

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

PUBLIC INQUIRY ON CHANGES ASSOCIATED
WITH THE DELIVERING FOR AMERICA PLAN

Docket No. PI2023-4

**RESPONSES OF THE UNITED STATES POSTAL SERVICE TO
QUESTIONS 1-5 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**

On June 21, 2023, the Commission issued Chairman's Information Request No. 1 in Docket No. PI2023-4, setting an initial response deadline of June 28, 2023. On June 27, 2023, the Postal Service filed a motion to extend the time to respond to this Chairman's Information Request. In Order No. 6557, issued on June 29, 2023, the Commission granted the Postal Service's motion, extending the response deadline to July 19, 2023. In accordance with Order No. 6557, the United States Postal Service hereby provides its responses to the above-listed questions of Chairman's Information Request No. 1. Each question is stated verbatim and followed by the response. The Postal Service includes as Attachment 1 its Application for Non-Public Treatment for the protection of the material filed separately under seal.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Anthony F. Alverno
Chief Counsel
Global Business & Service Development

S. Patrick Morin
Andrew Pigott
Mikhail Raykher
C. Dennis Southard IV
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1135
(202) 341-6419
Andrew.L.Pigott@usps.gov
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**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

1. Please refer to the DFA Second-Year Report, which describes changes to the Postal Service's network of facilities.¹ Please provide a schedule of planned facility activations, including Sort and Delivery Centers (S&DCs), Regional Processing & Distribution Centers (RPDCs), Local Processing Centers (LPCs), Destination Hubs (DHUBs), and any other facility contemplated as part of the DFA Plan, including the following data elements for each facility:²
 - a. Location (city and state).
 - b. Facility type.
 - c. Planned date of activation.
 - d. List of the existing facilities that will be affected by planned activations.
 - e. 3-Digit ZIP Codes served.

RESPONSE:

As the *Delivering for America* (DFA) Second-Year Progress Report discusses, the Postal Service is pursuing numerous initiatives to overcome over a decade of negative consequences resulting from declining mail volumes, expanding delivery points, and the enactment of the Postal Accountability and Enhancement Act (PAEA), which imposed a defective pricing model and onerous retirement-related costs on the Postal Service. These factors led to financial, operational, and service performance problems that were allowed to develop and fester over this period due to Congressional interference, inaction and unwillingness or inability to address the looming calamity, opposition by the mailing industry to rational change due to short-term self-interest, myopic Commission decisions that ignored the larger impending emergency and

¹ United States Postal Service, *Delivering for America, Second-Year Progress Report*, April 2023, at 15-18, available at <https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-two-year-report.pdf> (DFA Second-Year Report).

² This question derives from PostCom's proposed information requests. See Motion of the Association for Postal Commerce for Issuance of Information Request, April 28, 2023, at 2 (PostCom Motion).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

reinforced the flaws of the PAEA pricing model and then delayed its replacement, and the failure of Postal Service management to confront the situation and adopt the bold organizational, operational and market strategies that were necessary to change the trajectory of the Postal Service. There was an ongoing and known condition of crisis that was allowed to persist for far too long, with nearly catastrophic consequences.

As a direct result of these historical actions and inactions by all postal stakeholders and the Postal Service itself, we faced a financial and operating crisis. While the DFA Plan document lays out our condition when the Plan was initiated in March 2021 in detail, a summary of our condition includes the following:

1. We had lost \$87 billion over the prior 14 years and were projected to lose over \$160 billion dollars over the next 10 years.
2. We were projected to run out of cash in the near-term, and due to our poor financial condition, we had failed to make needed investments in our facilities, vehicles, and other network infrastructure for over a decade, which led to the aggregation of billions of dollars in deferred maintenance at our facilities, and a network that was ill-equipped to enable us to be a high-performing organization and meet the evolving needs of our customers.
3. We had more than \$152 billion of unfunded liabilities, including unfunded liabilities for our retirement-related accounts due in part to years of not making onerous, ill-considered, and unfair, but legally mandated, retirement benefits prefunding payments.
4. We had failed to meet our service performance targets for many years, and had no prospect of doing so, due to unattainable service standards and a network

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

that was underperforming, unreliable, and not designed for the modern mission of the Postal Service. In that last respect, our network was misaligned, as we lacked the capacity to handle package volume in an efficient and reliable manner, which in turn threatened our relevancy in the marketplace.

