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

MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012 DOCKET NO. N2012-1

DIRECT TESTIMONY OF FRANK NERI

ON BEHALF OF THE

UNITED STATES POSTAL SERVICE

(USPS-T-4)

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AUTOBIOGRAPHICAL SKETCH

My name is Frank Neri. Since October 2009, I have served as the Manager of Processing Operations in Network Operations at United States Postal Service (USPS) headquarters. My office has primary responsibility for developing and administering nation-wide policies and programs for mail processing operations at Processing and Distribution Centers (P&DCs), Network Distribution Centers (NDCs), Logistic Distribution Centers (L&DCs), and Remote Encoding Centers (RECs). Processing Operations consists of three subordinate units: Processing and Distribution Center Operations; Network and Logistics Distribution Center Operations; and Area Mail Processing and Facility Consolidation. Collectively, Processing Operations works with other Headquarters and field functional departments on issues related to mail processing, equipment deployment, labor negotiations, facilities, transportation, and delivery.

I began my postal career in 1984 as an Industrial Engineer. I have served in the following postal management positions: Automation Advisor, Northeast Area; Operations Specialist, Systems Integration Support, Headquarters; Manager, In-Plant Support, Eastern Area; Plant Manager, Akron, Ohio P&DC; Senior Plant Manager, Manchester, New Hampshire P&DC; Senior Plant Manager, Boston, Massachusetts P&DC; and District Manager, Philadelphia Metropolitan District.

I received a Bachelor of Science Degree in Industrial Engineering from Polytechnic Institute of New York. During my Postal Service assignment as a Sloan Fellow, I earned a Masters Degree in Business Administration from Massachusetts Institute of Technology.

I testified before the Postal Regulatory Commission (PRC) previously in Docket Nos. N2010-1 and R2010-4

I. Purpose and Scope of Testimony

The purpose of my testimony is to provide an overview of mail processing operations and describe the opportunities achievable through the alignment of operations with the Postal Service's proposed Mail Processing Network Rationalization Service Changes, which provide for changes to the mail processing infrastructure and network, transportation network, and service standards. My testimony begins with a general overview of Network Rationalization. I describe the current state of mail processing operations that includes mail flows, service standards, and operating plans. Then, I discuss the process for change, and the proposed mail processing network and describe revised mail flows, service standards, and operating plans. I discuss the repositioning of mail processing equipment and material handling, night differential, productivity, and staffing. I conclude with a discussion on how we plan to implement these changes.

There is one library reference associated with my testimony: USPS LR-N2012-1/10.

II. Network Rationalization

For decades, the Postal Service expanded its mail processing network and infrastructure to accommodate a growing nation and increasing mail. The nationwide expansion resulted in more processing facilities, processing equipment, vehicles, and employees. Through Network Rationalization, the Postal Service can adapt its network and infrastructure to current and projected economic realities. The Postal Service must significantly reduce excess capacity and cut costs across the board.

The Postal Service is continually improving efficiencies by making better use of space, employees, equipment and transportation to process the nation's mail and meet its goal of providing efficient universal service. When mail was increasing, state-of-the-art automated mail processing equipment was deployed to enable more efficient processing. During this time period, many commercial mailers increasingly engaged in workshare initiatives by applying barcodes, presorting the mail, and entering mail into the postal network closer to its final delivery point, thereby bypassing many postal processing and transportation operations. In addition, First-Class Mail has declined by approximately 25 percent since 2006. These combined factors have contributed to considerable excess processing capacity at many mail processing facilities and within the postal network as a whole. While the Postal Service has made great strides recently, further opportunities are being pursued actively to increase efficiency by consolidating and/or closing mail processing facilities, reducing mail processing equipment (MPE), right-sizing the labor force, and shrinking the transportation network.

III. Current Mail Processing Network Overview

The current Postal Service mail processing infrastructure consists of the following facilities: Processing & Distribution Centers (P&DCs), Processing & Distribution Facilities (P&DFs), Logistic Distribution Centers (LDCs), Network Distribution Centers (NDCs), Customer Service Mail Processing Centers (CSMPCs), Delivery Distribution Centers (DDCs), Mail Processing Annexes (MPAs), and Surface Transfer Centers (STCs).

Nationwide the Postal Service has over 487 mail processing facilities that process mail, in most instances 7 days a week and 24 hours a day.

A. Current Mail Flow

Mail processing is accomplished through a system of mail flows that reflect the movement of mail either within a mail processing facility or between mail processing facilities. Most mail that is entered at facilities for processing is distributed in accordance with two basic mail flows: outgoing and incoming.

1. Outgoing Mail Flow

Outgoing (originating) mail enters the mail stream from a mail processing facility's local service area, which is defined by the 3-digit ZIP Code prefix area(s) that the facility serves.

Once the mail is entered, the stamped mail is cancelled and commercial mail is accepted and prepared for distribution. The mail that requires outgoing processing is worked in outgoing operations that employ primary sort programs which separate the mail to specified locations defined by two National Distribution Network Logistics directories: Area Distribution Center (ADC) and Automated Area Distribution Center (AADC). The ADC directory is used for the sortation of manual letters, flats, and parcels. The AADC directory is used for the sortation of automation letters. These directories were created to combine

multiple 3-digit ZIP Code prefixes into a single separation at an origin site and to support a rapidly growing mail processing infrastructure and transportation network.

When engaged in outgoing primary operations, automated processing equipment separates mail with heavier density destinations into segregated bins based on the 3-digit ZIP Code prefix and combines the mail for lighter density destinations into a single bin for further processing. Destinations with lighter density are processed again on an outgoing secondary sort program and are ultimately sorted to the final 3-digit ZIP Code prefix and/or 5-digit ZIP Code destinations. Mail leaving the origin facility is generally dispatched on either air or surface transportation. Mail that is destined for addresses within the delivery service area of the originating facility is commonly referred to as "turn-around mail" and is further sorted to its destination via the incoming operations at that same facility before being dispatched to the local Post Offices and other delivery offices within the service area for delivery.

Outgoing mail conceptually enters the mail stream from two general entry points:

- Post Office Locations: This mail consists of single-piece mail that is typically deposited in collection boxes, picked up by carriers, or tendered to Post Offices (including presorted commercial mailings), Contract Postal Units (CPUs), Approved Shippers, and other alternate access channels. Usually this is either stamped First-Class Mail that must be cancelled or Business Reply Mail (BRM). Additionally, presorted commercial mailings may be entered at Post Office locations.
- Business Mail Entry Units (BMEUs) and Detached Mail Units (DMUs): This mail typically consists of commercial mail presented in bulk from business or institutional mailers. Also, some commercial mailings are transported by mailers directly to the postal processing facilities for entry.

