



**POSTAL ACCOUNTABILITY AND
ENHANCEMENT ACT § 302
NETWORK PLAN**

June 2008

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EXECUTIVE SUMMARY

Subchapter VII of the Postal Accountability and Enhancement Act (PAEA), Public Law 109-435, 120 Stat 3198, specifies three objectives which, after consultation with the Postal Regulatory Commission, the United States Postal Service must fulfill in relation to service standards for its market-dominant products. First is the establishment of modern service standards, which was accomplished in December 2007. Second is the implementation of systems for measuring service standard achievement. After extensive inter-agency consultations, the Postal Service has developed measurement system proposals for various market-dominant products and, to the extent required by the PAEA, has requested the Commission's review and approval of these systems. Third is the submission to Congress of this Network Plan which addresses the establishment of performance goals; describes the changes to the Postal Service's processing, transportation, and retail networks necessary to allow it to meet those performance goals; summarizes the Postal Service's vision for rationalizing its infrastructure and workforce; discusses policies governing reemployment within the agency and early retirement for employees who may be displaced as a result of network rationalization; and explains the future role of various alternative postal retail service access channels. This Network Plan positions the Postal Service to pursue achievement of the newly established service standards, and better ensures the long-term financial stability of the Postal Service and the mailing industry.

Entrusted with the responsibility of binding the nation together through the personal, educational, literary and business correspondence of the people, the Postal Service continuously strives to provide prompt, reliable, cost-effective, and efficient services to all of its customers in an environmentally sound way. The sheer size of the postal network -- over 400 mail processing plants and related logistics and transfer facilities, over 37,000 Post Office locations and 63,000 alternate access points, approximately 786,000 career and non-career employees, a fleet of nearly 202,000 of its own surface delivery and transport vehicles, and the responsibility of delivering to nearly 148 million addresses six days a week -- makes network rationalization, the marketing and promotion of alternate postal retail access options, and improved efficiency all very challenging goals to pursue. This is especially the case at a time of unprecedented fuel and utility cost increases, and concern for the impact of various policy choices on the environment.

Prepared to meet those challenges, the Postal Service hereby submits to Congress its Network Plan, the major elements of which are summarized below:

I. The Performance Goal: Continuous Improvement

The network plan establishes continuous improvement as the Postal Service's overall performance goal and describes the timetable for the

establishment of baseline performance targets for various market-dominant products.

II. “Operationalizing” the Service Standards

“Operationalizing” service standards refers to the set of initiatives taken to improve the consistency of internal mailflow management practices and enhance the Postal Service’s ability to meet its performance targets. Software advancements, value stream mapping and the implementation of Lean Six Sigma tools, data system enhancements, the establishment of national critical entry times for destinating Standard Mail, and a revised Standard Mail color code policy are just some of the actions taken in the overall network reconfiguration effort to support the achievement of the service standards performance goal and targets.

III. Network Rationalization

The network rationalization plan contains three integrated core elements. The first is the continuation of the closure of redundant postal Airport Mail Centers, in conjunction with changes in air mail transportation operations.

The second component involves a review of the mail processing network as a whole to identify mail processing plants where all outgoing and/or incoming mail processing operations could be consolidated into nearby plants. Before making any decisions, the Postal Service will employ its recently enhanced Area Mail Processing (AMP) guidelines to assess the feasibility of local consolidation opportunities, to provide notice of local study plans to the public and potentially affected employees, to measure the postal costs and benefits, to identify potential customer and employee impacts, and to solicit public input. In consolidating mail processing operations, it will be the Postal Service’s objective to minimize the degree to which any mail plant consolidations result in downgrades to the First-Class Mail service standards applicable to any 3-digit ZIP Code origin-destination pairs that were established in December 2007.

The third element of the plan is the transformation of the postal Bulk Mail Center (BMC) network. Price incentives for presortation and the increase in destination entry of Standard Mail and Package Services over the past several decades have resulted in underutilization of existing BMC network capacity. The Postal Service is exploring the potential costs and benefits of outsourcing the processing and transportation of mail currently flowing through its BMC network, in order to focus on the downstream sortation and delivery of such mail. Should it occur, such outsourcing would permit the Postal Service to reconfigure BMCs to take on new responsibilities as part of its future network, including the deployment of Phase II of its Flats Sequencing System (FSS) equipment. FSS II is expected to bring significant improvement to the automated sortation of flat-shaped mail pieces.

IV. Workforce Rationalization and Employee Impact Policies

In the face of declining mail volumes and recent changes in the mail mix, effective workforce complement planning is an even more important objective under the newly established price cap regime for annual rate adjustments. Network rationalization raises the prospect of change that could affect postal employees working in mail processing plants. The Postal Service is sensitive to the impact that institutional change can have on its employees. Accordingly, it has in place a number of policies and collective bargaining agreements that are designed to provide advance notice to potentially affected employees. These policies and agreements fairly identify which employees will be extended opportunities for reassignment to other positions within the agency, and specify the benefits afforded to employees who will not be retained.

V. Alternate Retail Options

Retail postal customers traditionally obtain access to postal products at Post Office units. Over time, the Postal Service has developed alternate channels of retail access to improve customer convenience. PAEA § 302 lists a number of such alternatives and directs the Postal Service to outline its plans for expanding and marketing their availability. The Postal Service describes each of the listed alternatives, as well as others that have been implemented or that currently are being tested. Whether through traditional “brick and mortar” Post Office locations, other retail locations, or online, the Postal Service will continue to actively promote increased customer use of efficient and easy-to-use retail access channels.

The Postal Service will report such information as is required by the terms of PAEA § 302(c)(4)(B) to Congress no later than 90 days after the end of each fiscal year during which it implements any portion of this Network Plan.

I. THE PERFORMANCE GOAL: CONTINUOUS IMPROVEMENT

The performance goal of the Postal Service is one of continuous improvement. Progress toward achievement of this goal in relation to service standards will be monitored through a combination of service performance measurement systems. These systems will permit comparison of actual service performance to performance targets established for Single-Piece First-Class Mail, Single-Piece First-Class Mail International, Presort First-Class Mail, Standard Mail, Periodicals, Package Services,¹ and Special Services.

Service standards and performance goals under PAEA §§ 302(a) and (b)(1) serve as the foundation for the provision of annual reports by the Postal Service to the Postal Regulatory Commission (Commission) on market-dominant product service standard and performance goal achievement under 39 U.S.C. § 3652(a)(2)(B). Measurement systems for Single-Piece First-Class Mail, Single-Piece First-Class Mail International, and retail Package Services parcels exist presently. In consultation with the Commission under the terms of PAEA §§ 3691(b)(1)(D) and (b)(2), the Postal Service is implementing expanded measurement systems for Single-Piece First-Class Mail; new systems for Presort First-Class Mail, Standard Mail, Periodicals and Presort Package Services; and measurement systems for monitoring the quality of service performance of a number of market-dominant Special Services products. Implementation of these systems will continue through fiscal year (FY) 2009.

Ideally, as a basis for establishing quantitative FY 2009 performance targets for each product, the Postal Service would be able to rely on systemwide historical service standard achievement data for each of these products. However, because the measurement systems all are either being expanded or developed, such data do not presently exist. Nevertheless, the Postal Service is committed to establishing FY 2009 service standard targets before the conclusion of FY 2008. Of necessity, it will do so without data of the scope and quality as will be generated by those measurement systems in the future. PAEA §§ 3653(b) and (c) contemplate that the Postal Service, in the future, may adjust service standard achievement targets after consideration of the Commission's annual review of compliance with the previous year's service standards and performance targets. Postal management intends to obtain the approval of the USPS Board of Governors in establishing a set of FY 2009 market-dominant product performance targets. When those targets are established, they will be transmitted to the Commission for purposes of its 2009 annual service performance compliance review.

¹ The term "Package Services" is used to refer collectively to Single-Piece Parcel Post, Media Mail, Bound Printed Matter, and Library Mail.

After establishing these FY 2009 targets, the Postal Service will, at a minimum, conduct an annual service standard target review before the beginning of each succeeding fiscal year. Target setting today is driven by the Postal Service's commitment to service quality, and the Postal Service will consider adjusting targets more than once a year, if it determines that a higher level of service quality can be achieved. When considering performance target adjustment, postal management will carefully examine existing service standards and performance targets, available performance data, recommendations offered by the Commission as a part of its annual review under PAEA § 3653(b)(2), and such other factors as are deemed relevant.

II. “OPERATIONALIZING” SERVICE STANDARDS

The service standards for market-dominant products established in December 2007 are the result of a comprehensive review process that reasonably matched operational capabilities across the entire postal network with the wants and needs of the greatest number of postal customers. The Postal Service carefully analyzed and considered present-day mail transportation, highway mileage between postal processing facilities, the shift toward greater destination entry of mail by customers, and the processing flows that have developed in recent years to reflect current mail processing facility functions, technologies, economies and capabilities. The service standards reflect adjustments that were made to determine the expected delivery day for mail originating and destinating among the nearly 851,000 3-digit ZIP Code area origin-destination pairs that comprise the postal network for each mail class.

While developing these service standards, the Postal Service also began taking steps to “operationalize” them. “Operationalizing” service standards refers to the set of initiatives taken to improve the consistency of internal mailflow management practices in order to enable achievement of performance targets. The Postal Service realizes that to succeed in today’s world, efficiency must be increased, and costs must be decreased, across all operations and processes. New tools, technologies, and unprecedented levels of information are identifying opportunities to reengineer operations and processes that currently add little value. About \$1 billion in savings planned for FY 2008 alone are expected to come from investments in enhanced equipment and systems, as well as process improvements.

Increasing operational efficiency while decreasing costs is nothing new for the Postal Service. In fact, over the course of the last several years, the Postal Service has balanced service performance and cost reductions by focusing on continuous process improvements and increased utilization of its automated mail processing equipment. Using Lean Six Sigma problem solving approaches, the Postal Service has focused on eliminating defects and reducing variability in its mailflows, identified control points within its 24 hour processing window to ensure that key operational hand-off points are aligned, and deployed key metrics for evaluating the performance of mail processing equipment operations and maintenance. The elimination of non-value added activities, as well as the reduction of cycle time, have resulted in additional process improvements.

As a result of the efforts described above, First-Class Mail service scores have continued to set new records. For the first time during Quarter II, FY 2008, national level External First-Class Measurement system overnight service performance was 96.4 percent, extending the streak of successive quarters above 96 percent. New records were also established for 2-day performance (94.2 percent) and 3-day performance (91.9 percent) for First-Class Mail.