5. We had been unable to use price increases for market-dominant products as an effective tool to address our financial condition. This was due to the defective pricing model established by the PAEA, and Commission decisions that exacerbated the problems of that model, first by strictly limiting the relief that the Postal Service was able to achieve through the exigency clause following the Great Recession, and then by taking four years to complete the 10-Year Review.

Prior to the DFA Plan, there existed no plan either outside or inside the Postal Service to systematically resolve the Postal Service's financial, service, and operational challenges. The Postal Service is responsible for creating an organization that can meet the statutory mandate to be financially self-sufficient, while also achieving our universal service mission of delivering to 165 million addresses at least 6 days per week.

To achieve the goals of financial sustainability and service excellence, the DFA Plan identified numerous initiatives to correct our long-standing deficiencies that would:

1. Improve our operating precision.
2. Reduce our cost of performance.
3. Increase our service reliability.
4. Grow our business.
5. Improve the working conditions and career paths of our employees.

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 1

As the DFA Second-Year Progress Report identifies, we have accomplished a great deal in a short period of time. However, there is much more to do in order to become into a high-performing, financially sustainable organization, and we cannot be lulled into a false sense of security that our work is anywhere close to being complete. After years of underinvestment and deterioration in our network and operating practices, we are stabilizing operations to improve service reliability, implementing numerous process improvements throughout all functions to increase our operational precision and efficiency, and redesigning our processing and delivery networks. The initiatives that we are pursuing as part of the DFA Plan include:

1. Modernizing our national processing network region by region, primarily by investing in our existing facilities that have been starved of such investment for over a decade.
2. Modernizing our national delivery network also by making capital investment in our existing facilities that have been ignored for a decade or more and expediting local delivery service through new SDC's.
3. Organizing and optimizing our transportation network, by continuing to transition volume from air to surface transportation, while continuing to refine our surface transportation trips by eliminating unnecessary trips and increasing utilization of the trips we do run.
4. Electrifying and deploying our new fleet of delivery vehicles, and more generally positioning the Postal Service as the most environmentally friendly way to ship mail and packages.
5. Elevating the employee experience and career pathways.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

6. Continuously refining our organization to become a world class logistics and delivery service, which has the processes and organizational discipline in place to perform all tasks in a precise and efficient manner.
7. Offering new products and services to our customers to meet their evolving needs in a manner that leverages our redesigned network and improved operating model.
8. Investing in modern technology solutions for our customers, facilities, and employees.

All of these self-help initiatives are necessary to satisfy our goal of reducing our cost of performance, while increasing revenue and improving service. The overall goal is to achieve service excellence and financial sustainability through these efforts, the judicious use of our pricing authority, continued implementation of the reforms enacted in the Postal Service Reform Act of 2022 (which mandated the creation of the Postal Service Health Benefits Program beginning in calendar year 2025), and implementation of administrative reforms to correct the unfair methodology that is used to allocate Civil Service Retirement System (CSRS) benefits costs for employees who worked for both the Postal Service and Post Office Department (which we continue to pursue).

One of the key elements in the ongoing initiatives being pursued pursuant to the DFA Plan is transforming our network of processing and delivery facilities and our inter-related transportation and carrier routes as key foundational elements in establishing a modern and high-performing organization capable of meeting the goals of service excellence and financial sustainability. The Postal Service plans to systematically redesign and make capital investments in our core but eroding existing processing

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

network based on standardized facility layouts and processes to ensure a logical sequencing of processing, transportation, and cross-docking functions for mail and packages from originating plant to destinating plant. Regarding delivery units, we are also redesigning our delivery system and making capital investments in our underutilized and decaying existing facilities to create larger facilities in certain areas which will support the implementation of more efficient operations. These initiatives will enable the Postal Service to handle our existing package volume in a much more precise and efficient manner, and also support future package growth by providing expanded next day and two-day reach for our customers entering packages at both these enhanced delivery facilities and processing facilities. These efforts will enable us to further organize and optimize the coast-to-coast surface transportation network that we have been developing over the past several years after changing our First-Class Mail service standards to be 1-5 days within the contiguous United States. All of these efforts are designed to enable us to improve our service performance under these existing service standards, while also enhancing operational precision and efficiency, and reducing costs significantly.