2. Incoming Mail Flow

Incoming (destinating) mail consists of mail transported from other USPS mail processing facilities, mailers who induct shipments of their mail via Plant-Verified Drop Shipment (PVDS), and local turn-around mail. Mail arriving from other mail processing facilities is typically worked on a Managed Mail Program (MMP) sort program. This operation separates heavy volume destinations and sorts the remainder to either the 3-digit ZIP Code prefix or 5-digit ZIP Code level. Incoming mail is processed on an incoming primary sort program and is merged with the turn-around mail that originated in the facility during the outgoing processing.

B. Mail Flow -- Processing Categories

Mail is categorized by three basic processing categories (shapes): Letters, flats, and parcels. The shape of the mailpiece determines the processing method. The mail flow and processing of letters, delivery point sequence (DPS) letters, flats, and parcels are described as follows:

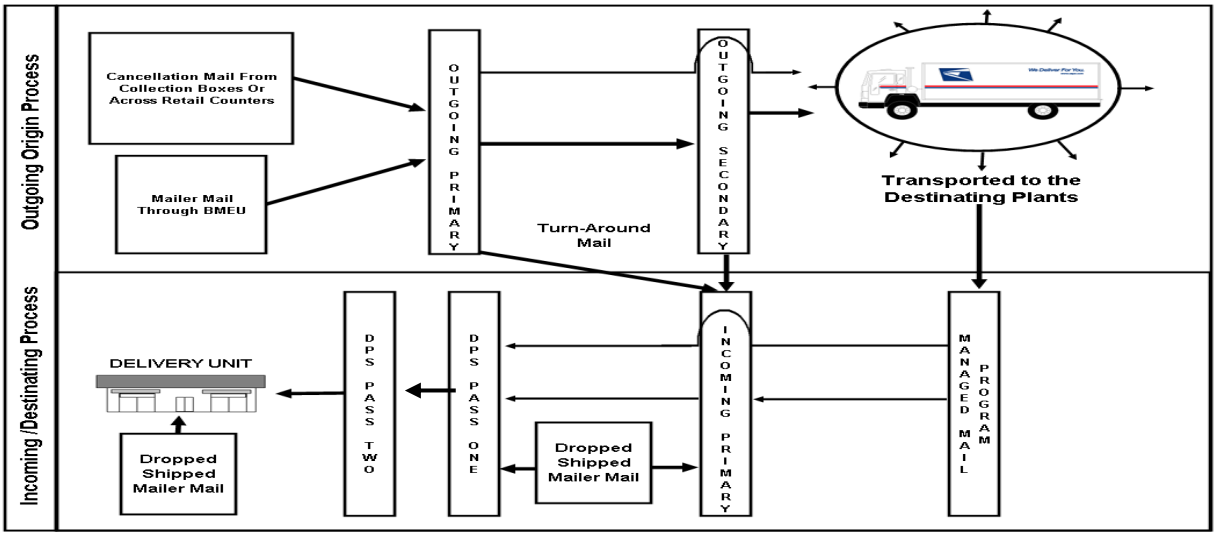
1. Letter Processing

Originating letters flow to an outgoing operation and are processed on an outgoing primary sort program, where they are separated to the 3-digit ZIP Code prefix or 5-digit ZIP Code. Because the average automated letter-sorting machine doesn't have enough bins to finalize all the mail on an outgoing sort program, a secondary handling is required. Mail that requires secondary handling is processed on an outgoing secondary sort program, where letters are separated to the 3-digit prefix or 5-digit ZIP Code. If the turn-around mail was not sorted to the 5-digit ZIP Code, the mail is flowed to the incoming primary operation for sortation to the 5-digit ZIP Code. Then this mail is flowed to incoming secondary operations for delivery point sequence (DPS) processing. Letter mail that is destined

outside the local service area is dispatched via surface or air transportation to other destinating mail processing facilities for further processing.

Destinating letters flow to an incoming operation and are processed on an incoming primary sort program, where they are separated to the 5-digit ZIP Code. Then, this mail is flowed to an incoming secondary operation for DPS processing. Figure 1 illustrates the end-to-end mail flow of letter-sized mailpieces.