The Postal Service expects to continue this trend with the operational investments described below. Software advancements, value stream mapping, data system enhancements, the establishment of national critical entry times for destinating Standard Mail, and a revised Standard Mail color code policy are just some of the many actions taken in the overall network reconfiguration effort to support the achievement of the service standards, the overall performance goal, and numerical service targets.

To coordinate implementation of mail processing changes and improve local operational discipline across a vast and complex network, the Postal Service is deploying Operations Industrial Engineers and Automation Operations Specialists to standardize operations, provide technical and operational guidance to mail processing plants, and conduct studies and field experiments designed to increase operational efficiency or validate that operations are moving in the right direction. Continuous improvement teams have been formed and are actively using Lean Six Sigma tools. Maintenance groups are concentrating on improving mail processing equipment quality to reduce defects that are related to such conditions as machine jams. Other teams have been formed to conduct value stream mapping applications for current and future states, to eliminate waste in processing operations and Business Mail Entry Units.

Achievement of applicable service standards, and the full benefits of the “operationalizing” initiatives, can only be realized through the combined efforts of the Postal Service and its customers. When mail is not presented in a manner that meets applicable preparation requirements, improved efficiency, cost control and price stability will not be achievable. Accordingly, the Postal Service values the ongoing cooperation of the mailing community.

A. Software Advancements for Improved Mailflow Management

New tools recently have been, or soon will be, made available to local mail processing managers to improve their ability to coordinate and improve operations.

1. Sort Program Generator Utility

At postal processing plants, mail sorted on automated processing equipment flows to certain machine bins or stackers based on sort programs. These sort programs are developed locally and vary by plant, and local plant personnel must be trained to develop and maintain these programs. On a typical day, the Postal Service uses 38,000 sort programs to process mail on over 5,900 sortation machines.

A new software application, entitled Sort Program Generator Utility (SPGU), is being developed to centralize the development of sort programs. Its inputs include operational mail densities and standardized sort program logic,

transportation availability, and applicable service standards. SPGU creates sort programs that maximize tray densities, resulting in fewer trays that have to be transported through the network. Mail flows will be standardized throughout the country, facilitating an improved training/learning curve for new employees. Standardization of machine sort programs will improve the consistency of mailflows in different processing plants across the network.

Currently, SPGU will be phased-in nationally. Phase I, which focuses on outgoing sort programs, will be initiated early in FY 2009. Phase II, which focuses on incoming sort programs, will follow in FY 2010.

2. Run Plan Generator

The Run Plan Generator (RPG) is a software program that assists in the development of mail processing equipment operating schedules. Creating such schedules in advance of actual processing allows plant managers to highlight areas where changes can be made to increase efficiency. RPG also allows these managers to make proactive decisions on staffing, equipment utilization and maintenance. It gives them benchmarks with which to make instant assessments of ongoing mail processing and transportation dispatch operations, and to decide if, when, and where to shift resources to maximize their use. RPG also helps managers identify available nearby resources when adjustments are needed to handle unanticipated equipment breakdowns, or adverse weather conditions affecting mail transportation. In addition, RPG will be used to model and analyze scenarios involving potential changes to sort programs, equipment, or personnel before implementation. Modeling can be performed to show high-volume customers the mutual benefits that can be obtained through adjustments in their mail dropship practices.

B. Value Stream Mapping

Value stream mapping (VSM) is a technique used to analyze the flow of materials and information currently required to bring a product or service to a customer. VSM identifies waste or operational deficiencies that might prevent the Postal Service from meeting customers' expectations related to on-time delivery performance.

As part of its operationalizing effort, the Postal Service used value stream mapping to analyze a variety of different product mailflows. Several examples are summarized below.

1. Commercial First-Class Mail Induction

Teams of postal operational experts worked with commercial First-Class Mail users to value stream map the preparation and processing of letters, cards, and flats, beginning at the mailer facility. Mapping continued with the induction and

distribution processes at postal facilities in Sacramento CA, Hartford CT, and Springfield MA. The mapping ended when the commercial First-Class Mail merged into the postal transportation network for distribution and delivery. Value stream mapping identified opportunities for increased efficiency across the preparation/induction process.

2. Labeling Lists Validation

The Postal Service reviewed mail processing operations in order to create a value stream map of the current state of the processing of origin-entered mail presented by commercial mailers using certain labeling lists.² Value stream mapping initiatives identified inefficiencies in the flow of mail based on existing labeling lists, which resulted in the Postal Service's current labeling list validation efforts.

Currently, the *Domestic Mail Manual* (DMM) has 20 different labeling lists that commercial mailers use based on the preparation requirements applicable to different products and presort categories. Various analytical tools and techniques were utilized to validate current labeling list data against internal logistics systems. In some instances, lists were updated to conform mail preparation to postal mailflows and transportation changes that would be implemented to meet the newly established service standards. Commercial mailers were notified of the DMM labeling list changes in *Postal Bulletin 22234* at 24 (June 5, 2008) and are expected to comply on or before August 17, 2008.³ This validation effort is continuing and the Postal Service expects additional adjustment will be required as it implements the Network Plan.

C. Data System Enhancements

Access to more robust operational data provides postal managers with an enhanced ability to improve and protect the quality of service. Recently developed and/or enhanced postal mail processing data reporting systems provide a broad spectrum of useful information and identify opportunities to reengineer processes to add value. These systems allow the Postal Service to overcome operational deficiencies and anomalies, reduce or eliminate service failures, and pinpoint the specific source of mail processing problems that, in the absence of such systems, were previously the subject of speculation or trial-and-error testing. The Postal Service now uses an assortment of data systems, including the four recently developed or enhanced systems described below.

² Labeling lists are generated by the Postal Service to provide mailers with information with which to label containers of mail, based on destination ZIP Codes, presort level, and product type. These labels are used by postal mail processing employees to identify the operations and transportation to which the containers should be directed.

³ See <http://www.usps.com/cpim/ftp/bulletin/pb2008.htm>.

1. Mail History Tracking System

Recent enhancements to the Postal Service's Mail History Tracking System (MHTS) now permit system analysts to automatically track individual letter mail pieces and perform diagnostics to determine where operational efficiency improvements can be realized. MHTS provides valuable insight to local Delivery Point Sequencing letter mail processing operations. MHTS highlights mail processing equipment operational variability that is under the control of either machine operators or maintenance personnel, so that procedures can be implemented to reduce local fluctuations in mail processing quality and improve the operation and maintenance of equipment.

Initially deployed in December 2006, MHTS has undergone numerous iterations that have yielded new data fields and complex computations. It leverages the ability of computers to analyze 1.5 billion rows of data, loaded from 190,000 daily mail processing production runs, in plants throughout the postal network. MHTS now generates a range of data that can be used daily on a local basis to help identify missent, missorted, and missequenced mail before delivery, allowing for the recovery of errors before service is adversely affected.

2. Machine Performance Scorecard System

By measuring local mail processing equipment performance against national benchmarks, Machine Performance Scorecards give local managers a convenient metric against which to analyze machine and operator performance. Scorecard reports provide virtually instant information on mail processing equipment performance, as well as guidance for correction and improvement.

3. Unplanned Notification System

Another Lean Six Sigma success story that has driven improvement in service performance is the national implementation of the Unplanned Notification System. This system generates virtually instant reports to managers at each mail processing plant. These reports identify -- on a machine-specific basis -- electro-mechanical malfunctions that cause bins on a delivery barcode sorter (DBCS) to missort mail. Acting on these reports, machine operators and maintenance personnel can correct machine malfunctions and recover missorted mail from DBCS bins for reprocessing. This continuous improvement effort has reduced missorted mail system-wide and has contributed to improved service performance.

4. Facility Access and Shipment Tracking

The Facility Access and Shipment Tracking (FAST) system allows commercial mailers to schedule appointments for mailings they transport to postal facilities

for acceptance. FAST enables the Postal Service to plan and schedule the use of its mail processing personnel, equipment, and transportation more effectively. Mailers can use FAST to track their drop shipments, receive notification of redirections, submit and manage recurring appointment requests, and have joint scheduling capabilities. FAST also includes a nationwide mailer rating program which provides users with incentives for higher standards of performance. Mailers are scored on submission method, content detail and accuracy, and on-time accuracy. Points are deducted for untimely notification of changes to appointments, irregularities in mail preparation, improper mail makeup, and damaged mail. A high mailer rating offers mailers enhanced opportunities to obtain desired appointments.

D. National Critical Entry Times for Standard Mail

Generally speaking, a critical entry time is the latest time that mail can be received at an induction or acceptance point in the postal network to have the day of entry designated as the “start-the-clock” date. If Standard Mail pieces are accepted after the applicable CET, those pieces have a "start-the-clock" date of the following applicable acceptance day. CETs are intended to ensure that Standard Mail flows through the postal processing network in a manner that supports the achievement of service standard targets.

Two national CETs for Standard Mail have been established – one for pallets or other containers, and another for bedloads.⁴ These CETs were created through an intensive modeling effort that identified the service standard for each 3-digit ZIP Code origin-destination pair in the postal network, and calculated service standard compliance based on user entry of proposed critical entry times. The model included all processing locations, and the distance and travel time between facilities for each origin-destination pair. Input variables included the critical entry time and operating window for each location. Given the critical entry time, operating window, and travel time from point to point, the model was used to determine if service achievement was possible for a specific 3-digit ZIP Code pair under different scenarios.

National CETs for Standard Mail ultimately were established after consultations with the mailing industry concerning drop-shipment times. The Postal Service continues to work closely with its customers to create CETs for other classes of mail and to optimize mailer preparation requirements. In collaborating with mailers, the Postal Service intends, as always, to improve service quality and reliability, while increasing efficiency and achieving the lowest combined cost.

⁴ Bed-loading, also known as floor-loading or deck-loading, refers to the use of a brick-laying or T-stacking technique for loading individual handling units into trailers for surface transportation.

E. Standard Mail Color Code Policy Revision

The Postal Service's long-standing practice of color coding containers of Standard Mail improves the timeliness of processing, dispatch, and delivery in relation to service standards. Each postal work day is uniquely identified with one of seven colors – white, blue, orange, green, violet, yellow, or pink. Color codes offer a simple way to help manage the sequence in which numerous containers of Standard Mail at a given postal facility will be processed in order to best achieve service expectations. Color coded tags are applied to containers of Standard Mail according to a specific matrix based upon date, time, and entry location. Each tag reflects the expected day for clearance, processing, or delivery. The Standard Mail Color Code policy provides postal managers with a method of identifying which Standard Mail should receive priority in dispatch and processing.

F. Conclusion

The Postal Service's "operationalizing" initiatives will enhance its ability to achieve the service standards recently established in December 2007, as well as the overall goal of continuous improvement, and the FY 2009 service targets. These initiatives also reflect the Postal Service's commitment to constantly refine its mail processing operations and make capital investments designed to improve service levels – all while keeping costs to a minimum. The cooperation of the mailing community is necessary for these efforts to bear fruit. As it implements these changes to improve the national postal system and to better serve the public, the Postal Service looks forward to the support and oversight of the Congress.