Processing Network

The current processing network consists of a variety of existing facilities (Processing and Distribution Centers (P&DCs) and Network Distribution Centers (NDCs), along with numerous ancillary facilities (such as annexes) that support these core facilities) that are haphazardly integrated, often outdated and in poor condition due to years of underinvestment and deferred maintenance, and which do not reflect the operational standardization that is necessary to enable the precise and efficient

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

processing of mail and packages. Facilities often lack adequate space and equipment, are poorly conceived, and have layouts that fail to support the logical sequencing of mail and package flows. The current assignment of processing operations (e.g., originating and destinating letter operations, originating and destinating flat operations, and originating and destinating package operations) and equipment sets to facilities is very inconsistent across the network, resulting in operating variability that leads to reduced capacity utilization, unnecessary handling and transportation, higher cost, and lower service performance. Ancillary facilities have also been added to the network in a piecemeal, ad hoc fashion over the course of years in an effort to address discrete network deficiencies, often with little or limited success. These issues have led to the Postal Service having too many facilities: the network is characterized by clusters of facilities in close proximity to one another performing different and inconsistent tasks, reducing processing efficiency and requiring duplicative or excessive transportation trips simply to move mail and packages between those facilities. As an example, Atlanta has had numerous separate processing and transportation facilities that each performed a variety of operations for the same service area, requiring hundreds of local transportation trips between those facilities on a daily basis.

To address these issues, the Postal Service is pursuing a transformation of our network to revitalize our current facilities and essentially create new facilities out of our existing facilities based on a systematic redesign of our processing infrastructure. The future processing network will consist of standardized facilities, which fall within two categories: Regional Processing and Distribution Centers (RPDCs) and Local Processing Centers (LPCs). These facilities will be designed, staffed, and operated

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

using a common set of standardized design principles, physical layouts and operational processes that support the logical sequence of processing, transportation and cross-docking functions for mail and packages. By implementing standardized designs, layouts and procedures, the Postal Service will be able to improve our operational precision, eliminate unnecessary transportation, and increase utilization, and therefore improve our service performance within the existing service standards, while significantly reducing costs. We will also substantially improve the working environment for our employees.

The redesigned network is predicated on a regional concept, with each RPDC serving a distinct region (which is in turn defined by reference to a set of 3-Digit ZIP Codes). The RPDCs are intended to handle originating operations (for letters, flats, and packages) for a designated region, as well as destinating package operations for the region. Within each RDPC region, there will also be a number of LPCs (precisely how many will vary across the regions). The intended function of the LPC is to handle destinating letter and flat sortation operations for designated 3-Digit ZIP Codes within the region, and to also serve as an aggregation point for packages moving to the delivery network. A regional concept, in which origin mail for an entire region can be aggregated for dispatch to the network at one facility, which will also serve as the gateway for destinating mail for the region, will enable more efficient and integrated processing and transportation networks. RPDCs will also serve as a foundation for future growth, since they will accommodate higher-powered package sortation equipment. And, as noted above, standardizing operations across regions will enable the Postal Service to eliminate complexity and increase operational efficiency and

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

precision across the network, and therefore improve service reliability while also reducing costs.

In understanding this initiative and how it will impact the Postal Service's existing network, it is critical to keep certain things in mind.

First, the Postal Service intends to redesign the network in a manner that leverages and modernizes our existing core processing facilities (Processing and Distribution Centers and Network Distribution Centers), which will be re-purposed to perform the intended functions of RPDCs and/or LPCs (in appropriate circumstances, RPDCs and one of its associated LPCs may be co-located in the same building). Investments will be made to these existing facilities both to correct for the years of neglect due to underinvestment and deferred maintenance, and to redesign and modernize the facilities to enable them to perform their designated operations based on the standardized parameters discussed above. For instance, RPDCs will be created through the conversion of existing Processing and Distribution Centers (e.g., the first RPDC in Richmond, VA will be a converted P&DC), or Network Distribution Centers (e.g., the current Chicago NDC will become the Chicago South RDPC). Our current P&DCs that are not designated as an RPDC will generally become LPCs.

