett), at 15-16, this $110 million is almost negligible. Moreover, according to USPS's projection, these transition costs -- the bulk of which would be for unemployment compensation for laid-off non-career employees, *see* DFC/USPS-T2-1 -- would drop to zero

[10] The authors of the George Mason study, who are experts on postal issues, presumably used this figure because they believed it was reasonable and represented their considered view. *See* USPS/NALC-T4-3. Indeed, they used a similar figure in a 2010 paper published in the book *Heightening Competition in the Postal and Delivery Sector* (M.A. Crew, P.R. Kleindorfer, eds. 2010). *See id.*

after the first year of implementation. In other words, USPS appears to be betting on a virtually seamless and costless shift from six- to five-day delivery.

This is entirely unrealistic. Literature on project implementation suggests that when an enterprise undergoes a major process change in its operations, transition costs, which often arise unexpectedly, can be substantial. *See* NALC-T4 (Crew), at 10. Here, the transition to five-day delivery would be an unprecedented and enormously complex undertaking. *See* Tr. 273-74 (Pulcrano) (admitting that the transition would be "complex" and that USPS has no experience with such a transition). As USPS witness Pulcrano explained, implementing five-day delivery would require changes to "just about every functional area in the Postal Service" and would require a city delivery plan, a rural delivery plan, a mail processing plan, a post office operations plan and an HR plan. *See* Tr. 273; *see also* NALC-T4 (Crew), at 10 (noting that ending Saturday delivery would impact "virtually every aspect of the Postal Service, including the transporting, storing, processing and delivery of mail, interactions with senders and recipients of mail, and the potential reassignment or redeployment of thousands of employees."). It is hard to imagine that USPS could execute such an unprecedented and complex reconfiguration of its operations without encountering unexpected and substantial costs. *See* NALC-T4 (Crew), at 10-11.[11]

USPS admits that it is "just now starting to look at developing the implementation plan" for the transition to five-day delivery. Tr.272 (Pulcrano); *see also* Tr. 253 (Pulcrano) ("We're looking at implementation"). Until it fully develops an implementation plan for the complex transition to five-day delivery, USPS will not be in a position to assess the cost of the

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[11] Indeed, USPS presented no evidence in its rebuttal case -- from an operational expert or anyone else -- refuting NALC's assertion that implementation of five-day delivery could produce significant unanticipated transition costs. *See, e.g.,* Tr. 3213 (Boatwright).

transition. The negligible $110 million in transition costs that it is now projecting, therefore, is a meaningless figure.

Moreover, contrary to USPS's optimistic view, the transition costs would not likely be incurred all in the first year. *See* USPS-T4 (Crew), at 11. For example, as discussed above, the increased mail volume on weekdays resulting from the elimination of Saturday delivery would likely require the addition or adjustment of delivery routes. Even with an expedited adjustment process, reorganizing routes will take significant time and resources. *See id*.

In sum, to the extent USPS is underestimating the transition costs of implementing five-day delivery, it is further overestimating the savings that it would realize.

IV. ABANDONING SATURDAY DELIVERY COULD IN THE LONG-TERM THREATEN USPS'S VIABILITY

Abandoning Saturday delivery poses a danger to USPS's viability even if USPS's projections are correct that the initial drop in mail volume would be modest. This is because ending Saturday delivery would give private-sector competitors a chance to take part of USPS's business at the same time that it would weaken USPS's presence in the eyes of the public.

A. Abandoning Saturday Delivery Would Give Private-Sector Competitors A "Foot in the Door"

As Dr. Crew explains, USPS's view that ending Saturday delivery will cause a static, one-time drop in mail volume fails to take into account the dynamics of the marketplace. *See* NALC-T4 (Crew), at 8. Once USPS cedes a valuable piece of its enterprise -- Saturday delivery -- existing or future private-sector competitors will undoubtedly rush to fill the gap. *See id*. Given the chance to profit from unmet demand, these competitors will eagerly deliver newspapers, magazines, advertising flyers and parcels on Saturdays to the doorsteps of millions of Americans. *See id*. As postal customers increasingly turn to these competitors, the mail volume loss caused by the end of Saturday delivery could snowball. Indeed, once given a "foot in the door" to compete with USPS, these private-sector competitors may press to open it wider, moving beyond Saturdays to other days, or even making demands on the political system to lift USPS's monopoly on access to the mailbox. *See id.* at 8-9. Such a turn of events would not only weaken USPS but could threaten its long-term viability. *See id.* at 9.[12]

Newspaper delivery provides the clearest example of how this growth of competition could develop. As the National Newspaper Association has explained, many newspapers cannot eliminate their Saturday editions without causing serious harm to their business. *See* NNA-T1 (Heath), at 5; *see, e.g.,* Memphis Field Hearing Tr. at 37 (newspaper publisher Joseph Adams explaining that for his three papers in Tennessee Saturday is the largest advertising day of the week). As USPS acknowledges, *see* Tr. 199 (Pulcrano), newspapers threatened with the loss of Saturday postal delivery may establish private carriers to do delivery. *See, e.g.,* Dallas Field Hearing Tr. at 17 (Newspaper publisher Phil Major explaining that the end of Saturday delivery would cause him to "establish a carrier force"). Once these private carriers are delivering newspapers on Saturday, they will likely expand into the entire week. *See* Tr. 2796-97 (Cross); *see also* Memphis Field Hearing Tr. at 38 (Publisher Adams explaining that "the loss of Saturday delivery forces discussions about changing all six days to in-house carrier deliveries."). And these new private carriers would not just deliver newspapers but, according to NNA witness Heath, will "soon become magnets" for other items:

> … the labor rate a newspaper can pay will be higher if the number of pieces carried is higher. In this sense, newspaper carrier forces *will soon become magnets*, usually for advertising. In my

[12] In its rebuttal case, USPS presented no evidence or argument countering Dr. Crew's contention that the mail volume lost as a result of the implementation of five-day delivery could grow in subsequent years. *See* Tr. 3279-80 (Boatwright).