Figure 1: Letter Mail Flow

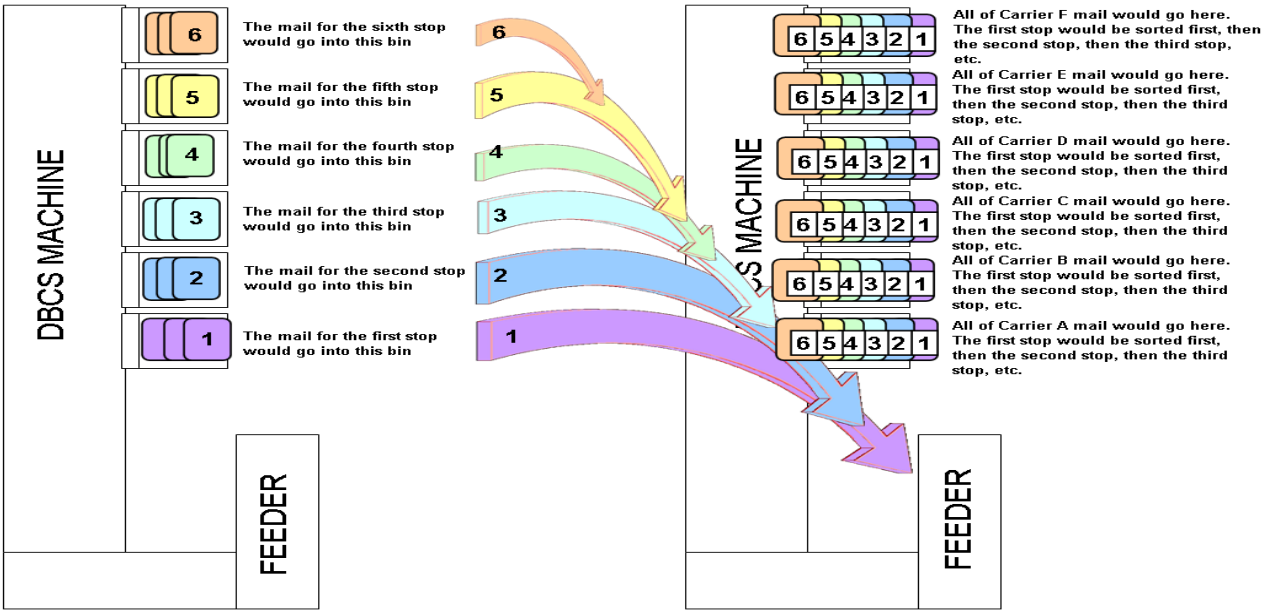


2. DPS Processing

When incoming letters flow to the incoming secondary operation, they are sorted to the carrier route or delivery point sortation (DPS) levels. DPS is the process of arranging barcoded letters into the precise order in which they would be delivered by the letter carrier. This operation relieves the carrier of having to manually sort (or "case" and later "pull-down") the mail before going to the street for delivery. In most cases, this requires processing the mail in two passes on an automated Delivery Barcode Sorter (DBCS) using a DPS sort program. When processing DPS, the first pass separates the mail into

sequence order (*i.e.*, mail for all carriers' first delivery point are sorted together, then mail for all carriers' second delivery points are together, etc.), and the second pass then separates the sequenced mail by carrier (see Figure 2).

Figure 2: Letter DPS Process[1]



3. Flats Processing

Flats (large envelopes, catalogs, circulars, and magazines) follow a path similar to that of letters. Originating flats are worked on an outgoing primary sort program, where they are separated to the 3-digit ZIP Code prefix and/or 5-digit ZIP Code. Turn-around mail is separated during the outgoing primary sort program. If the turn-around mail was not sorted to the 5-digit ZIP Code, the mail is flowed to the incoming primary operation for sortation to the 5-digit ZIP Code. Because the average automated flat-sorting machine doesn't have sufficient bins to finalize all the mail on an outgoing sort program, a secondary handling is required. Mail that requires secondary handling is processed on an outgoing

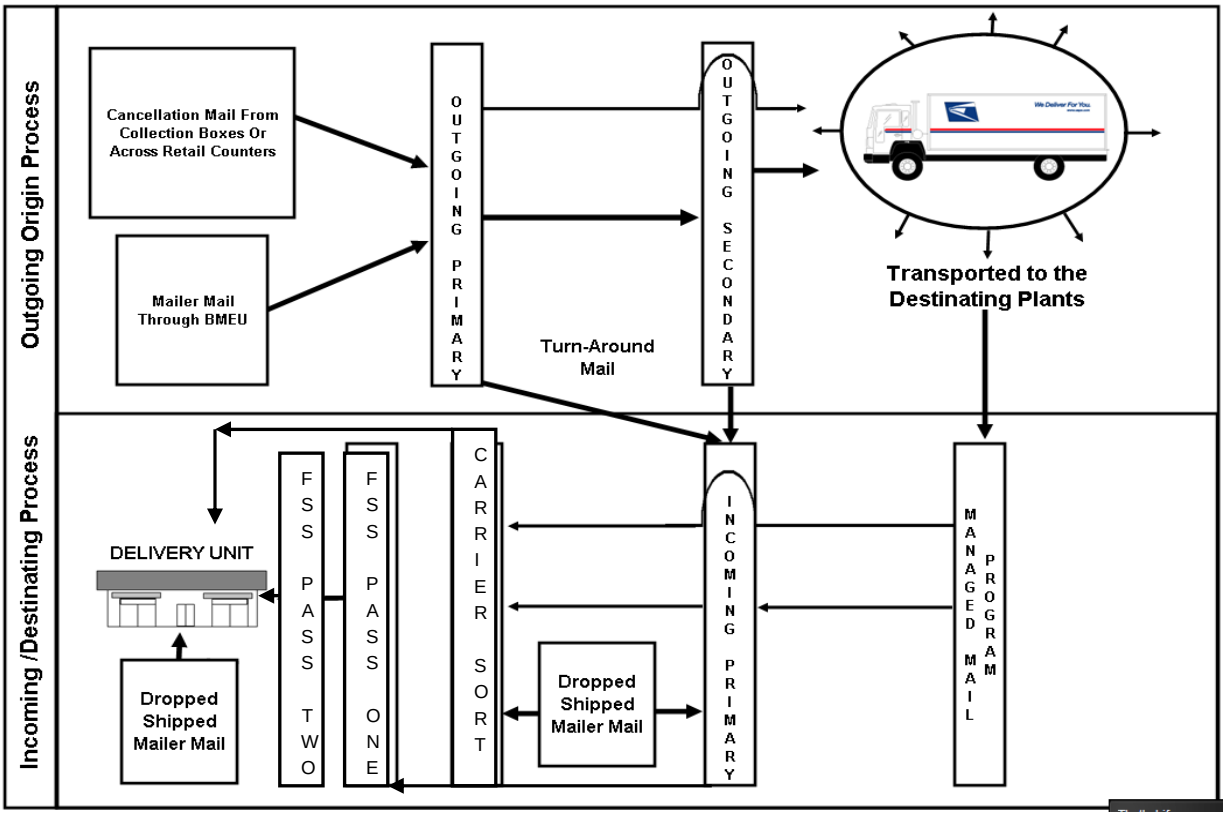
[1] In some Customer Service Mail Processing Centers, letters may be processed for delivery point sequence on a Carrier Sequence Bar Code Sorter (CSBCS), which requires three passes.

secondary sort program where flats are separated to the 3-digit prefix or 5-digit ZIP Code. Flat mail that is destined outside the local service area is dispatched via surface or air transportation to other destinating mail processing facilities for further processing.

Destinating flats are worked on an incoming primary sort program, where they are separated to the 5-digit ZIP Code. At many mail processing facilities, the flat mail is flowed to the incoming secondary operation for sortation to the 9-digit level (carrier route). For facilities with a Flat Sequencing System[2] (FSS), the flat mail is flowed to the incoming secondary operation for delivery point sequencing on the FSS. The FSS relieves the carrier of having to sort the mail manually before going to the street for delivery. The process flow for flat-sized mail is depicted below in Figure 3.

[2] There are 100 Flat Sequencing Systems strategically positioned at 47 USPS locations. These systems process flat-sized mail for approximately 1,200 delivery offices or 43,000 delivery routes.