While the vast majority of this initiative involves existing buildings that will be modified and modernized to serve as RPDCs wherever possible, the Postal Service will also lease or buy new buildings when necessary and appropriate, particularly to create RPDCs in regions in which the existing facilities lack the necessary space and parking to effectively perform the RDPC functions. In those instances, the existing core facilities will generally be repurposed to serve as LPCs, though in some limited instances they

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

may be designated to perform other functions (e.g., to serve as a delivery facility—a Sorting and Delivery Center and Transfer Hub—which are described more fully below). In addition, since the LPCs will be repurposed P&DCs, the added space that will be created by moving operations to the RPDC (e.g., package processing and then originating letter and flat operations) will enable those locations in some instances to also serve as Sorting and Delivery Centers.

This initiative will also facilitate the closure of numerous facilities, but those closures will be concentrated in ancillary facilities (such as annexes and contracted facilities) that have been haphazardly established over time in an effort (though largely ineffective) to support our core processing facilities, given the current deficiencies of our core facilities in terms of space, equipment, and layout. These ancillary facilities in many instances will no longer be necessary once those core facilities are redesigned and modernized into RPDCs and LPCs, and the current deficiencies are corrected. For instance, the Postal Service recently announced that we will be closing three Surface Transfer Centers (STCs) in Salt Lake City, Memphis, and Indianapolis.

This approach is in stark contrast to the prior Network Rationalization initiative, which sought to substantially reduce the number of core processing facilities, which could only be accomplished by changing service standards (in that case, to substantially eliminate overnight First-Class Mail service); that initiative failed to accommodate efficiently the reduction in flat mail and the growth in packages and caused significant inefficiencies in our transportation operations. Unlike Network Rationalization, this initiative will redesign the network in a way that *redesigns* these core facilities, rather

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

than eliminates them, in an effort to improve efficiency and service performance under the current service standards.

Second, this systematic transformation of the Postal Service's existing network is a multi-year, highly structured process, which is being conducted in a careful and deliberative manner. The Postal Service will roll out the changes on a region-by-region basis over the course of several years. As the Postal Service rolls out the initial regions, we will continuously monitor the impacts of the changes and make adjustments as necessary and appropriate. In this regard, the DFA Plan generally, and this initiative specifically, is very much a living plan. The Postal Service is committed to using our existing facilities to the greatest extent possible and investing in improvements to their conditions and designing them to "best fit" our strategy and design models. Therefore, while the conceptual framework of the redesigned network has been developed along the lines noted above, the design parameters are not rigid, and the Postal Service will make adjustments as needed based on changing circumstances and local needs; however, whereas prior variability in the network was due to decisions made in a piece-meal fashion over many years, any deviations here would be part of a structured process and will be consistent with the overall network design strategy.

The Postal Service currently anticipates 60 RPDCs once the process is complete, though this number is preliminary and could change. The Postal Service is in the active planning stages for 10 regions, which are planned for implementation over the course of 2023, 2024, and early 2025, in the following locations: Atlanta, GA; Richmond, VA; N. Houston, TX; Santa Clarita, CA; Portland, OR; Charlotte, NC; Chicago, IL; Indianapolis, IN; Jacksonville, FL; and Boise, ID. (Note that two RPDCs are eventually planned for

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

the greater Chicago area; this list is referencing the Chicago South RPDC.) Further information about our current plans for these specific regions is provided in LR-PI2023-4-NP1. Additional regions will be subject to active planning in the coming years. LR-PI-2023-4-NP1 contains the list of facilities that are currently in active transition planning, and therefore for which notifications to the Postal Service's organized labor unions have been delivered pursuant to the applicable collective bargaining agreements. The Postal Service intends to update this listing as further planning occurs and more notifications are delivered consistent with our contractual obligations to our unions and other regulatory requirements. Because organized labor is only one of several interested stakeholders entitled to notice, and because communications to such stakeholders are subject to differing schedules, the Postal Service considers information about planned plant changes as commercially sensitive as well as predecisional and deliberative, and thereby subject to the deliberative process privilege and other protections as described in the accompanying Application for Nonpublic Treatment.