> experience, local newspapers' forces make an attractive partner for small business preprinted advertising mail …

NNA-T1 (Heath), at 11; *see also* Tr. 2797 (Cross); Dallas Field Hearing Tr. at 17 (Publisher Major explaining that "[o]nce we establish a carrier force, we will be looking for volume just as the Postal Service does.") Indeed, USPS witness Pulcrano conceded that "a new private carrier force might entice some other mail out of the mail stream." Tr. 199.

Once USPS abandons Saturday delivery and these alternative carriers are established, it is almost inevitable that they will seek access to the mailbox. *See* NNA-T1 (Heath), at 12 (noting that NNA members will "voice their belief to their members of Congress that the monopoly should be relaxed" and that "some NNA members have already had this discussion with their Congressional delegations").

Thus, far from causing a modest, one-time drop in mail volume, ending Saturday delivery could set in process an accelerating decline of USPS's business.

B. Ending Saturday Delivery Would Weaken USPS's Connection To Its Customers

Abandoning Saturday delivery would not only invite vigorous competition from the private-sector, but would at the same time weaken USPS's brand and its connection to the public it serves. USPS witness Boatwright (USPS-RT-1), a marketing expert, agreed that a valued brand is important to the long-term success of a company. *See* Tr. 3176-77. He also explained the necessity for a company to establish an "emotional engagement" between its products and its customers. *See* Tr. 3165; *see also* NALC Cross-Examination Exhibit 1 ("Carnegie Strategies" website), at 3 ("Our Philosophy and Approach" page).

For many Americans, uniformed letter carriers on their routes are the face of USPS. *See* NALC-T1 (Rolando), at 4. Indeed, USPS describes them as "excellent ambassadors in promoting the agency's image." USPS-T1 (Pulcrano), at 3. Since most people work during the week, Saturday is the only day they have a chance to see and get to know these USPS "ambassadors." *See* Tr. 155-56 (Pulcrano); NALC-T1 (Rolando), at 4; NALC-T5 (Riley), at 6. Saturday delivery is thus critical for USPS to makes its presence felt and appreciated in communities throughout the nation. *See* NALC-T1 (Rolando), at 4; *see also* Tr. 3172 (Boatwright) (USPS marketing expert testifying that contact with postal service personnel provides "emotional value" to postal customers).

By taking letter carriers off the street on the one day that most residential customers have a chance to see and speak to them, USPS would weaken its brand and damage what Dr. Boatwright refers to as its "emotional engagement" with its customers. *See* USPS/NALC-T5-2 (Dr. Riley explaining that by eliminating Saturday delivery USPS would be "losing a valuable opportunity to promote its brand and maintain its connection to its customers"). Indeed, USPS itself concluded, based on ORC market research concerning a possible move to five-day delivery, that "curtailment of delivery service would most likely erode customer loyalty." USPS-LR-N2010-1/16 (document entitled "Section Three, Marketplace," at 58).)

By eroding USPS's connection to its customers, the elimination of Saturday delivery would make USPS more vulnerable to the private-sector competition that, after filling the Saturday delivery gap, might seek to extend to other delivery days. In addition, because USPS would have less connection to the public it serves, abandoning Saturday delivery would also make USPS more vulnerable to a political challenge to its mailbox monopoly.[13]

[13] During cross-examination of NALC witnesses, USPS appeared to suggest that even without Saturday delivery it could shore up its brand image through television advertising. But USPS witness Boatwright, a marketing expert, conceded that a company's providing products and services "for real" is far more important that claims made in advertising. *See* Tr. 3178.

In short, ending Saturday delivery would be a strategic mistake that could threaten USPS's future viability.

V. ENDING SATURDAY DELIVERY WOULD HAVE A DISPARATE AND ADVERSE IMPACT ON VULNERABLE SEGMENTS OF AMERICAN SOCIETY

A. Ending Saturday Delivery Would Adversely Impact Those Most Dependent On Mail Service

USPS claims that ending Saturday delivery will impact Americans "uniformly." Tr. 671 (Corbett); *see also* USPS-T1 (Pulcrano), at 6 (noting that the elimination of Saturday delivery is "intended to apply to all customers"). In fact, ending Saturday delivery will hit certain vulnerable segments of American society -- the poor who may lack computers, the elderly who may rely on mail-order drugs -- far harder than it impacts the population in general.

Residents of rural areas, for example, have less access to broadband internet service than residents of urban areas, making them more dependent on the mail for communications and transactions. *See* PR-T2 (Luttrell), at 3 (noting that in 2007-2008, only 39% of rural households had broadband, compared with 54% of urban households); *see also* NNA T-2 (Cross), at 5 (noting that in 2009, only 47% of rural residents had broadband at home, compared to 64% of suburban residents); Tr. 160 (Pulcrano). Rural communities also have older populations than urban or suburban communities, and many of the elderly in these rural communities, where pharmacies are spread far apart, rely on mail delivery for their medications. *See id*. at 4-5. Ending a day of mail delivery would increase the likelihood that these rural residents may run out of medication. *See* Transcript of Chicago Field Hearing, at 36-37 (statement of Ken Czarnecki). Rural communities also depend on Saturday mail delivery of newspapers to provide local news often unavailable through other channels. *See, e.g.,* Memphis Field Hearing Tr. at 36 (newspaper publisher Joseph Adams noting, for example, that "[t]he citizens of Wilson County, Tennessee will suffer a service loss of timely general news, timely high school sports news and timely community news if you discontinue Saturday delivery").[14]

As Senators from Hawai'i and Alaska explained to the Commission, residents of those states would be particularly vulnerable to the elimination of a day of delivery. *See* Oct. 4, 2010 Remarks of Sen. Daniel K. Akaka; statement of Sen. Lisa Murkowski, Tr. 2813-25. Because of the distances separating these states from the rest of the country, and the distances that mail must travel within these two states, timely mail delivery already faces substantial challenges. Ending Saturday delivery would be particularly hard on remote Hawaiian or Alaskan communities which depend on mail delivery for necessities, *see* Tr. 2817-18 (testimony of Sen. Murkowski), including medications and perishable items like produce, *see* Sen Akaka Remarks at 1; Tr. 1505-06 (Grossman).