III. NETWORK RATIONALIZATION

PAEA subsections 302(c)(1)(A) through (C) reflect Congressional findings that:

the Postal Service has more than 400 logistics facilities separate from its post office network;

as noted by the President's Commission on the United States Postal Service, the Postal Service has more facilities than it needs and the streamlining of this distribution network can pave the way for the potential consolidation of sorting facilities and the elimination of excess costs;⁵ and

the Postal Service has always revised its distribution network to meet changing conditions and is best suited to address its operational needs.

The need to analyze opportunities for network rationalization has been a high priority of the United States Postal Service. There has been a constant effort to make its mail processing and transportation networks more efficient, economical, and environmentally sound. Recent strategies have been very effective, producing eight straight years of productivity growth, as well as more than \$7.5 billion in savings since 2002.⁶ These savings have been accomplished with minimal impact on postal employees. The Postal Service expects to build upon this achievement through the network strategy described below.

A. Postal Service Network Vision

In providing universal service throughout the United States and its territories, the Postal Service manages one of the largest and most complex distribution and transportation networks in the world. The Postal Service's networks have evolved to meet the demands of a growing nation, geographical population shifts, changing customer needs, and new technological advancements. In response to recent declining mail volume trends, the Postal Service's goal has been to create an efficient and flexible network that results in lower costs for both the Postal Service and its customers, improves the consistency of mail service, and reduces the Postal Service's overall "environmental footprint". For these reasons, a key objective in the Postal Service's *Strategic Transformation Plan (2006–2010)*⁷ is to optimize its distribution and transportation networks.

⁵ *Embracing The Future: Making the Tough Choices to Preserve Universal Mail Service*, President's Commission on the United States Postal Service (July 31, 2003). See, <http://www.treas.gov/offices/domestic-finance/usps/>.

⁶ See the USPS *Strategic Transformation Plan (2006–2010)* 2007 Update at 15 (December 2007). The 2007 Update is accessible at <http://www.usps.com/strategicplanning/2006-2010.htm>.

⁷ See http://www.usps.com/strategicplanning/stp2006_2010/STP05R.pdf.

Throughout this decade, network realignment has been a matter of intense study by senior postal management. The plan described below combines existing strategies and new concepts designed to respond to recent factors, such as the decline in First-Class Mail volume, the shift toward increased destination entry of Standard Mail and Presort Package Services mail, the impact of increased fuel costs on transportation, and the new price cap regime now applicable to market-dominant postal products and services. The core elements of the Network Plan are as follows:

- the completion of the postal transportation strategy through closure of Airport Mail Center (AMC) operations
- the elimination of excess mail processing capacity in Processing & Distribution Centers (P&DCs) through the consolidation of operations using newly revised Area Mail Processing (AMP) guidelines
- the possible creation of a time-definite surface transportation network that responds to the shift toward destination entry of mail, and transforms existing Bulk Mail Centers (BMCs), established in the 1970s, into state-of-the-art processing and transportation facilities.

The PAEA encourages the Postal Service to “expeditiously move forward in its streamlining efforts...” *Id.* at § 302(c)(1)(D)(i). To achieve the vision described above and maintain the ability to provide the nation with affordable universal service, the Postal Service will need the support of Congress. Any specific local operational consolidation or mail processing facility closure should be viewed as a component of a strategy designed to serve the overall needs of the postal system. It will be important to the Postal Service’s pursuit of its Congressional mandate that each member of Congress concerned about a local postal operational change also consider the needs of the nation as a whole. As this effort progresses, the Postal Service will follow its well-established processes to keep local communities informed and provide opportunities for public input. It also will continue to work closely with its employee unions and associations.

B. Network Plan Components

1. Airport Mail Center Closures

a. Air Transportation Strategy

The groundwork for the Postal Service air transportation strategy dates back to plans first implemented in 2001. The objective of the transportation strategy is to develop more efficient and service-responsive networks. The strategy focuses on using the right network for the right product. The goal is to optimize both service and cost by using the right combination of air transportation (cargo and

commercial carriers), and surface transportation (contract and postal), to yield a network that operates at lower-cost with high on-time performance.

i. Creation of the Shared Network

In 2001, the Postal Service began realizing this vision when it procured the services of a single major air cargo carrier to provide air transportation for First-Class Mail, Priority Mail and Express Mail. The Postal Service had concluded that its future air transportation strategy required a large-scale cargo carrier with national reach that was capable of providing stable, high-performing air transportation service for its First-Class Mail and expedited delivery products. At the time, the Postal Service determined that a particular major air cargo carrier was the supplier best capable of sorting and transporting mail containers through its network in an expeditious manner, while maintaining high service commitment levels.

In an effort to augment the resulting Shared Network, further improve service, and encourage price competition among different air service providers, the Postal Service entered into a contract in 2006 with a second major air cargo carrier that also satisfied its network scale, information technology capabilities, financial stability and operational infrastructure compatibility criteria. This second contract has increased the service reach of the postal Shared Network and protects the long-term business interests of the Postal Service. It is envisioned that the amount of mail transported under this second agreement will continue to grow over time, and thus, continue to generate robust competition for the provision of dedicated air transportation at a cost level that is beneficial to the Postal Service and its customers.

ii. Streamlining the Commercial Air Network

A second component of the Postal Service's air transportation strategy is the continued use of cargo space on commercial airlines where it is cost and service effective. Since 2003, Postal Service contracts with commercial airlines have included requirements for scanning of mail containers and specific performance goals. Since that time, the Postal Service has been able to track the actual performance of all such air transportation suppliers based on this scanning technology, allowing it to weigh both the cost and a specific carrier's service performance in selecting air routes that provide the best value.

The scanning requirements now allow the Postal Service to focus on contracting with the highest performing commercial air carriers. As recently as 2001, the Postal Service contracted with as many as 55 airlines. In 2008, that number was reduced to the seven highest performing carriers. Current commercial air contracts offer the advantage of serving more origins and destinations and providing a low-cost alternative to the cargo carriers with similar service performance.

b. Impact of Strategy on AMC Operations

The development of the Shared Network has not only resulted in lower cost and higher performance, but also has had a significant impact on postal Airport Mail Center (AMC) operations. AMCs are postal facilities that have traditionally been operated for the purpose of expediting the transfer of mail (“tender and receipt”) to and from commercial passenger airlines. These facilities are generally located on property close to the airport ramp and, as such, are among the most expensive properties owned or leased by the Postal Service. The core operations of an AMC are:

- assignment of mail to flights
- receipt and dispatch of mail to/from air carriers
- acceptance and separation of mail to/from postal mail processing plants
- performance measurement and quality control of air carrier operations.

An AMC receives containers of mail from the local postal Processing & Distribution Centers (P&DCs) and routes each container to the appropriate airline, which flies the mail to the associated AMC of the destination P&DC. That AMC receives the mail from the airlines for transfer to its local P&DC for processing and delivery. Historically, substantial percentages of Express Mail, Priority Mail and First-Class Mail were transported via commercial passenger airlines. Because containers of mail must be routed onto the flight that provides the correct level of service to the destination, AMC operations were extremely complex when the Postal Service employed as many as 55 different air carriers.

That level of complexity no longer exists, since the number of commercial airlines transporting mail has been reduced from 55 to 7, and the amount of mail transported by commercial airlines has decreased from 2.9 billion pounds in 2001 to 368 million pounds in 2007. This volume decrease results from several factors. First is the level of airline on-time performance that led the Postal Service to explore alternatives, such as the two alternative air freight carriers described above which now haul the vast majority of mail transported by air. Second, some mail formerly transported by air is now routed on surface highway transportation. Third, mail security restrictions enacted in the wake of the 9/11 terrorist attacks limit the weight and size of individual mail pieces that may be transported in the cargo holds of commercial passenger airlines. As a result, postal AMCs have experienced drastically reduced tender and receipt responsibilities, since almost all mail from a given city subject to air transportation is handled by a single air carrier.

In response to these changes, many AMCs began taking on auxiliary mail processing functions, often adding automated mail processing and material handling equipment. Essentially, AMCs became processing annexes for their local postal Processing & Distribution Centers (P&DCs). Recognizing the

skewed cost-benefit ratio of maintaining AMC facilities in high-cost locations, the Postal Service began streamlining operations in 2006 by returning non-core AMC functions, including distribution and assignment, back to the local P&DCs. As non-core functions are transferred back to these processing plants, it has become apparent that many AMC facilities occupy floor space well in excess of any operational needs and are a highly inefficient use of resources.

The Postal Service has conducted analyses that identify the AMCs which have significant P&DC responsibilities that cannot be relocated. These AMCs have been designated for continued operation. All other AMCs have been scheduled for closure. In order to minimize disruption, closings are prioritized on the basis of scheduled lease expiration dates, available lease termination options and other relevant local conditions.

c. AMC Closures

The Postal Service terminated operations at the following 46 AMCs during FYs 2006-2007:

- Baltimore MD, Boston MA, Columbia SC, Charlotte NC, Washington DC, Greensboro NC, Greenville SC, Dulles VA, Norfolk VA, Raleigh NC, Richmond VA, Cincinnati OH, Dayton OH, Pittsburg PA, Louisville KY, Grand Rapids MI, St. Louis MO, LaGuardia NY, Albany NY, Buffalo NY, Rochester NY, Syracuse NY, Oakland CA, San Diego CA, San Jose CA, Santa Ana CA, Birmingham AL, Nashville TN, Jackson MS, Memphis TN, Pensacola FL, Albuquerque NM, Austin TX, Little Rock AR, Oklahoma City OK, Tulsa OK, Boise ID, Denver CO, Des Moines IA, Wichita KS, Kansas City MO, Omaha NE, Portland OR, Phoenix AZ, Reno NV, and Tucson AZ.

In addition, the Postal Service already has terminated operations at the following eight AMCs in FY 2008:

- Sacramento CA, Columbus OH, Detroit MI, Indianapolis IN, Ontario CA, West Palm Beach FL, Houston TX and Los Angeles CA.

In most locations, the tender and receipt functions were consolidated into the local P&DC. Where this was not possible, the function was contracted to a private sector terminal handling service already present at the airport. All AMC facility closings were handled in accordance with the applicable postal collective bargaining agreements, with appropriate notification and reassignment of personnel to other local facilities.