Delivery Network

The Postal Service is also transforming our delivery network to enable more efficient operations and improve service performance under the existing service standards, and to enhance customer reach for destination entry packages to a much greater number of delivery addresses from certain delivery facilities. The delivery network has developed organically over time to meet growing demand as the number of delivery points has grown exponentially over the years and currently consists of approximately 19,000 Delivery Units; this has created clusters of small facilities close to each other, especially in busy metropolitan areas. The Postal Service is systematically

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

assessing this network to identify locations where it makes sense to take underutilized and eroding existing facilities to create larger delivery units as Sorting and Delivery Centers (S&DCs), using repurposed facilities and combining a number of smaller delivery units in the nearby area into an S&DC.

The creation of S&DCs will allow the Postal Service to further organize and optimize its transportation by reducing the number of trips that are needed to move mail between processing facilities to the delivery network. Indeed, as noted above, no such transportation would be needed at all in situations in which a S&DC is located in the same building as an LPC. These larger facilities will also improve operational efficiency by enabling the Postal Service to better utilize package sorting equipment to reduce manual handling of packages and improve throughput, while also significantly improving the physical condition of our delivery facilities, which similar to our processing facilities have deteriorated due to years of underinvestment and deferred maintenance. This improvement in the physical condition of these facilities will certainly improve the employee experience. Larger facilities also have the amperage and parking spaces that facilitate the roll-out of electric delivery vehicles and the associated charging infrastructure; this is a primary reason we were able to advance our investment in electric vehicles cost effectively.

S&DCs, the vast majority of which will be existing postal facilities, will also improve the transportation network by serving as Transfer Hubs for smaller Delivery Units that could not be logically consolidated and for Post Offices within a particular area, both for mail and packages going to smaller Delivery Units for delivery, and for mail and packages that have been entered at Post Offices. In this regard, it is important

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

to note that Transfer Hubs will be in the same facilities as S&DCs, though the functions are distinct, and transfer hub capabilities may be initiated in a particular S&DC facility before or after the letter carrier moves occur. While the Postal Service has previously utilized similar facilities for these purposes, those facilities have been haphazardly deployed in the past, whereas deployment here will occur in a thoughtful, organized, and systematic fashion.

Like the processing network initiative discussed above, the transformation of the delivery network is being pursued through a multi-year, highly structured process, which is being conducted in a careful and deliberative manner to revitalize underutilized and decaying postal facilities. While the vast majority of existing Delivery Units will remain, the Postal Service anticipates the potential to open several hundred S&DCs over the course of several years. The first S&DC opened in Athens, GA, in November 2022.³ In February 2023, we opened five additional S&DCs in Gainesville, FL; Panama City, FL; Woburn, MA; Utica, NY; and Bryan, TX. In June 2023, we opened eight additional S&DCs in Annapolis, MD; Golden, CO; Kokomo, IN; Owensboro, KY; Pasco, WA; Topeka, KS; Williamsport, PA; and Hanover Park, IL. Further information about these S&DCs, as well as the S&DCs currently planned for implementation in September 2023 and February 2024, is provided in the attached Excel spreadsheet.

Finally, this initiative is designed to consolidate *delivery* functions, by having carrier routes in a particular area emanate from a single location. In addition to improving precision and efficiency and reducing the number of transportation trips and transportation costs, this initiative has the added benefit of substantially improving the

³ The facility in Athens was already a delivery unit and was combined with six other delivery units.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

reach to an enhanced number of delivery addresses for our customers who choose to enter their packages at the S&DCs. It is also important to note that the transfer of delivery functions from locations into an S&DC as a result of this initiative does not affect *retail* operations at those locations: PO Boxes and retail operations will remain in place.

As indicated above, LR-PI-2023-4-NP1 contains the list of facilities for which notifications to our organized labor unions have been delivered pursuant to the applicable collective bargaining agreements. The Postal Service intends to update this listing as more notifications are delivered in connection with future planned S&DCs consistent with our contractual obligations to our unions and other regulatory requirements. Because organized labor is only one of several interested stakeholders entitled to notice, and because communications to such stakeholders are subject to differing schedules, the Postal Service considers information about planned S&DC changes as commercially sensitive and predecisional and deliberative, and thereby subject to the deliberative process privilege and other protections as described in the accompanying Application for Nonpublic Treatment.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

2. For existing facilities listed in question 1.e., please discuss the specific impact of the planned activations on those facilities (e.g., elimination or consolidation of the facilities).