B. Taking Letter Carriers Off The Street One Additional Day Per Week Would Reduce the Social Benefits That Their Presence Provides

Taking letter carriers off the street for an additional day per week would also reduce the social benefits that their presence provides. An example is the Carrier Alert program, jointly sponsored by NALC and USPS, in partnership with local social service agencies. *See* NALC-T1 (Rolando), at 5; *see generally* NALC-LR-N2010-1/14. This program utilizes letter carriers' daily presence in America's communities to keep a watchful eye on home-bound citizens: the elderly, infirm, and disabled. *See* NALC-T1 (Rolando), at 5. If the carrier notices any signs of distress at the home of a program participant, such as unexplained mail

[14] When questioned about the disparate impact that ending Saturday delivery would have on residents of rural areas, USPS witness Pulcrano responded that living in a rural community "is a conscious decision that you make," Tr. 202, suggesting that bearing a greater adverse impact from less mail service is just part of a voluntary lifestyle choice. This remarkable attitude ignores the fact that it is family or community connections, or physical or financial limitations, that often tie rural Americans to the places where they live.

accumulation, the carrier reports it to the social service agency or, if necessary, takes direct action. *See id*. The value of the Carrier Alert program has been repeatedly demonstrated as letter carriers have helped thousands receive assistance -- and in many cases, life-saving help. *See* NALC-LR-N2010-1/14, at 1 (joint USPS-NALC statement). Elimination of Saturday delivery will significantly weaken the value of the Carrier Alert program by creating a two-day (often, three-day) weekend gap in coverage. *See* NALC-T1 (Rolando), at 5.

Letter carriers serve as watchful eyes for the community in less formalized ways as well. Their uniformed presence alone often deters crimes. *See id*. In addition, letter carriers on their routes will respond to emergency situations like accidents, fires or crimes in progress. *See id*. They report these situations to police, fire or rescue services and, on occasion, they personally intervene, at risk to themselves. *See id*. Indeed, one letter carrier in Ohio, Keith McVeigh, has over the course of his twenty years with USPS saved no fewer than three lives: rescuing a teenager from committing suicide, pulling a drowning girl from a lake and giving CPR to an unconscious man by the side of the road. *See* Tr. 2883.

Each year NALC bestows its "Heroes of the Year" honors on letter carriers who engage in brave and compassionate conduct in service to the public. *See id*. For example, in 2008, five letter carriers in the San Francisco Bay area joined forces on a Saturday afternoon to rescue residents of a six-story retirement home that was on fire near the local post office, saving many lives. *See* NALC-LR-2010N-1/15. Had Saturday delivery been eliminated, these letter carriers would not have been on duty that day.

C. Ending Saturday Delivery Would Cause Substantial Job Loss At A Time When The U.S. Economy Needs Job Creation

In addition to having a disparate impact on those who need mail the most, ending Saturday delivery would also cause substantial job loss -- at a time when unemployment levels are already intolerably high. The recession was the deepest in terms of job loss since World War II, and although it has technically ended, unemployment remains at 9.6%. *See Recession May Be Over, But Joblessness Remains*, New York Times, Sept. 21, 2010, at B1. According to a Pew Research study released in June 2010, 55 percent of Americans in the prior thirty months faced unemployment, experienced a cut in pay or a reduction in hours, or were reduced to part-time employment. *See* Statement of Joseph Corbett, Docket No. R2010-4 (July 6, 2010), at 14.

According to USPS, ending Saturday delivery will add to this dismissal employment picture by causing the loss of 40,000 jobs. *See* Tr. 646-47 (Corbett). And because a significant portion of USPS's employees are military veterans, Tr. 647 (Corbett), this loss of jobs would hit veterans particularly hard. *See* NALC-LR-2010-1/21, at 50 (USPS report noting that USPS "is among the nation's largest employers of veterans and disabled veterans").

D. Ending Saturday Delivery Would Likely Mean The End of NALC's Annual Food Drive

High unemployment also means there is more hunger in America. To address that need, NALC runs its annual Food Drive, which is the largest single hunger relief project in the country. *See* NALC-T1 (Rolando), at 6. During the last seventeen years, the Food Drive has collected over one billion pounds of food, including 73.4 million pounds in 2009 alone, *see id*. On the second Saturday in May of each year, letter carriers across America collect, along with the mail, non-perishable food donations from postal customers. *See id*.; *see generally* NALC-LR-N2010-1/16. The donated food is transported to local food banks and shelters where it is distributed to the needy. *See* NALC-T1 (Rolando), at 6.

