

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

EVOLUTIONARY NETWORK DEVELOPMENT
SERVICE CHANGES, 2006

Docket No. N2006-1

RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO OFFICE OF THE CONSUMER ADVOCATE INTERROGATORIES
(OCA/USPS-57 THROUGH 62)

The United States Postal Service hereby files its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-57 through 61, filed on August 3, 2006; and OCA/USPS-62, filed on August 11, 2006. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux
Chief Counsel, Ratemaking

Michael T. Tidwell

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2998; Fax -5402
michael.t.tidwell@usps.gov
August 15, 2006

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-57. Please refer to the USPS Library Reference N2006-1/23, "Draft 5.0 Regional Distribution Center Communications Plan" filed July 28, 2006.

- a. The document is labeled a draft. Please explain the status of this Communication Plan within the USPS approval process and whether it is subject to revision before a final Communication Plan is completed. If so, what types of revisions and additions or deletions are anticipated?
- b. Please provide a copy of the final "Regional Distribution Center Communications Plan" when it is approved.
- c. The Communications Plan states a decision to activate a Regional Distribution [RDC] "does not involve operational consolidations subject to the Handbook PO-408 process, but may involve changes in mail class service standards applicable to 3-digit ZIP Code areas served by mail processing facilities within the planned service area of an RDC." (Plan at 7.) What guidelines and directives other than those contained in the "Regional Distribution Center Activation Planning Document" will guide the activation of a Regional Distribution Center? If there are any other documents, please provide those documents.
- d. Please explain the apparent flow diagram on page 8 which is not labeled.

RESPONSE

- a. The document is being circulated through appropriate functional areas for review to determine whether additional content is necessary.
- b. Should there be any material changes in the status or content of the document, an updated version will be published and filed.
- c. Should additional relevant guidelines and directives be developed, copies will be published and filed.
- d. PDF conversion can be unkind at times. The diagram depicts a plan under which:

A headquarters cross-functional group will identify the facilities ready for activation. An area coordinator will oversee activation of a specific facility, including interface with District FAST coordinator, who will ensure drop shipments can be accepted at the new RDC. The Area FAST coordinator will enter redirections into the Drop Entry Point System (DEPS) and notify the HQ

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
RESPONSE to OCA/USPS-57 (continued)**

FAST project manager, who will alert mailers with a "What's New" message in FAST. The mailer can pull the updated Drop Ship Product from FAST weekly. The area Manager Distribution Networks will submit labeling list changes to HQ. Revisions to DMM L601 will be published 6 times a year in the Postal Bulletin. HQ Mgr. Network Alignment Implementation will provide updates during weekly meetings to a cross-functional team focused on communication. Team members take appropriate action, such as releasing information through DMM Advisory, RIBBS, or Mailers Companion. The Business Service Network will proactively communicate with premier and national accounts. Package Services will communicate package mail service providers. A native format copy of the diagram is attached.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-58. Please refer to USPS Library Reference N2006-1/24, "Draft Regional Distribution Center Activation Planning Document" filed July 28, 2006.

- a. The document is labeled a draft. Please explain the status of this Planning Document within the USPS approval process and whether it is subject to revision before a final Planning Document is completed. If so, what types of revisions and additions or deletions are anticipated?
- b. Please provide a copy of the final "Regional Distribution Center Activation Planning Document" when it is approved.
- c. The Planning Document does not provide for the preparation of any financial information. Please explain how the efficiencies of the RDC activations will be measured in terms of the savings in mail processing equipment, facilities, and transportation costs without estimates of financial savings?
- d. The Planning Document only provides for a calculation of the changes in employee positions without provision for converting that to financial savings. Will the financial savings due to changes in labor costs be considered when deciding whether to activate RDCs? Please explain.
- e. If capital expenditures are required to activate an RDC to expand facilities or build new facilities, will a Decision Analysis Report ("DAR") be prepared for each RDC? If so, what is the benchmark return used for recommending approval of the capital expenditures? Please provide a Decision Analysis Report for one of the RDCs if any such reports have been completed.
- f. Because the Communications Plan in USPS Library Reference N2006-1/23 states the RDC activation will not be subject to the Handbook PO-408 which contains the directions for a post-implementation review process, what process and specific procedures will be used by USPS management to review the effectiveness of the RDC activations?
- g. Is it anticipated that the RDC activations will lead to annual savings similar to the savings estimated for many of the recently completed AMP consolidations listed in USPS-Library Reference N2006-1/5 which were mostly in approximately the million dollar range? If not, what amounts of annual savings are anticipated? Please explain.