RESPONSE:

See the response to Question 1.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

3. Please refer to the DFA Plan's projection that the plan will improve costs by \$34 billion over 10 years due to self-help management initiatives, including mail processing, transportation, retail, delivery, and administration efficiency.⁴
 - a. Please identify the specific cost saving initiatives included in this \$34 billion projection.
 - b. For each initiative identified in sub-question a., please provide the documentation with any analysis or study the Postal Service prepared to estimate the cost savings associated with that initiative.
 - c. If no such studies or analyses were developed, please identify the basis for the projection of \$34 billion in aggregate cost improvements.

RESPONSE:

As an initial matter, it is important to note that the DFA Plan is a living plan designed to transform the Postal Service over a 10-year period, during which the Postal Service will continually review and assess evolving conditions and events and react by making appropriate adjustments to our planned initiatives if warranted and/or necessary. Therefore, as the Postal Service systematically advances the DFA Plan's core strategies over the course of the 10 years of the plan, it is possible (and even likely) that we will determine to revise, recast, delay or not implement certain specific initiatives that were discussed in the document published in 2021. This is not unusual when it comes to a strategic plan that is to be implemented over the course of many years. The expectation of adjustment is encoded in law: it is why 39 U.S.C. § 2802(b) requires that our strategic plans "be updated and revised at least every three years."

The Postal Service is pursuing initiatives to achieve at least the same magnitude of the cost savings that are needed from self-help management initiatives set forth in

⁴ DFA Plan at 6. This question was also developed from PostCom's proposed questions. See PostCom Motion at 2-3.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

the DFA Plan: \$34 billion. Unfortunately, in part as a result of the historically high inflation which was not considered in the development of the DFA Plan, and the need to take a conservative approach in order to stabilize operations and maintain service while implementing our changes as well as other factors, we have not met the breakeven financial goals that we set when we published the Plan in 2021. It is therefore critical to recognize that that the Postal Service must move forward with our self-help initiatives, without being hamstrung by the same sort of resistance to change, obstruction, unwillingness to confront the magnitude of the problem, and delay that contributed to our current condition in the first place.

Recovering cost savings of at least this magnitude is essential for the Postal Service to achieve financial sustainability, along with the other elements of the Plan (in terms of revenue generation and reduction of costs via administrative reform); indeed, if those other elements of the Plan cannot be fully achieved, or exogenous events occur that further affect the Postal Service's financial position (as increased inflation has in the past few years), then the Postal Service may need to achieve even greater savings from self-help management initiatives. This may entail the implementation of initiatives that the Postal Service has deferred or declined to pursue, or recourse to other self-help management initiatives.

However, while achieving cost savings of at least the same magnitude in the DFA Plan remains the overall goal, the specific initiatives (and associated cost savings for each such initiative) underlying the 2021 DFA Plan document represents the Postal Service's thinking at the time of its publication—and in the interim, much has transpired to prompt refinements in the DFA Plan overall. The information furnished in response to

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

subsection (b) should therefore be understood to reflect a set of initiatives (and associated cost savings) developed at a specific point in time, when the initial DFA Plan was issued. As the Postal Service has moved forward with the Plan, the specific initiatives that are actually being pursued have evolved based on Postal Service management's improved understanding of the underlying conditions of our organization, and how to best correct those conditions, including through the engagement of modern logistics, engineering and production processes that was completely lacking in the organization at the time the DFA Plan was formulated. The Postal Service plans to announce an update of the Plan's financial model to account for these evolved initiatives when we issue our three-year update pursuant to 39 U.S.C. § 2803(b).

(a) – (b). Please see the materials filed in association with this response.

(c) N/A.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

4. Please refer to the DFA Plan's description of potential network realignments. DFA Plan at 34-35. Please also refer to the DFA Second-Year Report, where the Postal Service states there will not be any post office closures or changes to the local Post Office retail operations. DFA Second-Year Report at 18.
 - a. Please confirm that no post offices will be closed as part of the DFA Plan. If not confirmed, please describe why.
 - b. Please confirm that customers will not experience any changes to their local post office retail operations. If not confirmed, please describe why.