The Food Drive takes place on Saturday because that is the most convenient day for the tens of millions of working Americans who participate to place the food next to their mailboxes for collection by the letter carriers. *See id*.; *see also* Tr. 2871 (Rolando) ("We choose

Saturday because that's the day people are home"). Trying to hold the Food Drive on a weekday, when most people are focused on getting to work or the kids off to school, would cripple the effort, *see* NALC-T1, at 6-7; Tr. 2871-72 (Rolando).[15]

VI. RATHER THAN CUTTING SERVICE, USPS SHOULD CONSIDER ALTERNATIVES THAT MAKE ITS SERVICES MORE ACCESSIBLE AND ATTRACTIVE TO ITS CUSTOMERS

USPS believes that ending Saturday delivery is "inevitable" -- "it's just a matter of when we're going to implement it." Tr. 254 (Pulcrano). Indeed, although it claims that its decision to end Saturday delivery is driven by current financial exigencies, USPS management has had Saturday delivery in its gun-sights for years, and has just been waiting to be allowed to pull the trigger. The Postmaster General announced plans to eliminate Saturday delivery as far back as 1968. *See* NALC-LR-N2010-1/20, at 7. USPS again announced that it was considering plans to move to five-day delivery in 1977. *See* NALC-LR-N2010-1/19, at 2. At that time, Congress rejected the idea, noting that Saturday delivery was "an historical public service of the U.S. postal system," and that eliminating it would, among other things, increase mail backlogs on Mondays and Tuesdays, deprive customers of the "great convenience" of receiving parcels at home on Saturdays, and deprive thousands of rural newspapers of their means of Saturday delivery. *See id*. Undeterred, USPS continued to research and consider five-day delivery through the 1980's, in 1995 and in 2001. *See* USPS Notice of Filing of Library References USPS-LR-N2010-1/16 and USPS-LR-N2010-1/NP5 (June 15, 2010), at 1.

[15] Ending Saturday delivery would also have a negative impact on the environment. With the Parcel Select program, USPS now makes deliveries that private companies otherwise would. *See* NALC-T1 (Rolando), at 7. To the extent that ending Saturday delivery makes the Parcel Select program less attractive, that would mean private companies would be making those deliveries themselves -- meaning more trucks on the streets each day, increasing carbon emissions. *See id*.

Because USPS is so intent on ending Saturday delivery, it has failed to focus on alternatives that may improve its finances without damage to its enterprise. As USPS witness Pulcrano, who led USPS's effort, admitted during cross-examination, "[w]e didn't spend a lot of time looking at alternatives." Tr. 180.

But alternatives should be seriously considered. As explained above, ending Saturday delivery is unnecessary, would likely yield less in savings than hoped, would likely cause a far larger loss of business than anticipated, and would undoubtedly give competitors a "foot in the door" that could in the long-run threaten USPS's viability. And once USPS pulls the trigger on Saturday delivery, there is likely no going back. As explained, implementing five-day delivery would require an enormous adjustment to all facets of USPS's operations; undoing that process would be daunting. Indeed, USPS admits that it currently has no plans on how to reverse course if the projected benefits of five-day delivery fail to materialize. *See* Tr. 272 (Pulcrano). In any event, even if USPS wanted to reverse course, it is unlikely that businesses that incurred substantial costs adjusting their mailing operations to five-day delivery would be willing to undo those adjustments. *See* NALC-T4 (Crew), at 11. And once postal customers who relied on Saturday delivery go elsewhere, they are unlikely to return. *See id.* The evidence is thus overwhelming that, for all practical purposes, implementation of five-day delivery would be irreversible.[16]

Before taking such an irreversible step, USPS should see whether there exist other means to improve its financial condition. For example, USPS could look to collective bargaining as one means of improving its current financial condition. NALC's contract with USPS expires

[16] In its rebuttal case, USPS offered no testimony or other evidence countering NALC's assertion that implementation of five-day delivery would, in a practical sense, be irreversible. *See, e.g.*, Tr. 3208-09 (Boatwright).

in November 2011 and preparations for a new contract are already underway. *See* NALC-T1 (Rolando), at 8. NALC has made clear that it is prepared to work constructively and creatively with USPS at the bargaining table to help it address its financial challenges. *See* NALC-T1 (Rolando), at 8. As noted above, by entering into the landmark 2008 agreement providing for expedited, joint labor-management route adjustments, NALC has already helped USPS achieve enormous savings.[17]

In the long-run, however, USPS's success will depend on its meeting the needs of its customers. *See* NALC-T4 (Crew), at 12; Tr. 3156 (Boatwright). Indeed, that is exactly what USPS itself concluded in a 2001 report based on extensive market research: "Meeting customer needs and requirements is *the best answer* to retaining our position against competitive alternatives." USPS-LR-N2010-1/16 (document entitled "Section Three, Marketplace," at 60) (emphasis added). This view was also expressed by USPS's marketing expert, who testified that "[i]n the long term, the Postal Service is best served by a focus on additional ways to add value to customers …." USPS-RT-1 (Boatwright).

According to Dr. Michael Riley, a former CFO of USPS who is now a professor of management and finance, USPS's success will depend on its shifting to a more customer-oriented approach to doing business. *See* NALC-T5, at 1, 7. As Dr. Riley testified, it is the individual customer that drives mail volume and what is important to the individual customer are things like convenience, courtesy, safety, security of the mail and consistency of delivery. *See*

[17] In 2006, during the last round of bargaining between NALC and USPS, NALC made an offer to USPS that included a proposal for a separate workforce of letter carriers, composed of retirees and new hires, to deliver mail on Saturdays. *See* NALC-T2 (Young), at 1. USPS did not dispute NALC's estimate that such a separate Saturday carrier workforce would have saved it hundreds of millions per year. *See id*. at 2.

id. at 7. Indeed, it was the focus on the needs of the customer during Riley's tenure as CFO that helped make USPS profitable. *See id*. 1, 7.