Elimination of these facilities has been accomplished while maintaining service at record levels for mail transported by air. AMC closures are strictly an internal operational issue virtually invisible to mail senders and recipients. In addition to

streamlining mail processing and improving efficiency, AMC consolidations result in cost advantages for the Postal Service. These include facility and land lease cost avoidance, as well as moving underutilized AMC personnel to more productive P&DC operations, and the use of existing commercial terminal handling service providers.

The USPS Office of Inspector General (OIG) performed an audit of the closure of the St. Louis MO Airport Mail Center and concluded that it “reduced cost and improved efficiency without impairing service.” *Audit Report -- St. Louis Airport Mail Center Outsourcing*, Report No. EN-AR-08-002 at 6, USPS OIG (February 29, 2008).⁸ In light of the success achieved, the Postal Service plans to continue the program through the remainder of FY 2008.

Total program savings are expected to be \$117 million from the elimination of workhours and facility lease expenses. Savings from the AMC closures in 2006/2007 were \$39 million. The Postal Service projects a savings of \$57 million in 2008 and \$21 million in 2009.

2. Area Mail Processing Consolidations

Streamlining efforts critical to the Network Plan extend beyond air transportation. While continuing to improve the consistency of the service it provides, the Postal Service has historically taken advantage of opportunities to reduce network costs, improve efficiency and eliminate excess capacity at local mail processing facilities through operational consolidations. More such consolidations are being contemplated as part of the Network Plan. The Postal Service will employ its Area Mail Processing (AMP)⁹ guidelines to analyze and implement mail processing consolidation opportunities, and to measure results. Below, the Postal Service describes its AMP review and decision-making process, including provisions for the solicitation and consideration of public input.

a. The Benefits of AMP Consolidation

On average, the Postal Service accepts and delivers more than 700 million pieces of mail each delivery day. Distribution and transportation of these letters, parcels, catalogs, and magazines occur across a network of 37,000 Post Office units and other retail outlets, and at over 400 mail processing facilities. The mail is securely and reliably delivered to 148 million addresses. No other single operation in the world comes close to having the level of connectivity that the Postal Service has with the households and businesses it serves in the United States and its territories.

⁸ See http://uspsoug.gov/foia_files/EN-AR-08-002.pdf.

⁹ An Area Mail Processing consolidation is one that results in all of the outgoing and/or incoming mail processing operations of a postal plant being absorbed by one or more nearby facilities.

The Postal Service uses industry best practices to increase efficiency, control costs, maintain service, support delivery point growth and respond to other industry changes. The Postal Service's ability to transform its operations in the face of changing customer needs is not new. In the mid-1950's, before the advent of mechanized mail processing technology, the Postal Service sorted mail at over 10,000 Post Office units and other facilities on a nightly basis. Forty years ago, mechanized sortation operations were centralized to the point where they were performed at a combined 2,000 Post Office units and other mail processing facilities. Today, the evolution of automated technology and changes in mail entry have allowed the Postal Service to more efficiently consolidate the overwhelming bulk of its originating sortation operations away from Post Office units and into approximately 400 relatively large mail processing plants.

Refinement of Postal Service operations is an ongoing process, and results in continuous improvements in processing, equipment standardization, productivity, service performance, and customer satisfaction. The Postal Service mail processing strategy focuses maximizing the use of its automated equipment, improving the quality of mail processing, and eliminating excess capacity, while minimizing adverse impact on service.

In recent decades, for the purpose of improving operational efficiency and/or service, the Postal Service has employed its AMP guidelines to analyze locally generated proposals for the consolidation of all originating and/or destinating distribution operations from one facility to another. These procedures have been updated recently and are published in the form of *USPS Handbook PO-408 Area Mail Processing Guidelines* (March 2008).

The benefits of AMP consolidations are that the Postal Service can:

- take advantage of economies of scale by centralizing mail processing operations to better use resources, including space, staffing, processing equipment, and transportation
- take advantage of state-of-the art technologies, so that originating and/or destinating mail can be processed more efficiently
- support network rationalization and reduce redundancy
- reduce excess capacity or the crowding of operations in limited floor space
- minimize impact to customer services
- enhance environmental sustainability by reducing fuel and utility use.

b. Methods of Identifying AMP Consolidation Opportunities

The process of identifying consolidation opportunities has evolved to include both bottom-up and top-down approaches. Combining both AMP approaches allows the Postal Service to more astutely identify and pursue viable consolidation opportunities and ensure that accountability for results is shared at all levels of

postal management. Because of recently implemented improvements to the AMP process, standardized analytical tools are now available to identify consolidation opportunities, whether they are isolated, locally-generated proposals for improved efficiency, or they are identified through computer simulation modeling which can suggest potential local consolidation opportunities as part of a systemwide network review. Regardless of the source of an AMP proposal, the criteria used for judging consolidation opportunities are the same.¹⁰

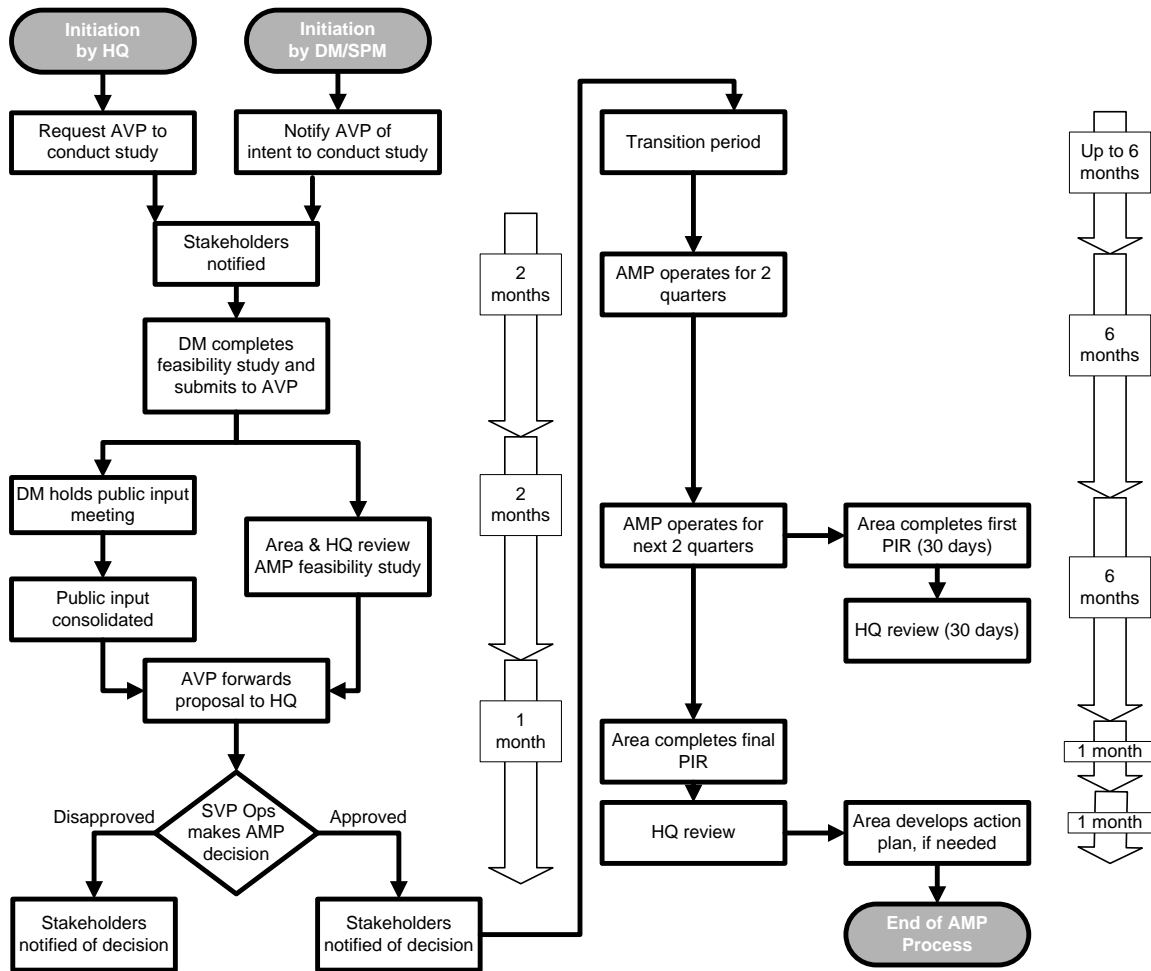
In addition to the evaluation of potential service standard changes that could be generated by an operational consolidation, a preliminary capacity analysis is performed to determine if the absorbing facility could reasonably accommodate the additional workload. Once these criteria have been satisfied, an AMP consolidation proposal is analyzed through the process outlined in USPS *Handbook PO-408*. The current guidelines reflect significant improvements implemented at the suggestion of the Government Accountability Office and the USPS Office of Inspector General. Because these guidelines support a critical element of the Network Plan, it is useful to summarize them below.

c. Overview of the Internal AMP Review Process

The major events that occur during the AMP process are depicted graphically in Exhibit 1, which is followed by a narrative description.

¹⁰ It should be noted that not all mail processing transfers are subject to an AMP feasibility study. For example, routine minor mail processing shifts in volumes or operations from one facility to another that do not fall under the AMP process include the aggregation of automation candidate mail (letters, cards, flats, or parcels) for processing at a nearby facility using automated equipment, and the centralization of mail processing activities over a weekend or holiday.

Exhibit 1: Area Mail Processing (AMP) Process



With the bottom-up AMP approach, the process begins when the postal District Manager or Senior Plant Manager notifies the Area Vice President (AVP) of their intent to conduct an AMP feasibility study. The AVP informs the Senior Vice President (SVP) Operations at Headquarters. With the top-down AMP approach, the SVP Operations contacts the AVP about initiating a feasibility study.

When either one of the approaches is used, communication to external stakeholders must occur when there is a clear intent to proceed with an AMP feasibility study. The notification of intent to perform the study includes an invitation to the public to submit any comments or concerns to a designated Postal Service representative.

Within two months, the feasibility study is conducted, reviewed and, if approved by the District Manager, submitted to the AVP along with the required documentation.

No more than 45 days after submission of the study, the District Manager is required to conduct a public input meeting. Fifteen days are provided for the public's submission of additional written comments after this meeting and for the District's summary of the meeting to be completed and forwarded to the AVP.

After the District Manager's submission of the study, a 60-day review is conducted concurrently by Area and Headquarters management. AMP feasibility study worksheets are verified and issues are resolved. Then the study is provided to the AVP for consideration.

Following receipt of public comments and finalized worksheets, the AVP determines if the AMP proposal should advance to Headquarters. If the AVP's recommendation is that the AMP consolidation be approved, the AVP must submit a signed AMP proposal to the SVP Operations at Headquarters. Generally, this step should be completed within two weeks. If the AVP does not recommend that the proposed consolidation move forward, the AVP must submit an explanation to the SVP Operations for review.

