



UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION

RUTH Y. GOLDWAY
CHAIRMAN

March 14, 2013

The Honorable Claire C. McCaskill
United States Senate
Hart Senate Office Building, SH-506
Washington, DC 20510-2505

The Honorable Gerald E. Connolly
United States House of Representatives
Cannon House Office Building, Room 424
Washington, DC 20515-4611

Dear Senator McCaskill and Representative Connolly:

As requested in your letter to me dated January 31, 2013, Commission staff has updated, as accurately as possible, its estimate of the cost savings that result from eliminating Saturday delivery, to reflect volume and costs for FY 2012. The updated figures are based on the proposal submitted by the United States Postal Service in the Commission's Docket No. N2010-1 Advisory Opinion on the Elimination of Saturday Delivery (Opinion), and reflect the methodologies the Commission used in its Opinion issued on March 24, 2011.

The new delivery schedule announced by Postmaster General Donahoe on February 6, 2013, has several important differences from the plan previously reviewed by the Commission – most notably, proposed continuation of package delivery on Saturdays. Moreover, there are significant differences in the current labor agreements versus those in place in 2010. Many of these differences would likely alter the estimated savings.

The table below compares the updated and the original savings estimates by function. However, some of the data elements provided for use in the 2011 Opinion are not available for FY 2012. For example, detailed information on delivery operations including daily volumes and work hours for various categories of labor, route designation, and type of mail for FY 2012 is not routinely provided to the Commission. In several instances, therefore, the Commission used analytical techniques to infer the necessary inputs. While these data limitations should not have a material impact on the updated estimate, we cannot be certain. As discussed in the Commission's Opinion, we caution that the methodology to estimate revenue loss resulting from a lesser delivery frequency suffers from material flaws. As a result, the estimate of \$103 million less in foregone revenue from 2010 to 2012 may not be reliable.

Table 1

Savings from Eliminating Saturday Delivery			
Comparison of 2012 to PRC N2010-1			
	FY 2012	PRC N2010-1	Difference 2012 - Ncase
	\$ Billions	\$ Billions	\$ Billions
City Carriers	1.531	1.503	0.03
Rural Carriers	0.395	0.484	(0.09)
Transportation	0.197	0.169	0.03
Mail Processing	0.060	0.067	(0.01)
Post Office Operations	0.045	0.053	(0.01)
Total Savings¹	2.228	2.276	(0.05)
Foregone Revenue	(0.484)	(0.587)	0.10
Net Savings	1.744	1.689	0.05
<i>Sources: PRC Calculations</i>			

If, as we anticipate, the Postal Service files its request for an Advisory Opinion on its revised five day delivery proposal, we expect the Postal Service to review the impacts of the changes to its previous plan, such as the cost for providing Saturday delivery of parcels. We also expect the Postal Service to address several areas where the analytical methods for developing cost savings estimates could be improved. The Commission would need the Postal Service to provide complete and updated data in order to consider its request in a timely manner.

The information needed relates primarily to the impact of shifting the processing, transportation, and delivery of mail from Saturday until Monday, which is already the heaviest delivery day of the week. The result of shifting volumes to Monday appeared likely to cause

¹ On page 40 of the Commission's FY 2012 Annual Report the cost of six day delivery instead of five day delivery is estimated at \$2.48 billion. This number reflects a more generalized approach to estimating the cost of Saturday delivery rather than the specific operational changes proposed in Docket Number N2010-1.

“peak load” effects, which called into question Postal Service expectations that existing Monday operations could successfully absorb the additional volume.

In the 2011 Opinion, the Commission detailed how the Postal Service had not thoroughly analyzed the cost impact of managing significant spikes and valleys in workload. Similarly, the impact of workload changes on service could be more effectively analyzed by comparing current service performance with the service that would be provided after the change. The Commission hopes that a new Postal Service proposal will include better estimates of peak-load costs, and an analysis of the Postal Service’s operational plans for addressing peak-load issues.

Following completion of the Opinion, the Commission contracted with postal experts at the School of Public Policy at George Mason University (GMU) to study the impact of peak load issues on cost savings estimates. While the study did not reach conclusions, GMU advised that different peak load issues exist in the areas of delivery, mail processing, and transportation, and that different data are required to quantify the costs and potential savings for each function.

For example, the data necessary to quantify the peak-load costs for delivery include:

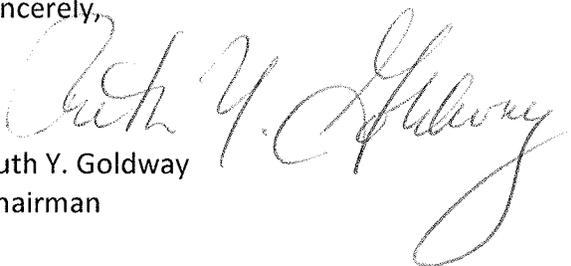
- Mail arrival rates;
- Volume of mail by shape by day of the week disaggregated by deferrable and non-deferrable;
- Labor available by different categories allowable in NALC contract;
- Clerks available for sorting assistance;
- Wage rates;
- Work hours used for each labor category by day.

The Commission is confident that with the proper data inputs it will be able to present a comprehensive and constructive analysis of the nationwide changes in service contemplated by the Postal Service.

I greatly appreciate your interest in this matter. Please do not hesitate to let me know if you have further questions.

Sincerely,

Ruth Y. Goldway
Chairman

A handwritten signature in cursive script, appearing to read "Ruth Y. Goldway". The signature is written in black ink and is positioned to the right of the typed name and title.