Far from being customer-oriented, USPS's current approach is overly bureaucratic. *See* NALC-T4 (Crew), at 12. This bureaucratic approach leads USPS to produce thick manuals filled with complex mailing regulations that make it hard for customers to do business with USPS. *See id*. at 12-13. NNA witness Heath gave an example of how some postmasters -- who "can't see anything but the rules" and "forget the customer part" -- delay timely delivery of newspapers because Sarbanes-Oxley paperwork has not been completed. Tr. 2974-75. Another manifestation of USPS's lack of concern for the customer was its decision to eliminate "blue box" collection boxes from street corners all over America -- 24,000 in 2009 alone -- making it more difficult for customers to mail letters. *See* NALC-T5 (Riley), at 8.

This type of rule-bound rigidity and short-sighted cost-cutting is exactly the wrong approach to take. USPS should concentrate on attracting customers, and in particular, making collection and delivery *more*, not less, available to them. *See* NALC-T4 (Crew), at 12; NALC-T5 (Riley), at 6. As Dr. Riley points out, we live in an era where service companies are generally *increasing* days and hours of operation to appeal to their customers. *See* NALC-T5 (Riley), at 7.[18]

USPS's marketing expert, who reviewed comments made by respondents in ORC's 2009 market research, concluded that "[p]eople value Saturday delivery. There's a

[18] Meeting the needs of customers also means giving them more options. USPS could, for example, institute innovations like service-differentiated pricing, which has been widely adopted by European postal systems. *See* NALC-T4 (Crew), at 13. This would provide for a cheaper, slower second class of mail that consumers could use, for example, when paying bills that are not time-sensitive, and that would make USPS more competitive with electronic bill payment. *See id*.

sentiment of yes, I really like Saturday." Tr. 3185 (Boatwright). Cutting Saturday service would mean ignoring these sentiments, and ignoring customer needs and requirements.

Far from meeting the needs of USPS's customers, five-day delivery would, as USPS witness Pulcrano repeatedly testified, require its customers to "adjust" to USPS's new reduced services. *See*, *e.g.*, Tr. 137, 142, 165, 183, 217, 221, 223. Unfortunately, these customers may "adjust" by turning to USPS's competitors or to electronic alternatives.

USPS's value lies in its extensive delivery network, which allows it to deliver mail to every address in America. USPS management sees shutting down this network one-sixth of the time as a means to save some money in the short-run. In the long-run, however, reducing the use of USPS's valuable delivery network will only weaken and marginalize the organization, and lead to the decline of the agency.

Because USPS's proposed service changes would be a grave mistake, the Commission should issue an advisory opinion opposing them.

PROPOSED FINDINGS AND CONCLUSIONS

1. Americans have been receiving mail on Saturdays since the beginning of modern mail delivery, in the nineteenth century. *See* NALC-LR-N2010-1/9.

2. USPS is facing a short-term liquidity crisis caused by the obligation in the Postal Accountability and Enhancement Act of 2006 that USPS pre-fund retiree health benefits. *See supra* pp. 9-13.

3. USPS would have been profitable in FY 2007 and FY 2008 but for the statutory requirement that USPS pre-fund retiree health benefits. *See supra* p.11.

4. But for the statutory obligation to pre-fund retiree health benefits, USPS would have had a cumulative profit over the three years from FY 2007 through FY 2009. *See supra* p.11.

5. But for the statutory obligation to pre-fund retiree health benefits, USPS's operating losses in FY 2009 and FY 2010 would have been modest, despite the effects of the recession. *See supra* pp. 11-13.

6. As a result of the pre-funding obligations, USPS has a cash deficit of nearly $15 billion. *See supra* p.13.

7. USPS would not save enough from eliminating Saturday delivery, and would certainly not realize the savings fast enough, to resolve USPS's liquidity crisis. *See supra* pp.13-14.

8. Apart from the obligation to pre-fund retiree health benefits, the fundamentals of USPS's business are sound. *See supra* p.9.

9. USPS's accrued pension obligations are virtually entirely funded and its retiree health obligations are substantially funded. *See supra* p.9.

10. From 2000 to 2009, USPS had eight straight years of productivity gains. *See* USPS-T2 (Corbett), at 5.

11. Since entering a landmark agreement with NALC in 2008, providing for expedited, joint labor-management route reevalutions, USPS has been able to eliminate about 11,000 city delivery routes and is expected to save over $1 billion per year as a result. *See supra* p.9.

12. Crediting USPS with the $75 billion that USPS's Office of Inspector General found that USPS overpaid into the Civil Service Retirement System, and transferring this money to the Postal Service Retiree Health Benefit Fund, would eliminate the need for USPS to pre-fund retiree health benefits further, and would also allow USPS to avoid the over $2 billion that it currently pays each year in retiree health insurance premiums. *See supra* at 13.

13. The record contains no evidence that mail volume will decline in the long-term.

14. USPS's predictions of a long-term drop in mail volume are speculative and could turn out to be wrong, as prior predictions of a long-term drop in mail volume have been wrong. *See supra* pp.15-20.

15. Ending Saturday delivery would likely lead to less in saving than USPS anticipates. *See supra* pp.20-39.

16. Eliminating Saturday delivery will cause mail volume to increase on other days. *See* Tr. 947-48 (Bradley).

17. As a result of the increased mail volume on other days that would result from eliminating Saturday delivery, letter carriers would have to spend more time in the office and more time on the street. *See supra* p.21.

18. The increased mail volume on other days that would result from eliminating Saturday delivery would cause an increase in letter carrier overtime hours and also likely require the creation of new city delivery routes. *See supra* pp.21-25.

19. Following a substantial drop in the number of city delivery routes since 2008, such routes now have less absorptive capacity. *See supra* p.24.

20. The labor costs associated with new city delivery routes and with increased letter carrier overtime would erode the gross savings that USPS anticipates from eliminating Saturday delivery. *See supra* p.23.