The Postal Service's Consumer Advocate at Headquarters also receives a copy of the AMP proposal submitted to the SVP Operations. Review by the Consumer Advocate is intended to ensure that adequate attention is given to the public input during the District and Area reviews before the consideration of the AMP proposal by the SVP Operations.

The SVP Operations takes into account costs and benefits outlined in the AMP feasibility study, along with summaries of public input, when making the final agency decision to approve or disapprove the proposed consolidation. A decision is expected within two weeks of receipt of the proposal.

Assuming a decision is made to move forward, plans for transportation and staffing adjustments are finalized before the selection of an implementation date. The AVP identifies an implementation date for the initiation of the consolidation of operations that coincides with the first day of a fiscal year quarter.

Before the implementation of an approved AMP, national-level postal employee union and management association officials are notified and local employee organizations are briefed, in accordance with current postal policy and collective bargaining agreements.

The Area must conduct two periodic reviews of AMP consolidations that are implemented. These post-implementation reviews (PIRs) assess whether planned savings, workhours, and levels of service are met. The first PIR covers the first and second full fiscal quarters after implementation, and the final PIR covers the first four full quarters following implementation.

The AMP process is completed once the final PIR has been evaluated by Headquarters and feedback is provided to the Area.

The following sections describe in more detail the feasibility study, communication plan and the public input process.

d. AMP Feasibility Study Criteria

The general objectives of any AMP feasibility study are to:

- evaluate service standard impacts for all affected classes of mail
- consider customer service concerns relevant to a proposed consolidation
- identify impacts to local postal staffing of both craft and management positions
- analyze postal savings and costs associated with moving mail processing operations.

Before an AMP feasibility study is undertaken, the following *potential* impacts are identified for analysis:

- changes in service quality, as measured by service performance indicators
- service standard upgrades or downgrades for First-Class Mail and other mail classes
- changes in collection box pick-up times and retail service availability
- changes in location and hours for business mail acceptance at postal business mail entry units (BMEU) and business mail drop shipment
- operating plans at the absorbing and consolidated mail processing facilities
- future mail processing equipment deployment and floor space needs
- potential savings and efficiencies, including utility cost reductions.

After a preliminary determination that service and/or efficiency may be effectively improved with the consolidation of mail processing operations, the District Manager and/or the Senior Plant Manager from the absorbing facility inform the AVP of their intent to conduct an AMP feasibility study. In turn, the AVP informs the SVP Operations at Headquarters that an AMP feasibility study is to be prepared.

After the AMP consolidation proposal is initialized, a feasibility study determines whether there is a business case for relocating processing and distribution operations from one facility to another. District management must complete their study efforts within two months of the notification of intent to conduct the study, and incorporate input from management at both the consolidating and absorbing facilities.

A completed AMP pre-decisional proposal is a feasibility study that has been validated by Area and Headquarters functional review teams, supported by the AVP, and submitted to the SVP Operations for a decision on the proposed operational consolidation. This AMP proposal consists of a summary narrative, finalized analytical worksheets, a geographical map of the affected service area, and a summary of the public meeting and comments. The completed AMP proposal reflects approvals from designated local, District, Area and Headquarters management.

e. Public Communication and Input

i. AMP Communications Plan

Public communication is an integral part of the AMP process. The need for clear, consistent, and accurate communications is especially important when informing mailers and employees about the initiation of an AMP feasibility study, notifying customers about the opportunities to provide input, and disseminating appropriate information to customers and employees about final agency decisions.

Accordingly, consistent with the requirements of PAEA § 302(c)(3)(D), the Postal Service has developed a detailed AMP Communications Plan which includes timelines for the issuance of various communications related to the initiation of a specific AMP feasibility study, information on the consolidation proposal and public meeting, and the final decision about operational consolidation. The plan also includes templates for written correspondence directed to local government officials and elected representatives, postal employee unions and associations, and business mail customers; press releases for the dissemination of information to the general public via local newspapers, as well as television and radio broadcast news outlets; postings on the Internet on a special Area Mail Processing page at the Postal Service's public website -- www.usps.com;¹¹ and various electronic and hard-copy communications for the internal dissemination of information to postal employees.

The objectives of the AMP Communications Plan are to effectively convey that (1) a potential consolidation of local operations may be analyzed for the purpose of determining whether it could improve efficiency and/or service and (2) to provide an opportunity for mail senders and recipients in the affected service area to provide input regarding potential service changes.

¹¹ Go to <http://www.usps.com/all/amp.htm>.

Communications to the public occur when the Postal Service:

- declares its intent to undertake a specific AMP feasibility study
- schedules a public meeting to solicit input within 45 days of an AMP study being submitted to an Area VP for consideration
- makes a final agency decision regarding an AMP proposal¹²
- terminates a feasibility study, places it on hold or resumes a previously suspended study.

Postings at the Area Mail Processing webpage at www.usps.com are updated to reflect changes to the progress of the study.

ii. Public Input Process

Without specifying the format, PAEA § 302(c)(3)(D) requires an opportunity for public input regarding certain proposed consolidations. The Postal Service permits interested parties to provide input in two ways, either through oral comments at a public meeting or in writing. Following the public meeting, the public has 15 days to submit additional written comments to the District Manager, Consumer Affairs. Input from the public meeting is summarized and submitted to the AVP for consideration. Additional review by the USPS Consumer Advocate ensures that adequate attention and resolution is given to the public input at the District and Area level prior to final consideration by the SVP Operations.

Immediately after the announcement of its intent to conduct an AMP feasibility study, the Postal Service initiates a comment period and solicits input from the public that will be discussed during the subsequent public meeting. At this stage, an AMP operational consolidation opportunity has been identified, but its feasibility has not been analyzed. Accordingly, the Postal Service is able to provide only very general information as a part of this initial solicitation of comments.

When the review of an AMP consolidation opportunity has advanced to the point where District management has submitted a feasibility study to the AVP for review, a public meeting is scheduled to take place within 45 days. The notice inviting the public to that meeting includes a public summary of the AMP study.

Consistent with PAEA §§ 302(c)(1)(D)(ii) and (c)(3)(A), the Postal Service incorporates a public summary description of the AMP consolidation proposal in correspondence to local and other elected officials. This summary also is

¹² Copies of final agency decision AMP documents, as well copies of post-implementation reviews, are provided to national postal employee union and management association representatives, subject to the condition that sensitive commercial and personnel data not be publicly disclosed.

included in press releases the Postal Service distributes to newspaper, television and radio news organizations for broadcast to the general public, and in notices to BMEU customers. It also is posted on the Internet at the Postal Service's public website -- www.usps.com -- on a page set aside for Area Mail Processing, consistent with the spirit of PAEA § 302(c)(3)(D).

As required by § 302(c)(3)(D)(ii), each AMP public summary narrative highlights anticipated changes in the affected service area, including but not limited to retail or business mail entry, service standard upgrades or downgrades, collection box pickup times, postmarking practices and retail access. The summary also includes a description of impacts on postal employees and a projection of associated postal cost savings.

f. Network Plan AMP Consolidation Approach

The Postal Service plans to take an incremental approach to consolidating operations.¹³ Using both computer modeling and site-specific data under the AMP Guidelines, analysis determines if an AMP feasibility study should begin and assesses the potential advantages of consolidating local operations.

As is described above, the process from start to finish for an AMP evaluation (from initiation of a study to SVP Operations review) is five months. The specific impacts on postal costs, postal employees and customer service will be identified during the AMP process and communicated in accordance with the Postal Service AMP Communications Plan.

Although the goal is to achieve overall network efficiency, the AMP analytical process will be incremental and will involve multiple, simultaneous reviews of site-specific operational consolidation opportunities. Until the individual AMP

¹³ There are approximately 851,000 different origin-destination 3-digit ZIP Code pair combinations in the postal network. It is anticipated that the cumulative impact of the various local AMP operational consolidations that could be implemented as a part of this Network Plan could result in isolated instances in which, on a cumulative basis, an extremely small percentage of ZIP Code pairs will experience a First-Class Mail service standard downgrade. For the sake of clarity, it is emphasized that an operational consolidation that produces a service standard downgrade is one that results in the overnight service standard applicable to a particular 3-digit ZIP Code pair changing to a 2-day standard, or a 2-day standard changing to a 3-day standard. The expected delivery day, as indicated by the service standard, would change in those hypothetical cases. An operational consolidation can result in mail being processed at a different Processing & Distribution Center at origin or destination, without a change in the service standard applicable to the 3-digit ZIP Code origin-destination pair associated with a mail piece. Local mail processing operational changes, whether arising from an operational consolidation, an overwhelming spike in mail volume, or some other phenomenon, may result in carrier delivery being later in the day for some customers on particular delivery routes. Where delivery by a guaranteed time of day is not part of a mail product offering, as is the case with First-Class Mail, the Postal Service does not consider such a shift in delivery time during the day to constitute a change in the service, as measured against the applicable service standard.

studies are completed and approved, the Postal Service is unable to project the potential cost savings that AMP consolidations, as a whole, may generate as a component of the Network Plan. The Postal Service will provide such information, on an annual basis in accordance with PAEA § 302(c)(4).

3. BULK MAIL CENTER TRANSFORMATION

The final major component of the Network Plan is the transformation of the Postal Service's Bulk Mail Center (BMC) network. The following section describes a plan currently under consideration to transform BMCs into state-of-the-art processing facilities that meet future postal needs.

a. Evolution of the BMC Network

The Postal Service currently operates a national network of 21 BMCs. These facilities primarily support the distribution and transportation of Standard Mail, Periodicals, and Package Services. The BMCs were built and began operations in the 1970's. BMCs process container handlings, not single-piece sortation. Mail is processed through manual and mechanized operations, and then loaded onto trailers for surface transportation. Originally, because nearly all customer mail volume was entered at origin locations, BMC facility and transportation utilization was very efficient.

With the introduction of mail preparation and transportation discounts, mailers began bypassing origin BMCs, presorting mail and entering it downstream at destination postal facilities. That trend has accelerated over the last several years. In FY 2007, 52 percent of Parcel Post was dropped at delivery units and 45 percent of Standard Mail was dropped at destination mail processing plants, thus bypassing BMC processing completely. Consequently, BMCs have excess distribution capacity. Some have reduced operations from 24 to 16 hours a day, and have closed some weekend operations.

BMC facilities are strategically situated near major metropolitan areas and transportation centers. Therefore, they are valuable assets that provide excellent logistical reach for various mail product lines. However, because of increased mailer sortation and downstream drop shipments, these postal assets are currently underutilized. This factor, in combination with increased highway contract expenses and an aging postal distribution infrastructure, has prompted an intense evaluation of the BMC network to determine how it can best support future postal operations.