RESPONSE:

(a) – (b). The referenced page in the Second-Year Report discusses one specific initiative – the creation of S&DCs. As discussed in the response to Question 1, the creation of S&DCs involves the aggregation of delivery functions from multiple Delivery Units into larger delivery facilities, and that initiative does not involve retail operations at facilities from which those delivery functions are being transferred. Thus, the S&DC initiative will not impact retail operations or access.

The Postal Service is not currently pursuing initiatives that would result in changes to retail access by aligning hours of operation to customer demand at certain Post Offices, or rationalizing stations and branches. However, this does not mean that the Postal Service will never pursue these or other initiatives in the future that might impact retail access. A decision in that regard will depend on the Postal Service's assessment of evolving circumstances, including particularly whether the Postal Service is achieving the financial and operational goals of the DFA Plan through those initiatives that we are currently pursuing.

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

5. Please confirm that the Postal Service considered requesting an advisory opinion from the Commission prior to the implementation of its new facilities (e.g., S&DCs, RPDCs, and LPCs) and corresponding processing and logistics network realignments.
- a. If confirmed, please explain why the Postal Service determined seeking an advisory opinion was not necessary. If applicable, please also discuss why the *Buchanan* factors for a change in the nature of service would not be met by these proposed changes.⁵
 - b. If not confirmed, please explain why the Postal Service has not considered seeking an advisory opinion. Please also discuss whether the Postal Service will evaluate whether these network changes require seeking an advisory opinion from the Commission, and if the Postal Service plans to seek one in the future.

RESPONSE:

(a) – (b). Confirmed that the Postal Service has evaluated whether a request for an advisory opinion is required pursuant to 39 U.S.C. § 3661(b) in relation to these processing network and delivery network redesign initiatives. The Postal Service is committed to complying with all statutory, regulatory, and contractual requirements as we move forward with implementing initiatives under the DFA Plan. Therefore, as a matter of course, we assess whether any initiative being pursued pursuant to the DFA Plan requires that Postal Service seek an advisory opinion from the Commission.

As more specifically described below, the Postal Service weighed the initiatives against the factors established in *Buchanan v. U.S.P.S.*, 508 F.2d 259 (5th Cir. 1975), and concluded that the initiatives do not require a request for an advisory opinion at this time. The Postal Service will closely monitor the progress of these initiatives and will request an advisory opinion should circumstances require.

⁵ The *Buchanan* factors set forth the requirements for when an advisory opinion request is required by 39 U.S.C. § 3661(b). See *Buchanan v. U.S. Postal Serv.*, 508 F.2d 259 (5th Cir. 1975).

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

Processing Network

The purpose of the processing network redesign initiative is to enhance the Postal Service's ability to process and transport mail and packages under the existing service standards that were implemented following publication of the DFA Plan, and which were themselves the subject of Commission advisory opinion proceedings. Specifically, pursuant to the DFA Plan, the Postal Service implemented new service standards for First-Class Mail, as well as for First-Class Package Service, Retail Ground, and Parcel Select Ground (which are now all part of the USPS Ground Advantage product). First-Class Mail is subject to 1–5-day service standards, and USPS Ground Advantage is subject to 2–5-day service standards (within the contiguous United States). The Postal Service noted in the Commission advisory opinion proceedings that these changes would enable the Postal Service to create a more optimized transportation network and would also serve as a foundation for future operational changes to the processing network.

Since those new standards were put into place, the Postal Service has been systematically building a more optimized and integrated coast-to-coast surface transportation network within the contiguous United States for both mail and packages that is being specifically designed to meet the current service standards that are in place at a very high level. During this period, our service performance scores have improved, as recognized by the Commission in the most recent Annual Compliance Determination. The redesign of our processing network constitutes a further step in creating a high-performing organization that is capable of achieving the goal of service excellence. As discussed in the response to Question 1, the Postal Service plans to

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

systematically redesign our existing core processing network of P&DCs and NDCs over time to become RPDCs and LPCS, based on standardized facility layouts, processes, machine sets, and staffing models. This redesign will ensure a logical and precise sequencing of processing, transportation, and cross-docking functions for both mail and packages from originating plant to destinating plant (and then on to delivery units) that enables the Postal Service to further improve our service performance within these existing standards.