21. Eliminating Saturday delivery will likely cause a larger drop in mail volume than USPS anticipates. *See supra* pp.26-37.

22. The projections given to Opinion Research Corporation ("ORC") in 2009 by the surveyed businesses and consumers were necessarily hypothetical since Saturday delivery has not been eliminated. *See supra* p.27.

23. Projections given to ORC by the surveyed businesses and consumers could have been biased by the respondents' concern about avoiding price increases or their sympathy for USPS's stated financial plight. *See* NALC-T4 (Crew), at 5.

24. ORC's results are also unreliable since respondents were surveyed only during one short timeframe, and also because this timeframe was in 2009, a highly atypical year during which the economy was still suffering from the worst economic downturn in decades. *See supra* p.28.

25. ORC's results are also unreliable because the questions ORC posed to respondents were flawed or confusing. *See* pp. 29, 32-33.

26. By applying a "likelihood" factors to its calculation, ORC systematically understated the amount by which respondents estimated their mail volume would drop if Saturday delivery were eliminated, and as a result overestimated the cost savings. *See supra* pp. 31-33.

27. USPS's market research findings are also unreliable since they are not corroborated by any econometric study of how elimination of Saturday delivery would impact mail volume. *See supra* pp. 33-34.

28. The focus groups used in ORC's qualitative research were not statistically representative of the American population. *See* USPS-T9 (Whiteman), at 3.

29. Eliminating Saturday delivery will impose costs on USPS's business customers who, for example, would receive payments later, may have to change their

recordkeeping or IT systems, or may have to add mailroom staff to handle increase volume on Mondays. *See supra* pp. 35-36.

30. Eliminating Saturday delivery will likely cause demand for mail to drop more than USPS anticipates if the cost imposed on its customers is more than USPS expects. *See supra* p.36.

31. USPS is likely underestimating the transition costs that it will incur by implementing five-day delivery. *See supra* pp.37-39.

32. If USPS abandons Saturday delivery, existing and future private-sector competitors will likely seek to profit from unmet demand for Saturday delivery, and might seek to compete with USPS on other days as well. *See supra* pp.39-41.

33. Ending Saturday delivery would weaken USPS's brand and its connection to its customers, since those who work during the week generally only see and have the opportunity to get to know their letter carrier on Saturday. *See supra* pp.41-42.

34. Ending Saturday delivery would have a disparate adverse impact on certain vulnerable groups in the population, like the poor, the elderly and those who live in rural areas. *See supra* pp.42-44.

35. Taking letter carriers off the street on Saturdays would reduce the social benefits that their presence provides in communities throughout the country, including through the Carrier Alert program. *See supra* pp.44-45.

36. Ending Saturday delivery would cause substantial job loss, including a substantial loss in employment opportunities for military veterans, at a time of historically high unemployment. *See supra* pp.45-46.

37. By ending Saturday delivery, USPS will lose a competitive advantage over its parcel service competitors. *See* USPS-T1 (Pulcrano), at 3; Tr. 155 (Pulcrano).

38. Ending Saturday delivery would likely mean the end of NALC's annual food drive, which is the largest single hunger relief project in the country. *See supra* p.46.

39. Ending Saturday delivery would likely be irreversible. *See supra* pp. 47-48.

40. USPS's long-term success will depend not on cutting services but on its ability to meet the needs and requirements of its customers. *See supra* pp. 49-51.

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Respectfully submitted,

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TECHNICAL APPENDIX

Confidence intervals provide an estimate of how sure a survey researcher is about the value of a particular statistic that arises from a survey. No such confidence intervals are provided in the initial ORC testimony. The ORC testimony simply states a point estimate of 0.71% decline in mail volume resulting from the 5-day proposal. It does not say, for example, that this estimate is likely to be between 0.40% and 1.1% (with a confidence of 95%). It simply provides a single or point estimate.

The rebuttal testimony of USPS witness Boatwright (USPS-TR-1) attempts to rectify this after the fact. Dr. Boatwright states in footnote 25 on p. 26 of his testimony that the 95% confidence interval for the ORC estimate is 0.35% to 1.06%. He states also that he used the "standard asymptotic normal formula for percentages" to estimate this confidence interval.

The method used by Dr. Boatwright to estimate the 95% confidence interval for the percentage reduction in volumes is incorrect. The method he uses is appropriate for determining a confidence interval for the proportion of respondents in a survey who endorse a particular binary choice (*e.g.*, the proportion of survey respondents that say that they are smokers or not, or the number of heads in a certain number of flips of coin). This is completely different from the confidence interval of interest in the ORC study, which addressed not a binary choice, but an estimate of the number of pieces of mail sent.

Dr. Boatwright estimates the standard error in the "Percentage Decline in Volumes" as:

$$\sigma_B = \sqrt{\frac{p_B(1-p_B)}{n}}$$

where n = the number of survey respondents and where p_B = the mean reduction in volumes estimated by the ORC procedure. This gives rise to his estimate of the standard error as $\sigma_B = 0.355\%$. Dr. Boatwright uses this estimate of the standard error to compute the 95% confidence interval for the decline in volumes in the usual manner (based on the normal distribution approximation) by adding and subtracting 1.96 times this standard error to the ORC mean estimate. Doing so, he obtains the following confidence interval (in %):

$$95\%\ \text{Confidence Interval} = 0.71 - 1.96 * 0.355 = 0.35 \quad \text{to} \quad 1.06 = 0.71 + 1.96 * 0.355$$

Accordingly, Dr. Boatwright concludes that there is only a 5% chance that the volume reductions associated with the 5-day proposal will lie outside the interval of 0.355% to 1.06% of total benchmark volume declines (which he takes to be the ORC estimate of 0.71%). Even assuming the correctness of the ORC approach to estimating the expected volume declines (i.e., their estimate of 0.71%), the procedure used here is inappropriate. Dr. Boatwright does imply in his footnote that he considered alternative approaches to the above incorrect approach to estimate standard errors, but he states that they all yielded only small confidence intervals.