Figure 3: Flat Mail Flow



4. Parcel Processing

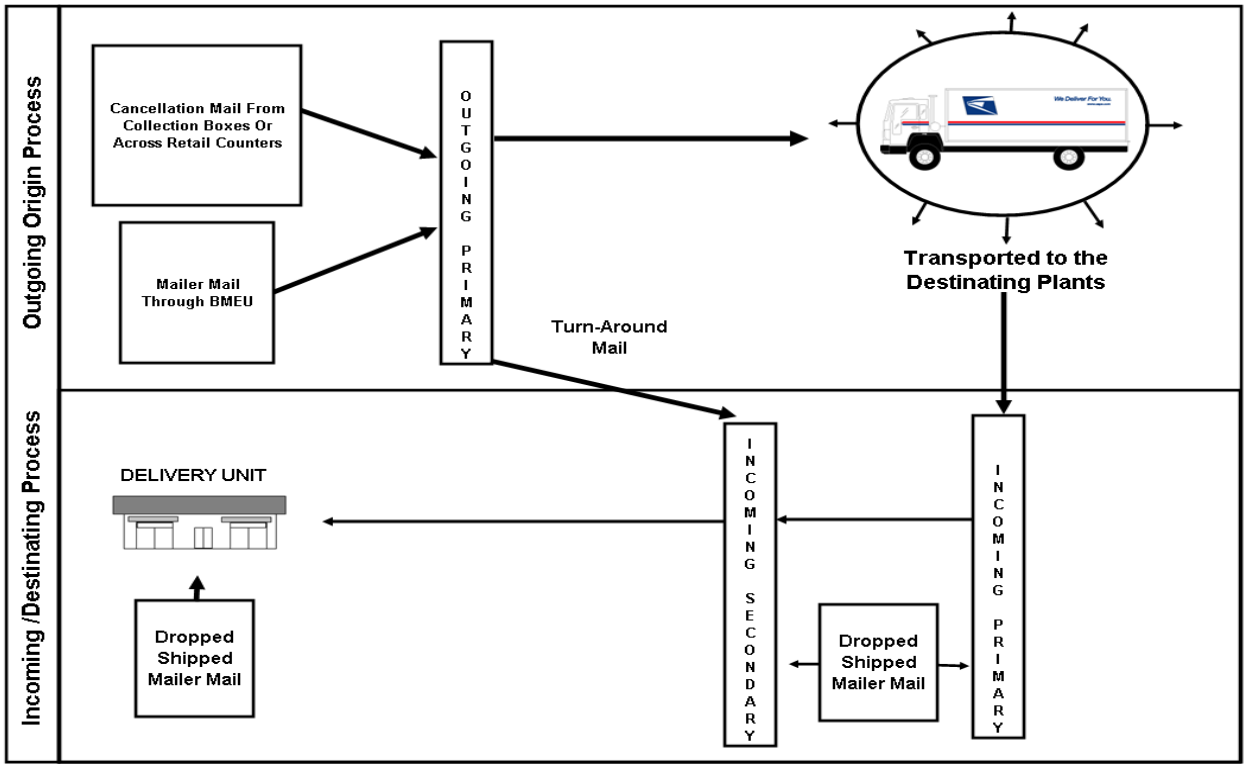
Parcels are processed on the following mail processing equipment: Automated Package Processing System (APPS), Automated Parcel Bundle Sorter (APBS), Small Parcel Bundle Sorter (SPBS), and Linear Induction Parcel System (LIPS). Additionally, parcels that do not fit the dimensions for automation and mechanization processing are processed manually. Parcels are processed in accordance with the following mail flows:

- Outgoing (originating): Parcels are worked on an outgoing primary sort program, where they are separated to the 3-digit ZIP Code prefix. Turn-around mail is separated and flowed to the incoming operation for further processing. Parcels that are destined outside the local service area are dispatched via surface or air transportation to other destinating mail processing facilities.

- Incoming (destinating): Parcels are sorted to 5-digit level and are dispatched to the delivery unit for final distribution and delivery.

Figure 4[3] displays the mail flow for parcels within a typical Processing & Distribution Centers (P&DC), Processing & Distribution Facilities (P&DF), and Mail Processing Annexes (MPA).

Figure 4: Parcel Mail Flow



C. Current Service Standards

In 2007, the Postal Service modernized the service standards which determine how its market-dominant mail classes and products are sorted, transported, and delivered. These standards determine whether mail travels by surface or air transportation. Historically, the current mail processing infrastructure and transportation networks were

[3] Parcels are also processed at NDCs and LDCs, which are not reflected in Figure 4.

developed over time to primarily support achievement of service standards for First-Class Mail and Periodicals -- particularly the overnight service standards.

Currently, the service standards for First-Class Mail, as set forth in 39 C.F.R. Part 121.1, range from 1 - 3 delivery days for mail that travels within the contiguous United States, and 1 - 5 delivery days for mail that originates or destinates in the states of Alaska and Hawaii, or the territories of Puerto Rico, the United States Virgin Islands and Guam.

As specified in 39 CFR Part 121.2, the service standards for Periodicals presently range from 1 - 9 delivery days within the contiguous United States.[4]

D. Current Operating Plan

Mail processing operating plans outline the level of mail distribution, processing performance, and identify target times that enable the achievement of service standards. Operating plans provide Postal Service management with uniform methods of mail processing and establish requirements designed to support achievement of applicable service standards. Operating plans must be synchronized among facilities so as to align transportation for outgoing and incoming operations. Operating plans require implementation of a number of basic operating concepts, which are identified and summarized as follows:

- **Critical Acceptance Time (CAT)** is the latest time that a minimal amount of mail can be presented to an acceptance unit to be verified for day zero processing.
- **Planned Start Time** is the time an operation should normally begin, based on inventory, processing capacity, and mail arrival profile data.
- **Critical Entry Time (CET)** is the latest time that a minimal amount of mail can be received at designated induction points in the Postal Service network so that it can be processed and dispatched in time to meet service standards.

[4] A more extended day range applies to Alaska, Hawaii, and the aforementioned territories.

- **Clearance Time (CT)** is the latest time that mail can clear an operation for proper dispatch or delivery.
- **Dispatch of Value (DOV)** is the designated scheduled trip that departs at or after the facility's CT and would arrive at the destinating facility by the CET to meet service standards.

Under our current structure, mail processing operations lack efficiency largely due to a drastic decline in mail, a major shift in the mail mix, and unpredictable mail arrival, in combination with current operating windows and service standards.