Simultaneously, the Postal Service is considering the Phase II deployment of Flats Sequencing System (FSS) equipment. At destination, FSS equipment employs automation and reads barcodes to sort flat-shaped mail pieces to carrier

routes and in walk sequence. In order to realize the benefits of future FSS deployments, significant capital investment will be required to secure sufficient floor space in postal facilities to locate this large piece of equipment.

In addition to the high capital cost facing the Postal Service, the majority of the products that move through the current BMC network are market-dominant mail products subject to the new price cap regime. With an aging infrastructure, inefficient processing and transportation methods, rising energy prices, and declining network volume, it will be increasingly difficult for these products to cover their costs moving forward, let alone provide a positive contribution to the financial bottom line of the Postal Service for the benefit of the American mailing public.

Consequently, having engaged in extensive consultations with affected employee collective bargaining units, the Postal Service is considering the pursuit of an outsourcing solution – combining enhanced mail distribution, product visibility, and advanced transportation management techniques – for some of the existing BMC workload. Outsourcing may provide the Postal Service with the best opportunity to improve distribution and transportation efficiencies, and to add superior product visibility without major capital investments.

This potential solution would move the distribution and transportation of this mail volume into a contractor's transportation and processing network before it is ultimately delivered by the Postal Service, thus freeing up the BMCs for other postal operations. Outsourcing may also provide an opportunity to realize significant cost avoidances in support of future FSS deployments by permitting existing BMC facilities to house this new equipment. This outcome has the potential to result in a more cost-effective and service-responsive Time-Definite Surface Network for postal customers. It also is anticipated that outsourcing may result in a more consistent and predictable postal mail processing cost environment.

b. Time-Definite Surface Network

The operating concept under consideration for the Time-Definite Surface Network (TDSN) program is for the Postal Service to outsource the origin and destination distribution, as well as the long-haul surface transportation for all origin-entered Package Services mail, Standard Mail, sacks, trays/tubs, and pallets. The Postal Service may also recommend outsourcing the destination distribution for destination BMC entry Package Services and Standard Parcels only.

In addition to the distribution and transportation requirements, TDSN suppliers would be required to provide detailed mail tracking information for all products moving in their networks and would be held to strict service performance goals. These contract performance goals would be aligned with Postal Service service

standards and targets, the compliance with which is monitored by the Postal Regulatory Commission.

The Postal Service anticipates that an optimal network design would include the integration of its products with a supplier's products in a Shared Network concept. The Postal Service anticipates the following benefits from any potential Time-Definite Surface Network:

- a reduction in total network surface miles through floor-loading and tandem trailers, and by leveraging shared resources (e.g., empty back-hauls)
- a decrease in the number of hours required to complete processing and distribution
- better service for customers, as a result of the reduced transportation and distribution cycle time
- advanced information technology systems, including the ability to track each handling unit before, during, and at conclusion of all transportation and distribution processes, for both service measurement and operational diagnostics
- enhanced environmental sustainability through reductions in fuel consumption, as well as highway miles driven.

A core component of the proposed TDSN program is the future use of the space made available in the current BMCs. If mail volumes currently processed in BMCs were to migrate to a Shared Network, existing BMC equipment (i.e., Primary and Secondary Parcel Sorters and Sack Sorters) could be removed to create space for other operations. To realize the most benefit of utilizing the vacated space, the Postal Service is evaluating the relocation of various mail processing operations, which when combined, yield both operational savings as well as capital cost avoidance. The operations to be evaluated on a case-by-case basis include, but are not limited to:

- future Flat Sequencing System (FSS) deployment requirements
- Processing & Distribution Center (P&DC) replacement opportunities
- consolidation of bundle distribution
- consolidation of leased annex or other operations.

c. Program Status

This Network Plan represents the culmination of realignment analysis, the origins of which can be traced to 2001, when the Postal Service initiated the Network Integration and Alignment (NIA) program that later became the Evolutionary Network Development (END) program. The backbone of the proposed END network included a number of Regional Distribution Centers (RDCs), which were expected to perform bulk processing operations, and act as Surface Transfer Centers and mailer entry points. However, due to the impacts of the passage of

the PAEA in late 2006, the approval of the Phase I Flat Sequencing Systems (FSS), the 2007 postal rate changes which included significant shape-based price differentials, and the significant amount of capital investment required to implement the END network concept, the Postal Service determined that the RDC concept would not generate the benefits originally anticipated. In addition, the Postal Service received negative feedback from commercial customers regarding potential plans to require drop shipments at approximately 70 facilities rather than the current 28. Accordingly, in early 2007, the END program was stopped and the Postal Service began to consider an alternative strategy.¹⁴ By mid-2007, the concept of an outsourced Time-Definite Surface Network began to emerge.

In July 2007, the Postal Service issued a Request for Information (RFI), thereby conducting market research which could identify interested service providers with the capability to design and manage a time-definite distribution and transportation network. The primary objectives of the RFI were to:

- receive feedback on its strategy and approach for implementing a time-definite surface network, including potential alternative turnkey solutions based on industry and commercial best practices
- substantiate the extent to which capable suppliers can provide the services and solutions to design and manage a network of the size, scope and complexity envisioned
- obtain rough order-of-magnitude cost information to assist with postal planning and budgeting.

The Postal Service evaluated all of the industry responses in late 2007.

At the same time, the Postal Service has been developing an operating concept which will optimize the benefits of not only the Time-Definite Surface Network, but also the future use of its BMCs. In September 2007, the Postal Service began discussing the program in detail with unions that represent potentially affected postal employees. As required by applicable collective bargaining agreements, the Postal Service will give due consideration to their views during evaluation. If its network analysis suggests that the Time-Definite Surface Network is a viable alternative, the Postal Service could issue a Request for Proposal (RFP), which ultimately could result in TDSN contracts. While decisions as to whether to proceed with formal issuance of the RFP remain under consideration, work towards completion of a RFP is well underway.

Given the status of the program, it is premature to estimate potential costs, savings, labor impacts and timelines. Should an RFP be issued, its evaluation

¹⁴ Thus, in accordance with PAEA § 302(b)(3), the Postal Service emphasizes that the RDC-based network plan referenced at page 35 of the *USPS Strategic Transformation Plan 2006-2010* (September 2005) is no longer being pursued.

criteria would focus on identifying the best solution which combines enhanced mail distribution, product visibility, and advanced transportation management techniques resulting in a cost-effective, service-responsive network.

C. Integration of Network Initiatives

As demonstrated above, the Postal Service is planning to streamline its distribution and transportation networks to achieve an efficient, flexible, environmentally sound system that improves the consistency of service at the lowest combined cost for the Postal Service and its customers. Although the plan has several components that focus on different segments of the network, the overall impacts and execution of each initiative are tightly integrated.

Completion of the Airport Mail Center closures illustrates the importance of understanding other network initiatives. For example, the first step in the process was to remove the non-core operations from the AMCs and return them to the Processing & Distribution Centers. If operations were returned to a P&DC that was going to be subjected to the Area Mail Processing guidelines for consolidation analysis, these particular operations potentially would be relocated twice, increasing cost, unnecessary environmental impacts, and potentially adversely impacting service. Similarly, assuming the removal of existing equipment in Bulk Mail Centers, the availability of BMC floorspace for other operations may affect surrounding Processing & Distribution Centers. If Flats Sequencing Systems and bundle sortation equipment are deployed to BMCs, the P&DCs will experience a reduction in flat and bundle processing. This would create opportunities for AMP consolidations at those P&DCs which may have previously been deemed infeasible due to insufficient capacity at potential absorbing facilities. The integration of all of these potential initiatives is a complex undertaking for which Headquarters and Area Operations personnel are prepared.

D. Regulatory Concerns

PAEA § 302(c)(4)(B)(iv) directs the Postal Service to annually identify to Congress any statutory or regulatory obstacles that have prevented or will prevent or hinder the Postal Service from taking action to realign or consolidate facilities. In the spirit of that section, the Postal Service acknowledges the existence of current Congressionally-imposed delays of potential AMP consolidations. The Consolidated Appropriations Act, 2008, Public Law 110-161, 121 Stat. 1844 (December 26, 2007), currently restricts the Postal Service from implementing several AMP proposals, with approximately \$14 million in cumulative annual savings, in several locations.

The Joint Explanatory Statement accompanying the measure directs the Postal Service not to initiate implementation of these AMP consolidations until the

Government Accountability Office evaluates both the recently revised version of the *USPS Handbook PO-408 Area Mail Processing Guidelines* (March 2008) and this Network Plan. The Postal Service looks forward to the completion of the GAO's current Handbook PO-408 review, so that it can consider any constructive suggestions and, as soon as possible, reap the operational and cost benefits expected from these potential consolidations. Likewise, the Postal Service is hopeful that the upcoming GAO review of its Network Plan can be completed without causing a delay in its implementation. The Postal Service will continue to work with Congress to eliminate barriers to the pursuit of the goals of PAEA §302 and this Network Plan.

As Congress has recognized in PAEA § 302(c)(1)(C), network consolidation decisions must be made by postal managers who, by virtue of their knowledge and experience, are uniquely qualified to make them. The long-term viability of the Postal Service and thus, the general interests of the mailing public, are not served -- nor is the Postal Service able to satisfy the § 302(c)(1)(D) mandate that it act expeditiously -- when unnecessary barriers to effective and timely implementation of critical decisions are imposed.

IV. WORKFORCE RATIONALIZATION & EMPLOYEE IMPACT POLICIES

The United States Postal Service regards its employees as its most valuable asset. It also recognizes the advantages of having a diverse workforce that is able to address the needs of over 300 million customers throughout the United States and its territories. The Postal Service currently is faced with significant changes in the marketplace during a period of regulatory transformation. Now more than ever, the Postal Service appreciates the importance of placing the right people in the right jobs, and ensuring that employees are aware of opportunities for leadership development and career advancement.

A. Long-Term Workforce Vision and Complement Planning

Advances in mail processing technology, increased employee productivity and management improvements have required the Postal Service to constantly reassess its personnel needs. Because its workforce is the largest source of cost, the Postal Service has developed a variety of human resource management tools to help local managers more reliably determine the optimal staffing mix necessary to improve productivity and to meet customer service expectations. The Postal Service has improved efficiency while reducing its career employee complement by over 100,000 positions since FY 2000, with minimal impact on its employees. In the face of declining mail volumes and recent changes in the mail mix, effective workforce complement planning is an even more important objective under the newly established price cap regime for annual rate adjustments.