RESPONSE

- a. The document is being circulated through appropriate functional areas for review to determine whether additional content is necessary.
- b. Should there be any material changes in the status or content of the document, an updated version will be published and filed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

RESPONSE to OCA/USPS-58 (continued)

- c. The document was designed to support the planning required to activate an RDC. It is not used to determine approval to activate an RDC. The costs/savings associated with the actual activation of an RDC will be managed within the normal budget process and through the normal capital expenditure DAR process.
- d. The savings associated with activation of an RDC are network-wide. The bulk of the savings associated with the network realignment are not expected to be realized until the entire network is activated.
- e. As necessary, existing procedures for requesting capital funds will be followed.
- f. The same processes and procedures that are used today to review the impacts of network decisions are those that will be utilized to review the effectiveness of the RDC activations.
- g. See the response to POIR 4, Question 6c (July 28, 2006).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-59. Please refer to the USPS Management Instruction AS-550-96-4, "Management Instruction, National Environmental Policy Act Operational Guidance" filed July 25, 2006 in response to an OCA question posed to witness Williams at Tr. 6/608. That document provides for the initial preparation of an environmental checklist to identify environmental issues to determine whether an environmental assessment or an environmental impact statement is required. (Instruction at 2.) It provides "Environmental Management Policy" at headquarters has been assigned the responsibility to ensure "that the public is offered adequate opportunities to participate in Postal Service decision making." (Instruction at 3) Yet, "No public participation or public review process is required after the completion of an environmental checklist." (Instruction at 2.)

- a. What procedures have been followed with respect to END program consolidations to provide for public input to express concerns about the environmental impact of USPS actions prior to the completion of the environmental checklist or afterward?
- b. If the procedures will be modified in the future for END program consolidations, what will be those procedures for public participation to express concerns about the environmental impact of USPS actions in the future? Please explain.

RESPONSE

The Postal Service does not consider the application of or compliance with the environmental laws of the United States to be policies of the Postal Reorganization Act within the meaning of 39 U.S.C. § 3661. Accordingly, the Postal Service does not consider this inquiry to be relevant to matters within the scope of the Commission's § 3661 jurisdiction. Without waiving its right to object to additional questions, the Postal Service responds as follows:

- (a-b) Feasibility studies, such as those conducted for purposes of analyzing AMP consolidation opportunities, do not trigger NEPA review. There are no NEPA procedures that require public input either before or after the completion of an environmental checklist. At the same time, there are no limitations of the content of public comment -- environmentally related or otherwise -- that may be offered during the AMP Public Input Process.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
RESPONSE to OCA/USPS-59 (continued)**

No procedures related to environmental review are being modified for purposes of END. And, as such matters are beyond the scope of Postal Rate Commission review, no procedures specifically related to environmental review are being established for purposes of or in relation to this docket.

NEPA requires federal agencies to analyze all “major federal actions significantly affecting the quality of the human environment.” 42 U.S.C. § 4332(C). There are three types of NEPA action: (1) the application of a Categorical Exclusion (CATEX); (2) the preparation of an Environmental Assessment (EA); or (3) the preparation of an Environmental Impact Statement (EIS). If a CATEX is applied, no public participation is required. Preparation of an EA or an EIS would involve public participation.

The Environmental Checklist is not a NEPA-required document. It is a tool used by the Postal Service at a preliminary stage to ascertain which of the three levels of NEPA review is appropriate for any given project or program. It is not required for all Postal Service actions. See MI AS-550-96-4 at pages 12-14. There is no requirement for any public participation prior to the completion of an environmental checklist. Moreover, if a completed checklist indicates that a CATEX may be applied, then there is still no requirement for public participation.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
RESPONSE to OCA/USPS-59 (continued)**

If the answers on the checklist indicate the need to prepare an EA or an EIS, then the Postal Service NEPA implementation regulations at 39 CFR § 775.13 (see also, RE-6 2-6.2.1; 2-6.3) provide a variety of tools to achieve the appropriate level of public participation.

NEPA regulations also provide for the preparation of a Programmatic EA (PEA) or EIS (PEIS.) See Council on Environmental Quality (CEQ) NEPA regulations at 40 CFR § 1500.4(i), which are implemented by the Postal Service at 39 CFR § 775.1. A PEA or PEIS assesses the overall project or program's potential to cause significant environmental impacts.

The completion of an EA will lead to one of two results: (1) a conclusion that there are no significant environmental impacts posed by the project or program, such that a Finding of No Significant Impact (FONSI) may be issued; or 2) that there are likely to be significant environmental impacts requiring the preparation of an EIS. In the EIS process, a Record of Decision is issued after the EIS is completed.