As mail flows from outgoing processing to incoming processing, overnight mail is received from other facilities for processing during this same window of time; these operations run in parallel to meet service standards.

In many instances, incoming mail from other facilities is not readily available for processing, which results in idle time, decreased productivity, and delayed clearance times. Additionally, local mail processing managers cannot project total expected daily mail with sufficient precision to schedule equipment and staff employees optimally in the appropriate operations.

Currently, some First-Class Mail letters that require DPS processing and First-Class Mail flats and Periodicals that are capable of being processed on the Flats Sequencing System (FSS) arrive at mail processing facilities too late for DPS and FSS processing. Because some of these mailpieces have overnight service standards, they are processed on the same night to meet these commitments but not to the finest depth of sort. As a result, such pieces require manual casing at delivery offices, resulting in increased work hours for clerks and carriers.

The current operating plan creates a need for an excessive amount of mail processing equipment throughout the network for use during a relatively small operating window to meet overnight service standard commitments. Therefore, this equipment is utilized for only a portion of the total operational capacity. Relaxation of the overnight requirement would allow the Postal Service to effectively expand the current mail processing windows (see Figure 5).

Figure 5: Current Operating Plan

CURRENT OPERATING PLAN				
Category	**Operation**	**Start**	**End**	**Hours**
Letter	Cancellation	3:00 pm	9:30 pm	6.5
	Outgoing Primary	4:00 pm	11:00 pm	7.0
	Outgoing Secondary	8:00 pm	12:00 am	4.0
	Incoming Primary	2:00 pm	11:00 pm	9.0
	Delivery Point Sequence (DPS)	11:00 pm	7:00 am	8.0
Flat	Outgoing Primary/ Secondary	5:00 pm	11:00 pm	6.0
	Incoming Primary	2:00 pm	11:00 pm	9.0
	Incoming Secondary	11:00 pm	7:00 am	8.0
	Flats Sequencing System (FSS)	12:00 pm	6:00 pm	6.0
Parcel/ Bundle	Outgoing Primary	5:00 pm	11:00 pm	6.0
	Incoming Primary	2:00 pm	11:00 pm	9.0
	Priority Outgoing	3:10 pm	10:30 pm	7.4
	Priority Incoming	5:00 pm	4:00 am	11.0
This is the Current Operating Plan of a typical plant.				

IV. The Process for Change

Area Mail Processing (AMP) feasibility studies are utilized to evaluate consolidation opportunities at mail processing facilities. An AMP feasibility study determines whether there is a business case for relocating processing and distribution operations from one location to another and thereby improve operational efficiency and/or service. The study may involve the consolidation of originating operations (cancelling and sorting locally generated mail at a facility close to where the mail originates), destinating operations (sorting and preparing mail received from more distant areas for local delivery) or both. Increasing operational efficiencies and maintaining good customer service continue to be paramount goals for today's Postal Service. The AMP process provides opportunities for the Postal Service to reduce costs, improve service and operate as a leaner, more efficient organization by centralizing mail processing operations and making better use of resources, space, staffing, processing equipment, and transportation. Also, AMPs reduce redundancies while supporting network alignment. All AMP feasibility studies are performed in conjunction with Handbook PO 408, *Area Mail Processing Guidelines*.[5]

The Postal Service intends to use the AMP process as a vital decision-making tool in support of Mail Processing Network Rationalization Service Changes. This current process provides a time-tested and verified method of calculating savings associated with mail processing facility consolidation and/or closure.

The direct testimony of witness Emily Rosenberg (USPS-T-3) discusses the development of a proposed mail processing network concept designed around the service changes proposed by witness David Williams (USPS-T-1). The feasibility of that concept and the final determination of consolidation and/or closure of a specific facility will be

[5] A copy of this document is filed as library reference USPS-LR-N2012-1/3.

resolved by postal management through application of the AMP feasibility study process by using the USPS Handbook PO-408 guidelines. The proposed results of each facility-specific AMP feasibility study are reviewed at the District, Area, and Postal Service Headquarters levels before a final decision is made. If an AMP study is approved, the Postal Service proceeds and implements the AMP consolidation and/or closure.

Following implementation of an approved AMP, two post-implementation reviews (PIRs) are required. A PIR measures actual data before and after AMP implementation, comparing the projected savings or costs with actual post-AMP savings or costs. Most PIRs find that actual net savings exceed what was originally projected.

V. Proposed Mail Processing Network

The Postal Service is reviewing its mail processing infrastructure for opportunities to develop a more streamlined network with fewer mail processing facilities. This would allow the Postal Service to reduce costs, improve service, and operate as a leaner and more efficient organization. Centralization of mail processing operations would result in better use of space, employees, processing equipment, and transportation.

A. Proposed Mail Flow

The proposed Network Rationalization Service Changes would no longer require mail flow for outgoing (originating) operations to be constrained by the AADC / ADC distinction, because the mail processing infrastructure would be consolidated into a streamlined network, thereby allowing all mail processing facilities to be separated on an outgoing primary sort program. Therefore, automation letters along with manual letters, flats, and parcels could be tendered directly to the destinating facility. This would reduce costs associated with additional handlings and multiple legs of transportation within the Postal Service network.

The processing windows for each mail flow would change. The relaxation of the overnight service standard would dramatically expand the incoming secondary operating window. The turn-around mail, which is currently forced into the overnight processing window, would be moved to the processing window for the following day, resulting in utilization of fewer resources and maximization of the processing capacity.

B. Proposed Service Standards

As explained by witness David Williams (USPS-T-1), the Postal Service proposes to revise the service standard regulations contained in 39 CFR Part 121. The proposal involves relaxing the expectation of overnight service for First-Class Mail and Periodicals, narrowing the 2-day delivery range, and enlarging the 3-day delivery range,[6] which is anticipated to generate significant improvement in operating efficiency.

Presorted First-Class Mail for a mail processing facility's service area, entered by commercial mailers at co-located BMEU facilities (that is, BMEUs located at mail processing facilities) which meet the CAT at the co-located BMEU and the CET at the mail processing facility would be processed for the next day's delivery.

The revision of 39 CFR Part 121.1 would modify the service standards for First-Class Mail that travels within the contiguous United States for delivery in 2 - 3 delivery days. Similarly, the service standards would be revised for First-Class Mail that originates or destinates in Alaska, Hawaii, or the U.S. territories and possessions for delivery in 2 - 5 delivery days. These changes would apply to First-Class Mail letters, flats, and parcels.

