

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

Evolutionary Network Development
Service Changes

Docket No. N2006-1

PRESIDING OFFICER'S INFORMATION REQUEST NO. 7

(August 15, 2006)

The United States Postal Service is requested to provide the information described below to assist in developing a record for consideration of the Postal Service's request for an advisory opinion. In order to facilitate inclusion of the required material in the evidentiary record, the Postal Service is to have a witness attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearing. The response to Question 1 is to be provided by August 21, 2006. Responses to the remaining questions are to be provided by August 25, 2006.

1. During oral cross examination witness Shah stated that the Postal Service created "a three digit to three digit volume map...for the purposes of this modeling." Tr. 2/241. Commissioner Goldway asked the Postal Service to provide this volume map for both the current network and the future network. Mr. Tidwell said that the Service could provide that information. Tr. 2/313-14. Accordingly, please provide the three-digit to three-digit volume map that was created to reflect the current network and the three-digit to three-digit volume map that has resulted from the latest run of the END models.

2. The END Independent Verification & Validation (IV&V) Team Draft Report, says
[o]ther than an assumption made with respect to the cost per square foot of expanding a facility, the Optimization Model does not take into consideration the capital investments that may be required for any new equipment, relocation of assets, or retrofitting of facilities. These investment decisions will need to be weighed against potential savings as part of the normal capital investment process.

Supplemental Response of the United States Postal Service to Presiding Officer's Information Request No. 4, Question 6.c., states,

The End models look at total network costs/savings that result from the systemic network change prescribed by the concept being modeled, not individual components of that concept. The estimated savings that could be attributed to the theoretical network ... is approximately \$ 750 million.

- a. Is this estimated savings amount net of all costs incurred to convert the current network to the future network?
 - b. Does this amount represent a one-time or an annual savings?
 - c. How was the \$ 750 million figure derived? For example, is it the sum of estimated savings for each individual mail processing operation at each facility that undergoes consolidation?
3. During the hearing on July 18, 2006, witness Shah said, "[t]he 100 [possible Regional Distribution Centers (RDCs)] is an upper boundary range based on the constraints the organization faces in terms of capital." Tr. 2/173.
 - a. How much capital does the Postal Service estimate would be required to convert 100 facilities to RDCs?
 - b. Is there a difference between the estimated average cost of converting a P&DC to an RDC and the estimated average cost of converting a BMC to an RDC? If so, what is the difference?

4. In attempting to estimate the mail processing variability models by size category, the Response of the United States Postal Service to POIR No. 6, Question 1 (Revised: July 21, 2006) suggested that when partitioning the dataset, vv9905.xls, into size categories (and estimating variability models by size category), methods should be used that will:

assign all observations for a facility to the same size category;

insure that seasonal fluctuations in piece handlings will not affect the size classification; and

ensure that facilities will be assigned to the same size category (or categories) across operations.

The Postal Service's response asserts that it has investigated methods that overcome these methodological problems. Please explain in full detail how this was done. Include all changes made to the TSP programs, and all manipulations within the vv9905.xls data file.

5. Please provide a detailed audit trail (i.e., a step-by-step process, including cites to sources) showing how the Postal Service derived the three linear cost equations for the AFSM-100, and the three linear cost equations for the manual flats operation, provided in response to Presiding Officer's Ruling No. N2006-1/23, from the corresponding equations at pages 42-44 of witness Bozzo's testimony in Docket No. R2005-1. Please provide a similar audit trail for the three linear equations for the APPS operation that was provided in response to Presiding Officer's Ruling No. N2006-1/23. Please identify the datasets that were used, how the TPH cut-offs for small, medium, and large operations were determined, and how the costs in dollars were estimated.

6. Supplemental Response of the United States Postal Service to Presiding Officer's Information Request No. 4, Question 6.d., states that the theoretical network "could result in the upgrade of 2,507 and downgrade of 2,701 First-Class pairs. Recognizing that this number is theoretical and subject to change, please provide the aggregate volume associated with the upgraded pairs and the aggregate volume associated with the downgraded pairs.
7. For each facility pair, both losing and gaining, identified in the consolidation opportunity list submitted in response to the question posed to witness Williams by the Office of The Consumer Advocate at the hearings, Tr. 3/566, please provide the size classification by operation, the FY 2005 productivity by operation, and the operations being considered for consolidation.
8. Library Reference 17, at pages 4-5, lists cost functions for 14 direct sorting operations and five allied operations that the END optimization model individually models. It linearizes these cost functions, and assigns a size category to each operation at each facility covered by the model. For a given 3-digit ZIP area, the model purports to separately assign each operation to the facility where the operation can be performed at least cost. Many of these operations, however, appear to be interdependent. For example, it would appear infeasible to assign outgoing letter-shaped processing operations (AFCS, OCR, and DBCS) that are of different sizes to different facilities.
 - a. Does the END model constrain the separate assignment of operations that are interdependent?

- b. Library Reference 17, at page 5, says “the model does not contemplate ‘consolidating’ facing and canceling operations. These operations will thus stay in the P&DCs.” If outgoing OCR and BCS operations are consolidated, but facing and canceling operations are not, could this result in inadequate capacity in the facing and canceling operation at the gaining facility?
9. Library Reference 18, at page iv, says
- [e]very scenario used to stress the model ... generates results showing that over 100 campuses could be closed (the v3.7 model run validated by the IV & V team shows almost 150 campuses being closed). The Postal Service will have to formulate a plan to deal with the impact of such closures.
- a. In determining the cost of the future network against which the Postal Service would validate an AMP if it were initiated today, does the END optimization model include fixed facility costs for facilities that are not assigned volume for any modeled operations?
 - b. Has the END optimization model been modified in this regard since it was evaluated by the IV & V team?

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Presiding Officer