The Postal Service has determined that preparation of an initial PEA is appropriate for the END program. At the appropriate time, the first opportunity

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
RESPONSE to OCA/USPS-59 (continued)**

for public participation in the PEA will be the publication of a Notice of Intent to prepare the PEA, which will be published in the Federal Register and will provide contact information for any interested parties. Additional, as-yet-to-be-determined opportunities for public participation, pursuant to 39 CFR § 775.13, will be used during the PEA process. A Notice of Availability of the PEA will also be published in the Federal Register, upon its completion.

PEAs, which assess overall programs, can lead to the conclusion that site-specific NEPA procedures may be required as a program moves forward. It is too early to judge whether this is likely to be the case with the END PEA. Depending on the individual scenarios in each affected geographic area, the site-specific procedures may involve either the application of a CATEX, or the preparation of site-specific EAs. The entire NEPA process, which will begin with the PEA, can be supplemented by additional NEPA review documents as necessary, in accordance with 40 C.F.R. § 1500.4(i). At each locality, appropriate means of providing for public participation at the local level, pursuant to 39 C.F.R. § 775.13, will be used for any such site-specific EA.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-60. Please refer to the copy of Chapter 2 titled "The National Environmental Policy Act Process" from the USPS Real Estate Handbook RE-6 dated November 2004, filed with the Commission on July 25, 2006, in response to an OCA question posed to witness Williams at Tr. 6/608. In particular, please refer to Exhibit 2-6 at page 2-27 of that Chapter which is a one page example of "Record of Environmental Consideration" providing for a record of the types of environmental assessments for a particular project to be signed by a responsible official. The sheet provides for a check-off of the possible applicable environmental assessments: No Review Required, Environmental Checklist, Categorical Exclusion, Environmental Assessment with a Finding of No Significant Impact (FONSI) and an EIS and Record of Decision (ROD).

- a. Please confirm that a "Record of Environmental Consideration" is completed for each AMP process and for each other network facility consolidation pursuant to the END program. If not, please explain.
- b. Please provide all of the completed "Record of Environmental Consideration" for each of the AMPs completed and implemented pursuant to the END program.
- c. Please provide the completed "Record of Environmental Consideration" for each of the other mail processing facilities consolidations that have been implemented pursuant to the END program.
- d. Have any "Record of Environmental Consideration" documents been completed for any of the planned RDCs? If so please provide a copy of each of those documents.

RESPONSE

The Postal Service does not consider the application of or compliance with the environmental laws of the United States to be policies of the Postal Reorganization Act within the meaning of 39 U.S.C. § 3661. Accordingly, the Postal Service does not consider this inquiry to be relevant to matters within the scope of the Commission's § 3661 jurisdiction. Without waiving its right to object to additional questions, the Postal Service responds as follows:

- (a) Not confirmed. The Record of Environmental Consideration (REC) is not a NEPA document, but is a tool used by the Postal Service to record the level of NEPA review that was completed for a project or program. For operational programs and projects, the RE-6 requires that a REC be completed for any

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE
RESPONSE to OCA/USPS-60 (continued)**

operational project or programmatic action that *could* affect the environment.

See MI AS-550-96-4, at 11. Accordingly, it is not necessarily required for all operational actions, just as the completion of a checklist is not required for all operational actions.

- (b-c) Although not required, an REC has been completed for the Newark NJ AMP, which is the only END AMP study that, to-date, has been completed and for which implementation has begun. Without waiving its right to object to disclosure of additional similar documents, the Postal Service has attached a copy of the Newark AMP REC.
- (d) No RECs have been completed for any potential RDC activations.



Record of Environmental Consideration

Name of Project

NEWARK P&DC ORIGINATING MAIL TO DVD

Location of Project

NEWARK P&DC

I have reviewed Postal Service NEPA guidance and have considered the environmental impacts of the proposed action. In the case of facilities projects, the requisite guidance is contained in Handbook RE-6, *Facilities Environmental Guide*. In the case of operational projects including construction and repair activities managed by districts, the requisite guidance is contained in Management Instruction AS-550-96-4, *National Environmental Policy Act Operational Guidance*.

The following activity has been taken based on information available to me, and, for operations projects, the recommendations of the appropriate environmental professional. For facilities projects, policy allows the Facilities Environmental Specialist (FES) to prepare and sign as the project manager.

(Check all that apply)

- No National Environmental Policy Act (NEPA) review is required.
- PS Form 8195, *Operational Environmental Checklist (Use only for operational projects.)*
- PS Form 7498-D, *Facilities Environmental Checklist (Use only for facilities projects.)*
- Categorical Exclusion No. _____ was applied.
- An Environmental Assessment was prepared and a Finding of No Significant Impact (FONSI) was issued.
- An Environmental Impact Statement was prepared and a Record of Decision (ROD) will be issued.