Complement planning is a business process that focuses on transitioning the workforce to meet operating changes, while minimizing disruptions to customer service. The Postal Service has developed and implemented national complement planning, tracking and management systems with standardized procedures and processes. Modeling tools allow field managers to develop budget-based complement plans. Actionable data give managers opportunities to monitor staffing and workhours by day of the week, operational group and operation. A recently-developed web-based application enables and tracks employee requests for voluntary transfers to any other postal facility throughout the country. Another web-based tool assists management in effectively addressing change events that have an impact on the workforce. Attrition reports facilitate adjustments to complement plans and replacement decisions. The efficient use of temporary and flexible employees and voluntary employee reassignments are additional methods of aligning employee complement and workload.

B. Employee Impact Policies

Implementation of the different components of the Network Plan described in the preceding chapter will have impacts on operations and personnel in facilities in various locations in the postal network. It is premature to project what the personnel or cost impacts may be for locations where the necessary operational consolidation analysis has yet to be performed, or for the network as a whole.

The Postal Service has long-standing policies and collective bargaining agreements that address the treatment of employees who accept, process, transport and/or deliver mail. Also, the Postal Service consults with associations that represent the interests of its non-bargaining management and supervisory employees. The Postal Service is acutely aware of the potential disruption that the automation of mail processing functions, the closing of facilities, the consolidation of operations, and the restructuring of administrative units can have on its employees. Accordingly, it has developed communications plans that explain the necessity of change and that disseminate vital information well in advance of the effective dates of personnel changes.

The Postal Service has long-standing procedures in place to minimize employee impact and potential disruption resulting from organization change, and to keep any such impacts site-specific and event-driven. These procedures, as a first step, explore the possibility of internally reassigning career employees affected by an organizational change. Should the implementation of the Network Plan make it necessary to apply these processes, all Postal Service career employee personnel actions will follow a general sequential escalation of impact and will comply with applicable rules and regulations, including Veterans' Preference laws.

1. Bargaining Unit Employees

As augmented by Postal Service policies, collective bargaining agreements between the Postal Service and the various unions contain provisions governing the treatment of bargaining unit employees impacted by organizational changes. These agreements vary by craft and include some or all of the following provisions.

a. No Layoff/No Reduction In Force (RIF) Provisions

These provisions prohibit the involuntary separation of most employees due to organizational changes. Employees who are not now covered by these provisions gain their protection in the future when they meet necessary conditions.

b. Reassignment And Saved Rate/Protected Rate Provisions

Reassignment provisions specify the procedure for reassigning employees to vacant positions within or outside their facilities due to organizational changes. The saved rate/protected rate provisions (as augmented by Postal Service policies) specify the terms of grade/wage rate protection afforded to eligible employees who are involuntarily changed to lower-level positions due to organizational changes.

c. Recall Rights Provisions

Eligible employees who are involuntarily separated due to organizational changes are placed and remain on a recall list within their seniority unit for up to two years.

d. Voluntary Early Retirement Provisions

Under these provisions, the Postal Service requests authority from the Office of Personnel Management (OPM) to offer eligible impacted employees opportunities to apply for voluntary early retirement. It is the Postal Service's policy to request such voluntary early retirement authority from OPM even for impacted employees covered by collective bargaining agreements that do not contain voluntary early retirement provisions.

e. Severance Pay Provisions

Under these provisions, as augmented by Postal Service policies, qualified employees who are involuntarily separated due to organizational changes, and who are not eligible to apply for discontinued service retirement or optional retirement, receive severance pay.

2. Non-Bargaining Employees

When there is a potential that one or more non-bargaining employees will be involuntarily separated and/or changed to lower-level positions due to organizational changes in a facility or organization, the Postal Service uses various tools to attempt to avoid or minimize those involuntary separations and/or changes. In most cases, the Postal Service's use of the tools outlined below results in most, if not all, impacted employees in a facility or organization avoiding involuntary separations or changes to lower-level positions. These tools include offering impacted employees the following options.

a. Voluntary Promotion-Reassignment-Downgrade Opportunities and Grade/Salary Protection

The Postal Service offers impacted employees opportunities to voluntarily apply for vacant positions (at higher levels, the same levels, and/or lower levels than their former positions) within and/or outside their facilities or organizations. This may include restricting the candidate pool for vacant positions in the relevant facility or organization to impacted employees.

Eligible employees who voluntarily accept lower-level non-bargaining positions due to organizational changes are provided with grade/salary protection.

b. Voluntary Early Retirement Opportunities

The Postal Service requests authority from OPM to offer eligible impacted employees opportunities to apply for voluntary early retirement. This authority may be requested for employees in positions in the impacted facility or organization, or in another facility or organization not impacted by the organizational changes at issue, but which could provide assignment opportunities for impacted employees.

c. Directed Reassignments

The Postal Service may make involuntary assignments of impacted employees to vacant positions in another facility or organization that are the same as their former positions. Most directed reassignments are within the same local commuting area as the impacted employee's former facility or organization.

Eligible employees who are involuntarily changed to lower-level positions due to organizational changes are provided with grade/salary protection.

Eligible employees who are involuntarily separated due to organizational changes may request that their names be placed and remain on a reinstatement list for up to two years, during which time they are given priority consideration for certain positions.

Qualified employees who are involuntarily separated due to organizational changes, and who are not eligible to apply for discontinued service retirement or optional retirement, receive severance pay.

C. Conclusion

In fulfillment of its obligation under 39 U.S.C. § 1001(e)(4) “to maintain the efficiency of the operations entrusted to it[,]” the Postal Service approaches the task of workforce reductions with a high degree of sensitivity to its employees. At the same time, the Postal Service recognizes the interests of its customers who generate mail and who often have access to private-sector alternatives to postal products and services. Over the past decade, the Postal Service has reduced its employee complement largely through attrition, but has used the various tools described above as necessary on a site-specific basis.

The Area Mail Processing consolidations and proposed Bulk Mail Center network reconfiguration will involve numerous site-specific employee impact determinations which cannot be quantified until the changes proposed for particular facilities have been identified and thoroughly analyzed. The Postal Service considers that, for purposes of its Network Plan, it has sufficient flexibility with which to make the workforce changes that may be necessary. To the extent that implementation of the plan requires the accomplishment of workforce reductions more expeditiously than can be achieved through attrition, the Postal Service’s vision is to use its available complement management options in a manner that respects its employees concerns and places a high priority on remaining competitive in the marketplace.

V. ALTERNATE RETAIL OPTIONS

PAEA § 302(d) requires the Postal Service to describe its plans to expand and market retail customer access to its services through channels other than traditional Post Office locations. As the Postal Service adjusts to the financial and cost-containment challenges that arise under the newly enacted price cap regime, it is increasingly important that it develop and promote efficient and cost-effective methods of providing retail customers access to products and services.

The Postal Service manages the most extensive retail operation in the country – over 37,000 Post Office locations, stations and branches, as well as an additional 63,000 alternate retail options – making it quick, easy, and convenient for customers to conduct a variety of transactions. The Postal Service serves more than 9 million customers daily throughout its retail network. These transactions generate approximately \$19 billion in annual receipts through the sale of postal products and services, the purchase of postage stamps, packaging supplies, other postal-related items, as well as passport application services.

The Postal Service is committed to continuously improving the quality and functionality of its retail network, with a focus on providing customer convenience. The Postal Service offers traditional “brick-and-mortar” retail outlets and a variety of easy-to-use alternate retail options close to where customers live, work and shop. Future retail network initiatives will be developed based on market research and an assessment of customer needs, as well as the availability of new alternatives and technologies that enhance customer access. Advertising and marketing campaigns will be aligned to inform customers of expanded and new alternate retail access solutions.

Below, the Postal Service generally describes the mix of alternate postal retail channels currently available, including those listed in PAEA § 302(d)(5). As will be observed below, some are either being expanded or phased out, while others are currently being market tested for potential deployment.

A. www.usps.com

The Postal Service’s public website -- www.usps.com -- tallied nearly 387 million visits in FY 2007. Approximately 232 million were from self-described personal users. Surveys indicate that 85 percent of personal users and 78 percent of business users consider visiting the website to conduct transactions they routinely would perform at a Post Office unit.

Initially launched in 1997, www.usps.com now has more than 20 online applications and thousands of pages of useful information. Today’s online household and/or small business postal customers expect online access to as many products and as much information as is provided in post offices, with essentially the same quality of service. Accordingly, the website serves as a vital

extension of the Postal Service's mainline retail operations. Today, the tasks that household and small business customers can perform and the services they can obtain at the website include:

- finding ZIP Codes
- calculating postage
- printing shipping labels – with or without postage
- scheduling carrier pickup
- tracking packages and confirming delivery
- locating post offices
- ordering shipping supplies
- purchasing stamps and philatelic items
- filing change-of-address or mail forwarding notices
- filing requests for a temporary hold on mail delivery
- requesting redelivery of missed packages or other mail pieces.

As the Postal Service, and use of the Internet, evolve, so will www.usps.com. The website is expected to continue to drive volume growth and increase postal revenue, create future opportunities to support new product and service offerings, and reduce costs.

B. USPS Approved Shippers

The USPS Approved Shipper concept was created in 2005 to help the Postal Service become more competitive in the retail package market. Under this program, the Postal Service executes contracts with existing commercial enterprises that are in the business of tendering retail parcels to the Postal Service or its competitors. Enterprises which become USPS Approved Shippers sign a licensing agreement with the Postal Service and are authorized to display postal signage advertising postal products and services. They are trained to apply postal aviation security and hazardous materials guidelines in accepting letters and packages, before tendering them on behalf of their customers to the Postal Service. These retailers are not compensated by the Postal Service; however, they do charge their customers fees for the services they provide.

The USPS Approved Shipper initiative increases postal package volume growth, improves ease of access to postal services, and promotes the USPS brand to customers, without adding any significant permanent postal infrastructure costs. The program has grown rapidly, and currently includes over 2,000 participating retail locations.

C. Contract Postal Units

Contract Postal Units (CPUs) are located inside private sector retail establishments and are operated by each retailer's employees. CPUs provide postal products and services to communities that are remotely located, where

populations fluctuate substantially on a seasonal basis, where traditional post offices are either not available or the nearest ones are overburdened. By creating alternate access points for customers, the CPU program helps the Postal Service to retain and/or increase its market share for certain products, reduce operational costs, and improve customer satisfaction. There are approximately 4,100 CPUs across the country. As local circumstances warrant, the Postal Service will explore the costs and benefits of CPU expansion.

D. Post Office Express

The Postal Service currently is field testing the Post Office Express (POE) retail concept in 16 locations around the country. A Post Office Express operates as a small Post Office unit located within a private sector commercial retail establishment – typically a large supermarket. It differs from a CPU in that it is staffed by postal employees, rather than the retailer’s employees. Most of the test units are open seven days a week, with evening and weekend hours that reflect local retail shopping patterns. As opportunities are identified, additional POEs may be added to the postal retail network.