In Order No. 6458, the Commission stated that “similar network consolidations were the subject of past nature of service proceedings,” pointing to the Network Rationalization initiative (Docket No. N2012-1). However, it is critical to note that, other than that it involves the processing network, this initiative is not “similar” to the Network Rationalization initiative. As noted in the response to Question 1, Network Rationalization involved a plan to significantly reduce the Postal Service’s network of Processing and Distribution Centers/Facilities in a way that could only be accomplished by revising the then-current service standards, by among other things substantially eliminating overnight delivery for First-Class Mail.

With respect to this initiative, the Postal Service has already changed the service standards (which the Commission reviewed in prior advisory opinion proceedings), and the purpose is instead to redesign the processing network in order to more reliably achieve those standards at a high level. As discussed above, this redesign will leverage the Postal Service’s core processing facilities to accomplish this goal, by retaining and investing in those facilities, rather than seeking to close a substantial amount of them. Moreover, while specific processing operations will be transferred

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

among facilities as part of this redesign, in most instances these transfers are planned to occur between facilities that are already within the same service area. To be sure, in certain instances the transfer of operations may implicate the Postal Service's Handbook PO-408 procedures. For instance, the Postal Service is currently conducting our PO-408 procedures for four P&DCs whose originating operations are being transferred to an RPDC within their respective geographic regions that is not already within the same service area: Augusta and Macon, GA (part of the Atlanta RPDC region), and Eugene and Medford, OR (part of the Portland RDPC region). But even in those instances, the facilities are remaining in place, and will serve as LPCs, as will be the case generally for P&DCs that do not become RPDCs.

The Postal Service therefore does not consider this initiative to require an advisory opinion request at this time under the *Buchanan* factors. That said, the Postal Service does not entirely foreclose the possibility that we may determine in the future that another advisory opinion request is necessary based on the network enhancements being implemented pursuant to the DFA, and future opportunities for further improvement that may present themselves. In this regard, and as noted above, the Postal Service is proceeding with the roll-out of the new network in a careful and judicious manner, and will continually monitor results, make adjustments, and pursue opportunities as appropriate. We will continue to evaluate these issues.

Sorting and Delivery Centers (S&DCs)

As also discussed in the response to Question 1, the S&DC initiative is designed to consolidate operations from a portion of the current Delivery Units into centralized facilities in order to improve service performance within the existing standards by

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

increasing sorting capabilities, optimizing surface transportation from processing plants, modernizing our facilities to provide a better working environment for our employees, improving same day and next day reach for our customers who enter their products at these facilities, and enabling the electrification of our delivery fleet. The vast majority of the current 19,000 Delivery Units will not be transferred into S&DCs. In fact, S&DCs will only be located where and when they are deemed to present an effective solution to the network and delivery needs of the Postal Service and our customers. It is also worth noting that most S&DCs are being located in existing postal facilities, almost all of which already house delivery operations.

The Postal Service does not expect the initiative will meaningfully alter the manner in which postal services are available to users within the meaning of Section 3661. The initiative only impacts delivery operations, as retail services will continue to be offered at facilities that no longer maintain co-located delivery unit functions due to carrier operations being transferred to the S&DC. Acceptance of mail and packages, including commercial volume, will continue to occur at retail locations. Moreover, other potential customer impacts have been mitigated. For example, customers will not be required to make a trip to the S&DC (which may be more distant from their house than their current Delivery Unit) to pick up their hold mail; rather, under this initiative, hold mail will be transported to and made available for retrieval at the customer's local Post Office.

With S&DC activations, Business Mail Entry Unit (BMEU) locations have not changed. Customers now also benefit from the added convenience of consolidating multiple former destination delivery unit (DDU) drop-off points into a single S&DC

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1**

location, with expanded reach. This single location will also be close to the facilities in which customers may have previously been dropping their mail and packages, given the expectation that no S&DC will be farther than a 30-minute drive from any of its affiliated Post Offices.