Because service standards for a portion of Periodicals is linked to First-Class Mail service standards, the Postal Service would revise the Periodicals service standards as well. The revision of 39 CFR Part 121.2 would modify the service standards for both end-

[6] Any changes to the processing of First-Class Mail will also apply to the domestic leg of inbound/outbound First-Class Mail International.

to-end and destination-entry Periodicals within the contiguous United States, resulting in service standards in the range of 2 - 9 delivery days.

C. Proposed Operating Plan

The service change proposal aims to redesign our network and infrastructure to create a more efficient operating plan, enabling reductions in mail processing facilities, the transportation network, and mail processing equipment. Also, increased tray densities and general capacity utilization would be expected along with improved labor efficiencies.

The proposed operating plan would allow for both the expansion of outgoing operations and service to a larger geographic area. The expanded operating window would take advantage of the economies of scale to "pack" the mail processing equipment. This would result in better equipment utilization and better use of the mail transportation equipment (MTE) and truck capacities.

The reconfigured network would have fewer facilities, and these facilities would prepare containers that are filled to the capacity instead of half-full containers. This would result in the need for less cube space on air transportation, less MTE on surface transportation, and less tray handling than if various mail processing facilities each prepared its own partial containers of mail. Also, with fewer facilities in the network, there would be a reduction in mail processing destinations to which letters and flats would need to be sorted, simplifying many sort programs.

In today's processing environment, letter-sized mail is distributed to 156 AADC separations and up to an additional 214 SCF separations. Under the proposed plan, there would be an opportunity to distribute mail to fewer than 200 mail processing facilities, resulting in fewer handlings. As referenced below, outgoing automated letters can be

finalized on the first touch. This environment would also impact flat-sized mail sortation as depicted in the table below.

OUTGOING SECONDARY WORKLOAD		
Processing Category	**FY '10 Average Daily Workload**	**Proposed Average Daily Workload**
Letters	13,183,976	0
Flats	1,170,524	494,363

Mail processing employee schedules have historically been created to staff based on arrival profiles and operating windows driven by service standards. With the decline in First-Class Mail, the workload being processed in these windows is insufficient to achieve full equipment or labor utilization. The rigid operating window thus prevents full utilization of equipment and labor resources.

The proposed revision of service standards would eliminate the need for mail processing facilities to wait for overnight First-Class Mail, resulting in an idle time reduction of 27 percent. Processing hours will be determined by the volume of mail. Full time employees will staff core production hours supplemented by a flexible workforce adjusted to daily staffing needs. By utilizing the flexible work force that the national labor agreements allow, management will be able to expand or contract production hours in concert with daily mail volumes.

Additionally, the Postal Service could plan earlier times for primary and secondary processing. Under the proposal, earlier critical acceptance times ("CATs") would be established for mailings entered at BMEUs to align with revised critical entry times ("CETs") at mail processing facilities. Earlier acceptance and entry times would allow committed

mail to reach the destinating processing facility in time to enable earlier and expanded mail processing.

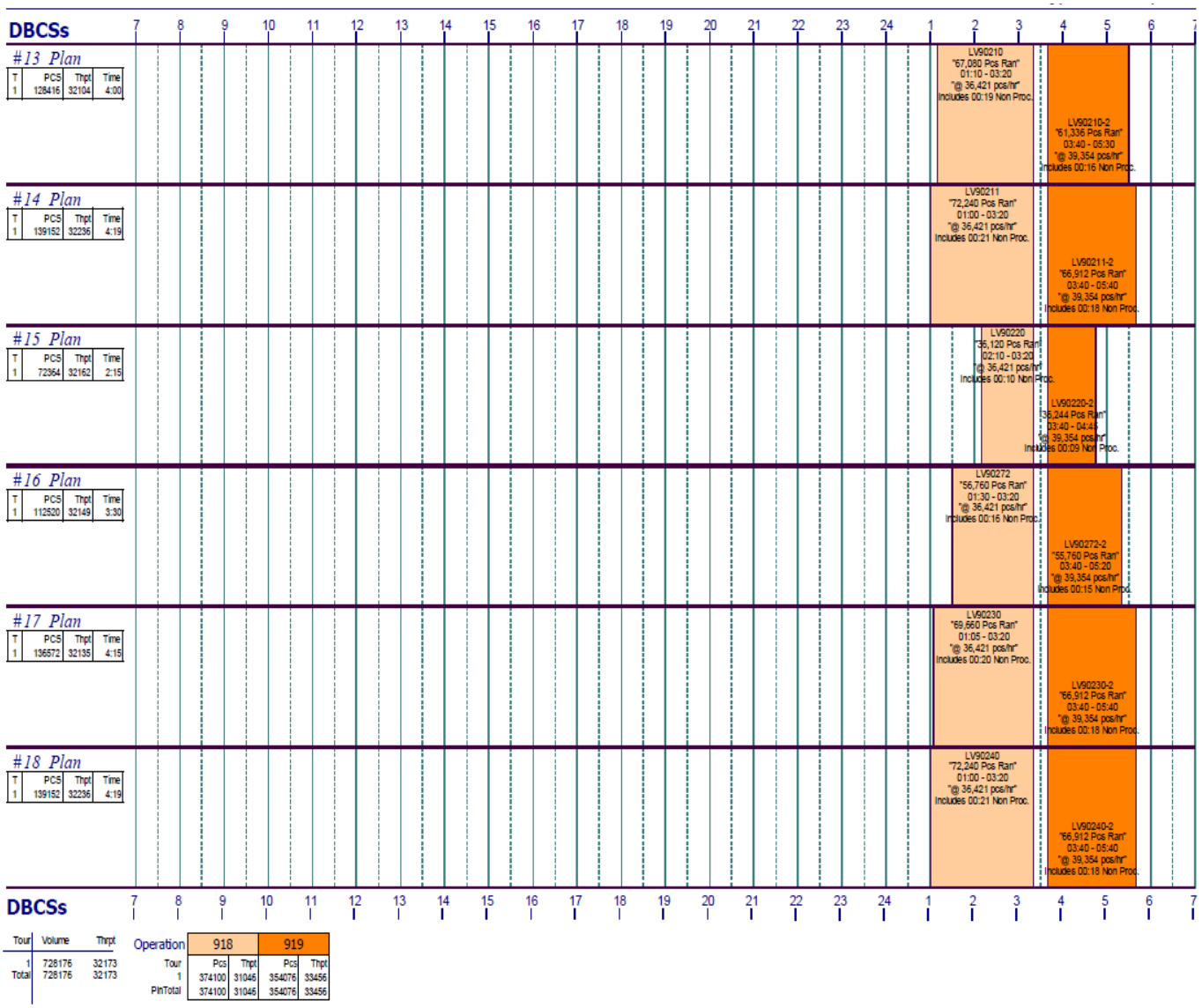
Incoming processing operations would experience the greatest operational benefit from this proposal. Incoming primary mail would be processed at 8:00 a.m. – 1200 p.m., sorted to the 5-digit ZIP Code and 5-digit sort program, and flowed to the incoming secondary operation for further processing. Incoming secondary letter operations or DPS processing would be processed at 12:00 p.m. – 4:00 a.m.