E. Retail Facilities with Overhead Costs Shared by Other Government Agencies

The Postal Service operates Post Office units in nearly 170 Federal buildings managed by the General Services Administration (GSA). Many of these buildings have had a postal retail presence for half a century or more. As long as the location of Post Office units in these facilities can result in effective service to the mailing public in a manner that is economical and consistent with applicable postal retail policies, the location of Post Office units in GSA buildings will remain a viable option.

At over 180 military installations throughout the United States and its territories, the Postal Service operates Post Office units in buildings provided by the military. The Postal Service assumes responsibility for the payment of utilities. These facilities provide access to postal services for military personnel and their families who otherwise may have limited access to Post Office units located in civilian communities. The availability and location of these retail outlets is subject to the needs of these military installations.

F. Stamps on Consignment

The long-standing Stamps on Consignment program allows customers to purchase postage stamps at banks, supermarkets, wholesale clubs, convenience stores and drug stores. Though paying full value to the Postal Service, retailers sell postage stamps to their customers either at or below face value as an additional incentive for customers to frequent their establishments. Stamps on Consignment reduces demand for postal window services from customers who

only need to purchase stamps, and allows postal customers to purchase stamps while banking, shopping or picking up prescriptions. The number of participating private sector retail establishments has grown to approximately 50,000. The Postal Service intends to continue to explore additional opportunities to expand this alternate channel.

G. Stamps by Mail

The Stamps by Mail program offers customers the ability to easily place a mail order for stamps, postal cards, and stamped envelopes through a Postal Service brochure. Customers may obtain the brochures and order forms at post offices or receive them through the mail. Completed order forms are mailed or otherwise transmitted to postal fulfillment centers, where orders are filled and the requested postal products are mailed to the purchaser.

H. Postal Carrier Retail Transactions

Known as “post offices on wheels”, Postal Service rural letter carriers make it possible for customers on their routes to complete a wide range of postal retail transactions without having to travel to a post office. There are approximately 77,000 rural routes that serve more than 38 million addresses six days a week. Rural carriers sell stamps, accept packages, sell Postal Money Orders, and other special services such as Certified Mail, Registered Mail, Delivery Confirmation, and Signature Confirmation. These services may be obtained from the carrier by leaving a note in the mailbox, along with the appropriate payment. The carrier will provide the services and leave a customer receipt in the mailbox.

Carrier Pick-up service allows customers needing to ship Express Mail, Priority Mail, or international packages to request that their packages be picked up when their mail is delivered by their regular Postal Service carrier. By preparing packages with postage-paid mailing labels created via www.usps.com, many customers can avoid a trip to the post office. There is no additional fee for this service, and any number of packages can be picked up at one time. Pick-ups can be scheduled up to three months in advance through www.usps.com. Carrier Pick-up service began in 2004 and has grown exponentially over the years. In FY 2007, there were approximately 4.2 million requests for the service and over 40 millions packages were picked up.

I. Automated Postal Centers

The Automated Postal Center (APC) is a state-of-the-art self-service kiosk designed to offer retail customers a wide range of postal products, services, and information. There are approximately 2,500 APCs deployed in post offices throughout the country. In many locations, customers enjoy the convenience and reliability of 24-hour access, seven days a week. APCs enhance access to a variety of postal products, services and transactions, such as:

- weighing and rating letters, flats and parcels up to 70 pounds
- dispensing postage in any denomination for Express Mail, Priority Mail, First-Class Mail, international mail, Parcel Post and selected special services
- providing information regarding different mail products or special services
- printing Express Mail forms
- providing ZIP Code look-up
- providing the option to purchase Delivery Confirmation, Signature Confirmation, Insurance, Certified Mail, and Return Receipt services.

J. Vending Machines

As postage stamp vending machines become outdated and obsolete, they are being phased out. Vending machine maintenance, including the cost of obtaining, warehousing and distributing spare parts, has become prohibitive. Changes in United States currency that are necessary to combat counterfeiting schemes require the application of additional software upgrades to vending machine bill validators. In addition, the Presidential \$1 Coin Act of 2005, Public Law 109-145, 119 Stat. 2664 (December 22, 2005) requires all vending machines on Federal property to accept and dispense dollar coins. Upgrading the hardware on vending machines that do not comply with this requirement is not cost-effective. The cost associated with packaging stamps for sale in the vending machines continues to escalate. Over time, the vending stamp channel has evolved into the most expensive of the alternate stamp purchasing channels. The advent of Automated Postal Centers and the growing popularity of the various other retail options described above have led the Postal Service to beginning phasing out its vending machines. At the same time, the Postal Service is currently researching the feasibility of a Print-on-Demand Postage kiosk, which would allow customers to purchase stamps via automated equipment that accepts cash, as well as credit/debit cards.

Accordingly, in 2007, the Postal Service initiated a four-year plan for the retirement of its current vending fleet. Machines in locations with the lowest revenue were the first priority, followed by machines not in compliance with Public Law 109-145. In 2009 and 2010, machines will be removed on the basis of lowest revenue until all have been retired. As machines are removed, critical parts will be harvested in order to keep remaining machines in working order until they are removed.

In order to minimize any adverse customer impact caused by vending machine removal, the Postal Service has developed a communications plan. Signs have been created for display in post office lobbies during the removal process to help customers understand alternate postage purchase options. Information has been prepared for dissemination to local newspapers, to help spread public awareness. Retail employee training has been undertaken to ensure that postal

window clerks can readily inform customers of available options. Available information indicates that Postal Service efforts so far have been successful -- the sale of stamps at the retail window and vending machines has decreased, while stamp sales at other alternate access locations have increased.

K. Postage Meters

Postage meters have been an important alternate postage access channel for customers for over 80 years. Approximately 1.6 million customers, primarily businesses and other institutions, use postage meters and generate over \$18 billion in postage revenue annually.

The most dramatic change in postage meters since their introduction is the development of Information-Based Indicia (IBI) meters. IBI meters produce postage indicia that have information embedded in a two-dimensional barcode in combination with human readable information. The embedded data make each IBI unique; this attribute allows the Postal Service to detect duplicates in the mailstream as they are read by automated mail processing equipment. In addition, IBI meters contain a Postal Security Device that is certified to meet Federal Information Processing Standards by a laboratory approved by the National Institute of Standards and Technology.

Postage meters are offered to customers by private vendors that have systems and products approved by the Postal Service. These vendors develop products and submit them to the Postal Service for testing, evaluation and approval. The Postal Service evaluates these products for operational stability, revenue security, and their ability to extend the accessibility and convenience of postal products and services. Once approved, the meters are offered by the vendor to postal customers under lease agreements.

IBI meters now account for nearly 60 percent of all postal meters in use.¹⁵ The Postal Service intends to continue encouraging a natural migration of customers and the industry to IBI meters in a variety of ways, including the development of products and services that take advantage of the information-rich capability of the IBI barcode to add value to metered mail for customers.

L. PC Postage

PC Postage allows customers to print evidence of postage payment for all postal products and services (with the exception of Periodicals Mail) using personal

¹⁵ The Postal Service intends to complete its long-standing Meter Decertification Plan, which requires the removal of the remaining letter press meters from the market by December 31, 2008. The decertification of letter press postage meters is in response to a GAO determination that such meters are susceptible to fraud.

computers and printers in offices and homes, twenty-four hours a day, seven days a week. Using a credit card, customers can purchase postage indicia via the Internet from an approved PC Postage provider. Certain PC Postage products have evolved into package shipping solutions with the integration of electronic Delivery Confirmation, Express Mail and United States Customs forms.

Currently, several implementations of PC Postage technology provide postal small business customers with convenient access to postage indicia:

- Commercial PC Postage solutions - Commercial vendors approved by the Postal Service market PC Postage services directly to customers.
- Click-N-Ship - Through a contract with an approved vendor, the Postal Service makes PC Postage technology available at www.usps.com to mailers of Package Services pieces. Customers who access PC Postage in this manner tend to be low-volume household and small-business mailers who cannot be served in a cost-effective manner directly by commercial PC Postage providers.
- Partnerships - The Postal Service has partnered with a major Internet auction and sales website and an approved commercial PC Postage vendor to make PC Postage payment available to merchandise shippers who operate through that website. The Postal Service will continue to explore additional partnerships to integrate PC Postage technology into other on-line trading, auction, and retail sites with high-volume package shippers.
- Customized Postage - Customized Postage uses PC Postage technology to allow customers, including households and small businesses, to order postage indicia that include a personalized image. The indicia can be affixed to mail pieces in the same manner as postage stamps. Customized Postage is currently being offered by commercial PC Postage providers or their partners under a market test.

PC Postage has increased the attractiveness of Postal Service products and services by providing online solutions to customers similar to those offered by postal competitors. Some PC Postage products allow shipping customers to compare prices among competitors. In addition, because PC Postage technology includes an electronic Delivery Confirmation capability and the use of an Information Based Indicia (IBI), the products contribute to mailstream intelligence.

Going forward, the Postal Service plans to increase the functionality and availability of all PC Postage implementations.

M. Conclusion

Customer service is at the heart of the United States Postal Service brand, and is the key to increased competitiveness. Evolving customer needs, shaped by the Internet and a new generation of customers, are redefining expectations for service and convenience. The Postal Service is committed to continuously improving the quality and functionality of its retail network, with a focus on improving customer service and convenience. Accordingly, the Postal Service offers a variety of alternate channels through which customers can access core postal services, conduct a variety of postal transactions, and obtain product information – either at home, while out shopping, or via the Internet. New retail channels are under development that require less capital expenditure and minimize the incremental cost of providing service. The Postal Service is poised to meet the needs of the general mailing public and will continue to explore future options that make being a postal customer easier and more convenient than ever before.

NETWORK PLAN CONCLUSION

The Postal Service has developed this network plan after consultations with the Postal Regulatory Commission that were initiated in February 2008. As always, the Postal Service appreciates the opinions and insights offered by the Commissioners and their technical staff. Ultimately, however, the responsibility of determining the nature of future mail processing and transportation networks, postal personnel policies, and the manner in which alternate retail options are promoted, rests with postal management. The network plan explained above reflects various major initiatives that are expected to result in better and more efficient operations and customer service. As the Postal Service strives to achieve its goal of continuous improvement, it will rely on a comprehensive set of market-dominant product service measurement systems that will provide the Commission with a basis for fulfilling its responsibilities under PAEA § 3653(b)(2). As it embraces the increased accountability required by the Postal Accountability and Enhancement Act, the Postal Service looks forward to exercising its responsibility for making any necessary and difficult network rationalization decisions with the full support of a watchful Congress.