Note: No AOE Closing Due To THIS ACTION

Name of Project Manager or Preparer	Telephone Number (Include Area Code)
JAMES F. GATFNEY, III	201 955 9687
Signature of Project Manager or Preparer	Date (Month, Day, Year)
James F. Gattney, III NYNA ECS	11/24/05
Name of Responsible Official	Telephone Number (Include Area Code)
J. F. GATFNEY, III	201-955 9687
Signature of Responsible Official	Date (Month, Day, Year)
J. Gattney NYNA ECS	11/24/05

NOTE: When an Environmental Assessment or an Environmental Impact Statement is required, this form must accompany the NEPA documents presented to the approving official. When no NEPA review is required or an environmental checklist completes the environmental review process, this form must accompany the Justification of Expenditures documentation or the Decision Analysis Report presented to the approving official. A copy of Form 8194 is retained with the project file.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-61. The Postal Service's rules regarding National Environmental Policy Act procedures appear at 39 CFR 775. Section 39 CFR 775.14(a) provides that "Public hearings must be held whenever there is, among other times: (1) Substantial environmental controversy concerning a proposed action and a request for a hearing by any responsible individual or organization; (2) A request for a hearing by an agency with jurisdiction over or special expertise concerning the proposed action...."

- a. Have there been any hearings held or scheduled pursuant to this section of the Postal Service's rules on any of the END program AMP consolidations or other proposed facility activations including RDC activations? If so please explain and provide references to the proceedings.
- b. Please confirm that the Postal Service provides public notice of the availability of environmental documents relating to any proposed action having effects primarily of local concern pursuant to 39 CFR 775.13 of its rules which must be published in one or more local newspapers (§775.13(a)(3)(ii)) and may include mailing notice to "owners and occupants of nearby or affected property." (§775.13(a)(3)(v)).

RESPONSE

The Postal Service does not consider the application of or compliance with the environmental laws of the United States to be policies of the Postal Reorganization Act within the meaning of 39 U.S.C. § 3661. Accordingly, the Postal Service does not consider this inquiry to be relevant to matters within the scope of the Commission's 3661 jurisdiction. Without waiving its right to object to additional questions, the Postal Service responds as follows:

- (a) No.
- (b) There are many types of environmental documents that are not NEPA documents, most of which do not require any public notice. 39 CFR Part 775 only applies to the NEPA process. The Postal Service confirms that it is agency policy to provide public notice of all EA, FONSI, EIS and ROD documents, "having effects primarily of local concern," to the extent required by 39 C.F.R. § 775.13.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-62. Please refer to the response to OCA/USPS-34. In the answer to part (d) (Tr. 3/1047-48), it was mentioned that the linear approximations match the productivities implied by the Postal Service's cost equations for large, medium, and small operations. It was also stated that the linear approximations, like the cost equations, are characterized by marginal cost decreases as volume (TPH) increases. Please also refer to the response to VP/USPS-T1-5(b) (Tr. 2/130), which indicates that the optimization model will maximize the utilization of larger facilities given the incremental cost of adding volume to a large operation is less than a small and medium operation.

- a. Suppose that the volume variability of a particular operation is 100%. Please confirm that, in such case, marginal costs from the nonlinear cost function would not decline as volume increases for that operation but would, instead, be constant over all volumes. If you do not confirm, please explain.
- b. Please confirm that in the 100% volume variability case described in part (a), the linear approximation cost functions used in the optimization model for large, medium, and small operations would have the same intercept (at the origin) and the same slope (marginal cost). If you do not confirm, please explain.
- c. For the 100% volume variability case described in part (b), please confirm that since marginal costs from the linear cost functions for large, medium, and small operations would be the same, and since there would be additional costs required to relocate existing operations to different facilities, the optimization model would not maximize the utilization of operations in larger facilities, but would instead maintain the existing utilization of operations in large, medium, and small facilities. If you do not confirm, please explain.

RESPONSE

- a. Partly confirmed. The "nonlinear" CRA models employ log-linear and translog functional forms. The log-linear models yield constant elasticities, and thus the estimated marginal costs would be constant. In the case of the translog models, the elasticities (and thus marginal costs) generally depend on the level of volume.
- b. Confirmed.
- c. Not confirmed. While the assumption of 100 percent variability precludes the possibility of direct labor cost savings from consolidation of small, fragmented operations, it does not ensure that the current operational structure will be

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE**

RESPONSE to OCA/USPS-62 (continued)

maintained. Other types of cost savings, such as reductions in transportation or overhead costs could lead to consolidation.