Expanded processing windows with earlier start and clearance times and would render the following benefits:

- Effective employee scheduling and equipment start times would reduce overtime and other premiums (*i.e.*, Sunday and Night Differential); reduce employee and equipment idle time; and increase productivity.
- Processing of committed mail in the proposed DPS and FSS windows, thereby reducing the need for carrier-route sortation of late-arriving letter mail and reducing the need for carrier-route sorting of late-arriving flats and Periodicals.
- Mail arrives earlier at Destination Delivery Unit (DDU), thereby allowing: mail that requires manual sorting to be completed earlier by the carrier; carriers to case non-DPS mail sooner and get to the street for delivery earlier; and auxiliary mail (*i.e.*, P.O. Box and Caller Service mail) to be distributed and ready for pickup earlier.
- Improvement of equipment usage, resulting in longer runs with fewer sort program change-overs and consolidation of sort programs onto fewer machines (see Figure 6 and Figure 7).

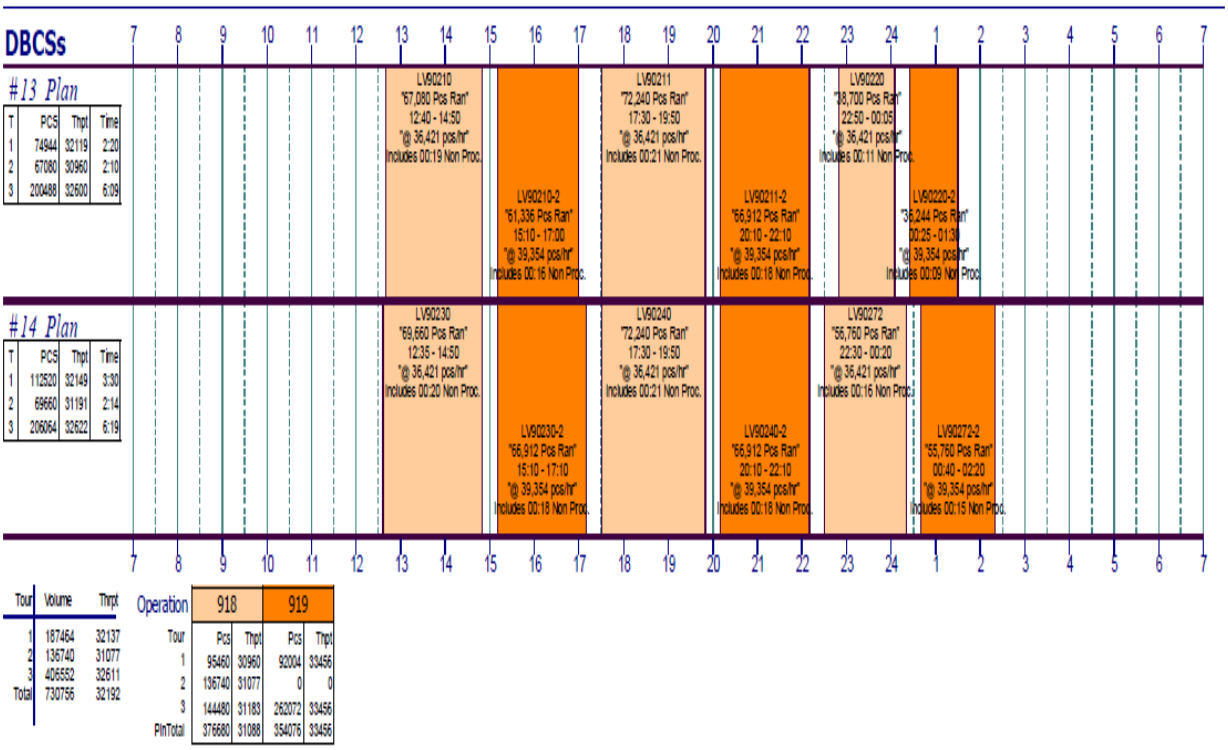
As depicted below in Figure 6, DPS was processed on six DBCS machines during a late and short processing window due to late arriving mail and the clearance time of upstream operations.

Figure 6: DPS Run Plan by Sort Plan



With the proposed Network Rationalization service changes, DPS would be processed during an earlier processing window on only two DBCS machines, eliminating excess machines and associated maintenance support and labor resources as shown and described below in Figure 7.

Figure 7: DPS Run Plan by Sort Plan



Below in Figure 8, the proposed operating plan for a typical P&DC/F outlines more efficient processing windows that would allow the reduction of mail processing equipment, mail transportation equipment, maintenance staffing and support, space, and mail processing personnel. Additionally, CETs would be revised and mail would be readily available, resulting in more effective scheduling and planning.

Figure 8: Proposed Operating Plan

PROPOSED OPERATING PLAN				
Category	**Operation**	**Start**	**End**	**Hours**
Letter	Cancellation	5:00 pm	12:00 am	7.0
	Outgoing Primary	5:30 pm	12:30 am	7.0
	Incoming Primary	8:00 am	12:00 pm	4.0
	Delivery Point Sequence (DPS)	12:00 pm	4:00 am	16.0
Flat	Outgoing Primary/ Secondary	5:00 pm	2:00 am	9.0
	Incoming Primary	8:00 am	2:00 pm	6.0
	Incoming Secondary	2:00 pm	4:00 am	14.0
	Flats Sequencing System (FSS)	12:00 am	6:00 am	6.0
Parcel/ Bundle	Outgoing Primary	3:10 pm	10:30 pm	7.40
	Incoming Primary	5:00 pm	4:00 am	11.0
	Priority Outgoing	3:10 pm	10:30 pm	7.40
	Priority Incoming	5:00 pm	4:00 am	11.0
This is the proposed operating plan for a typical P&DC/F.				