Given how far off the mark the approach suggested (and noted above) by Dr. Boatwright is from a correct approach, one must be very skeptical of these statements.

The correct answer to estimating the confidence intervals depends on the underlying model assumed for survey responses and their relationship to the statistic of interest. To illustrate, let us assume the ORC approach to estimating volume declines, which can be summarized as follows (to simplify the exposition, we focus only on total mail, not individual products).

Notation:

n = number of survey respondents

v2(i) = baseline volumes for respondent i under the current 6-day regime

v1(i) = anticipated volumes under the 5-day regime for respondent i

p(i) = response by respondent i to question 10k (understood here as a probability)

V1 = total volumes for all respondents under the 5-day regime = $\sum_{i=1}^{n} \mathrm{v1(i)}$

V2 = total volumes for all respondents under the 6-day regime maintained = $\sum_{i=1}^{n} \mathrm{v2(i)}$

δ(i) = v2(i) – v1(i) = anticipated change in mail volumes for respondent i in response to 5-day proposal, conditional on the fact the respondent actually changes behavior in response to the 5-day proposal (where this latter event is assumed by ORC and Dr. Boatwright to occur with probability p(i))

$\Delta = \sum_{i=1}^{n} \delta(i) = \sum_{i=1}^{n} (v2(i) - v1(i))$ = total anticipated change in mail volumes for all respondents to the survey

The ORC model giving rise to responses is assumed by them to be the following. The respondents are assumed to believe that with probability p(i) they will send δ(i) = v2(i) – v1(i) fewer pieces of mail under the 5-day proposal and with probability 1 – p(i) they will not reduce their mail at all under the 5-day proposal. Let this random variable of anticipated volume reductions be denoted as $\tilde{\mathrm{x}}(\mathrm{i})$. From probability theory $\tilde{\mathrm{x}}(\mathrm{i})$ has the following properties:

$$\text{Expected Value of } \tilde{\mathrm{x}}(\mathrm{i}) = \mathrm{p(i)}\delta(\mathrm{i})$$
$$\text{Variance of } \tilde{\mathrm{x}}(\mathrm{i}) = \mathrm{p(i)[1-p(i)]}\delta(\mathrm{i})^2$$

Let $\tilde{X} = \sum_{i=1}^{n} \tilde{x}(i)$ be the total reductions across all respondents in response to the 5-day proposal. This is a random variable, of course, and we will be interested in computing the probability that outcomes of this random variable are well above or well below the mean of $\tilde{X}$. According to the assumptions underlying the ORC/Boatwright model, $\tilde{X}$ has the expected value $E\{\tilde{X}\} = \sum_{i=1}^{n} p(i)\,\delta(i)$, which has the reported value 0.0071 (or 0.71%). To compute the confidence interval for the % reduction in mail volumes in response to the 5-day proposal, we need to compute the standard error (i.e. the standard deviation) of the following random variable $100 * (\tilde{X} / V2)$. To do so, we make the assumption that respondent answers are statistically independent. In fact, they are more likely to be positively correlated because they are responding to similar underlying factors in the economy. So the estimates provided here on confidence intervals are likely to underestimate the width of the confidence interval.

Under the assumption of statistical independence, one computes the variance of $100 * (\tilde{X} / V2)$ as follows:

$$VAR[100 * (\tilde{X} / V2)] = \frac{10{,}000}{V2^2} \sum_{i=1}^{n} VAR(x(i)) = \frac{10{,}000}{V2^2} \sum_{i=1}^{n} p(i)(1 - p(i))\,\delta(i)^2$$

From this, the desired standard error is computed as the square root of the variance of $100 * (\tilde{X} / V2)$, namely:

$$\sigma[100 * (\tilde{X} / V2)] = \frac{100}{V2} \sqrt{\sum_{i=1}^{n} p(i)(1 - p(i))\,\delta(i)^2}$$

This is somewhat easier to understand if one multiples and divides this quantity by Δ, which yields the following expression:

(*) $$\sigma[100 * (\tilde{X} / V2)] = 100 \frac{\Delta}{V2} \sqrt{\sum_{i=1}^{n} p(i)(1 - p(i))\,\beta(i)^2}$$

where $\beta(i) = \frac{\delta(i)}{\Delta}$ is respondent i's share of the total reported decrease in volumes across all respondents in the survey (so that the sum of the $\beta(i)$ is 1.0). Assuming an asymptotic normal approximation, which is reasonable here given the sample sizes involved, one would then add to and subtract from the mean estimate of 0.71% 1.96 times the quantity $\sigma[100 * (\tilde{X} / V2)]$ defined in (*) to obtain the desired 95% confidence interval. This is obviously a very different expression from that which Dr. Boatwright suggests using in footnote 25 on p.26 of his testimony. Since we do not have the data on p(i), we cannot actually compute this confidence interval, but ORC did have the data and should have computed this.

In any case, a few things can be noted here just by considering the structure of the expression (*) for the standard deviation of $100 * (\tilde{X} / V2)$. First, the expression that Dr. Boatwright provides for his standard error resembles the expression under the square root sign in equation (*) if the respondents were identical. Indeed, if all respondents are identical, so that $\beta(i) = 1/n$ for all i and p(i) = p for all i, then the expression under the square root sign in (*) becomes $\sqrt{p(1-p)/n}$. However, it is to be noted that the "p" in the expression (*) is not at all the one Dr. Boatwright would have us use (recall that he suggests using p = .0071, the mean reduction fraction across all respondents). This is not the p(i) one sees in the correct expression (*) for the standard deviation of total declines in volumes. In the correct expression (*), the "p" in question (assumed identical across respondents in this simple example) is the respondents' answer to question 10k.

Another point to note from (*) is the interplay in computing the standard error between the size of each respondent's reported reduction (namely $\delta(i)$ (or equivalently his share $\beta(i) = \dfrac{\delta(i)}{\Delta}$ in total reductions) and the same respondent's answer to question 10k. Indeed, responses from larger mailers with greater uncertainties (namely with reported likelihoods of change p(i) closer to 0.5) will swamp the responses of smaller and more certain mailers in computing this standard deviation. This is the well known impact of larger variance sub-populations on confidence intervals for overall populations. Generally, the failure by ORC to analyze, even for their own model, the interactions and interdependencies across respondents' reported values of p(i) and $\delta(i)$ is a further egregious omission in the discussion of how to interpret the results of the ORC survey.

Finally, of central importance here is that the estimate of the standard error in (*) for volume reductions is an adjustment that is multiplied by the maximum percentage decrease across respondents, namely, $100 * \Delta / V2$. Obviously, if the wrong estimate for the maximum were used, the width of the resulting interval would be affected in the same direction as the error in the estimate on the maximum, percentage decrease. Note that ORC do not report the maximum percentage Δ=V2-V1.

All of this suggests that the discussion provided in Dr. Boatwright's testimony on confidence intervals should be completely discounted. In particular, the failure to appreciate, even for their own model, the interactions of p(i) and reported reductions $\delta(i)$ suggests, at the very least, a lack of sensitivity of both ORC and Dr. Boatwright to the central drivers underlying confidence intervals surrounding their estimates of volume reductions in response to the 5-day delivery proposal. This problem is compounded with the larger problem that the ORC/Dr. Boatwright model is itself constructed on a fundamentally flawed and biased approach to computing the expected value of respondents' anticipated responses to the 5-day proposal as demonstrated in the testimony of Dr. Crew (NALC T4).

Biography of NALC President Fredric V. Rolando

Not long after he graduated from Florida International University in 1976, Fredric V. Rolando became a city letter carrier with the United States Postal Service in Miami and joined South Florida Branch 1071 of the National Association of Letter Carriers. Within months, the antagonistic and often hostile way that managers were treating both him and his fellow carriers prompted Rolando to become a shop steward. Six years later in 1984, Rolando moved upstate to Sarasota, where he became local Branch 2148’s chief steward.

Sarasota’s letter carriers were so impressed with Rolando’s successes in defending their rights under the National Agreement that they elected him branch president in 1988, a post Rolando would go on to hold for 11 years.

In 1992, Rolando was appointed as part-time regional administrative assistant to the national business agent for NALC’s Atlanta Region 9, which besides Florida encompasses Georgia, North Carolina and South Carolina; a few years later, he was named one of the region’s two full-time RAAs. Meanwhile, the ever-active Rolando also served as director of education for the Florida State Association of Letter Carriers, an office he held from 1993 to 1999.

Rolando’s hard work helped his political star continue to rise within his union, and in early 2002, NALC President Vincent R. Sombrotto appointed Rolando national director of city delivery to fill a vacancy on the union’s executive council. Later that summer, the union’s convention delegates meeting in Philadelphia overwhelmingly approved of Sombrotto’s appointment when, by acclamation, they officially elected Rolando to that resident national office.

As director of city delivery, Rolando worked closely on revisions and updates to the *Joint Contract Administration Manual* (*JCAM*), the definitive concordance of interpretations of the National Agreement agreed upon by both the NALC and the Postal Service. Rolando explored further many of the specific issues that affect letter carriers, issues that can be both common and unique in different areas of the country. He took a lead role in preparing the NALC for the changes and challenges to the city delivery craft, such as advances in automation that led to the introduction of the flat sequencing system in 2007, not to mention the ongoing and significant reductions in mail volume brought on both by e-mail and by the option for online bill payment over the Internet.

Letter carriers further affirmed Rolando’s work and commitment when they elected him as the union’s national executive vice president, again by acclamation, at the national convention in Las Vegas in 2006. In this role, Rolando was a leader in the NALC’s successful fight against the Postal Service’s plan to turn over new and even existing city mail delivery routes to part-time, low-paid and non-union contractors.

As mail volume continued to fall, a decline hastened by the effects of the worst recession since the Great Depression of the 1930s, Rolando led the union’s ongoing efforts to build a fair system for adjusting city letter carrier routes. Instead of the one-sided, management mandated adjustments of the past, city letter carriers are now assured a say in how their routes are adjusted.

Rolando was sworn in as the 18th president of the National Association of Letter Carriers in July 2009, following the retirement of William H. Young. He was elected to a new four-year term in August 2010. While protecting letter carriers' jobs and their rights under the National Agreement remains a top priority, Rolando and the 300,000 active and retired letter carriers he now leads find themselves in a national-level fight against the Postal Service's misguided proposal to drop Saturday mail delivery in an effort to cut costs. Certain that slashing service would further harm the financially struggling Service by creating a financial "death spiral" that would drive businesses and patrons away from using USPS, Rolando and the NALC have pressed for preserving Saturday deliveries and have encouraged Congress and the Postmaster General to instead at seek a refund of the tens of billions USPS has been overcharged to fund its pension obligations. These and other crucial issues are among the obstacles Rolando will face this fall as the NALC enters negotiations for its next national agreement.

Rolando and his wife, Jolene, reside in Fredericksburg, Virginia. They have four children: two daughters and two sons.