VI. Mail Processing Equipment and Material Repositioning

Currently, our state-of-the-art mail processing equipment (MPE) fleet consists of automated and mechanized equipment (see Figure 9) to support the letter, flats and parcels mail processing categories.

Due to the unprecedented decline in mail, it is imperative that the Postal Service reduce on-hand MPE (*i.e.,* equipment, supplies and spare parts) by repositioning and/or disposing of it. In accordance with Handbook AS-701, *Material Management*, serviceable equipment can be re-utilized within the Postal Service network, thus repositioned. Non-serviceable material must be properly disposed of thereby avoiding maintenance and storage while improving recovery of the initial investment. Investment recovery is a systematic, centralized organizational effort to manage excess equipment or material, and

scrap recovery, recovering as much as possible of the original capital investment via marketing and disposition activities.

Mail Processing Network Rationalization service changes will allow the Postal Service to streamline its network and operate more efficiently by relocating MPE; relocating, expanding, and modifying material handling equipment; and modifying and adapting facilities. Figure 9 gives examples of investments that retain value after being removed from service, value that may be recoverable.

Figure 9: Fleet of Equipment

Type	Name	Description
AFCS	Advanced Facer Canceller System	Equipment faces & cancels mail and separates mail to local and non-local bins using Remote Computer Reader (RCR) and Facing Identification Marks (FIM). Also lifts images to send to the Image Processing Subsystem (IPSS).
AFCS 200	Advanced Facer Canceller System 200	Equipment faces & cancels mail and separates mail to local and non-local bins using RCR and Facing Identification Marks (FIM). Also lifts images and prints an 11-digit barcode or send to IPSS for resolution.
AFSM 100	Automated Flat Sorting Machine	Equipment processes flats and has three high-speed induction units. The Optical Character Reader (OCR) reads and looks up addresses or sorts based on customer applied barcodes; non-readable addresses are lifted as images and sent to on-line keyers for resolution.
APBS	Automated Parcel and Bundle Sorter	Equipment sorts parcels with OCRs and barcode readers.
APPS	Automated Package Processing System	Equipment sorts parcels and bundles with OCRs and barcode readers. Images are taken of each mailpiece and those not finalized by OCR or barcode readers are sent to RECs for keying.
CIOSS	Combined Input Output Sub-System	Equipment lifts images of return to sender mail and labels with current address information.
CSBCS	Carrier Sequence Barcode Sorter	Equipment sorts letters based on barcode to a stacker in accordance with the sort program.
DBCS	Delivery Barcode Sorter	Equipment sorts letters based on barcode to a stacker in accordance with the sort program.
DIOSS	Delivery Barcode Sorter w/Input Output Sub-System	Equipment lifts images and applies barcodes and sorts letters based on barcode to a stacker in accordance with the sort program.
FSS	Flats Sequencing System	Equipment sorts flats based on barcode into delivery point sequence.
MARK II	Mark Canceller	Mechanized equipment used to face and cancel letters.
SPBS	Small Parcel and Bundle Sorter	Equipment sorts parcels that are manually keyed. In the future, the system is getting upgraded with OCRs and barcode readers.

UFSM 1000	Upgraded Flat Sorting Machine	Equipment sorts flats. Currently have barcode readers and keying stations. This machine handles larger, chunkier mail than the AFSM 100.

Mail Processing Network Rationalization Service Changes would create an opportunity to streamline facilities and MPE throughout the network. Currently, approximately 252 mail processing facilities are being studied for potential consolidation and/or closure.

The consolidation of facilities and elimination of older equipment would significantly reduce the square footage used by mail processing facilities nationwide. Also, there would be a significant reduction in the on-hand inventory of equipment spare parts.

VII. Night Differential

Night differential is a premium paid to eligible employees for all work performed between 6:00 p.m. and 6:00 a.m. Night differential is paid in addition to any other premiums earned by the employee. Based on FY 2010 analysis, the current night-differential ratio of total workhours is 58 percent. Under the Network Rationalization concept, the night-differential ratio would be reduced and result in only approximately 39 percent of total workhours.

In order to project conservatively the change in night differential, we assume that actual workhours used would not change, and simply address the movement of hours out of the night shift differential based upon how the operational windows shift. Existing mail processing facilities were identified; for the month of September 2011, actual employee workhours were pulled for these facilities using the Time and Attendance Collection System (TACS). These employee workhours (reduced to seconds) were analyzed by hour of the day to determine the actual time worked in each operation. Once time was summed by operation and hour, the resultant data were analyzed to group operations into categories

useful for this analysis. For example, all operations related to processing incoming letter mail to the 5-digit level were grouped together; also, operations external to mail processing were grouped as one. The groups are identified below in Figure 10.

After reducing the data set to 24 hours by 37 operational groups, hours for each group were summed into two categories. The first includes the 6:00 a.m. – 6:00 p.m. time period, the time when night differential is not paid. The second category includes the time periods of 6:00 p.m. – 12:00 a.m. and 12:00 a.m. – 6:00 a.m., when night differential is paid. To determine whether hours shift from one category to another, and by how much, each operational group was analyzed in light of the planned operational window. Since many operational groups would start at 6:00 a.m. and end not later than 6:00 p.m., no night differential pay would be applicable. For some groups (outgoing letters and outgoing flats, etc.), there would be no planned shift in the operational window. Therefore, the allocation of hours between the categories remained the same.

During this analysis, some operations were identified that would not transition into the new environment, for example Institutional Standby (standby time) – Operation 603. Under the Network Rationalization concept, the proper staffing would be planned, resulting in elimination of standby time. However, to avoid skewing the analysis, this operational group was removed.

To arrive at a total workhour plan for the future that includes recalculation of night differential, we summed across the operational groups. So as to exclude contamination from workhour reductions, we expanded projected workhours to the current level while preserving the new ratio just computed between hours with and without night differential. The newly computed night differential hours were compared to those from the before scenario to determine the percentage reduction in night differential hours. This equated to

a reduction of 32.87% in night differential hours. For further details on night differential calculations, refer to library reference USPS-LR-N2012-1/10. A description of night differential by operation appears below in Figure 10.

Figure 10: Night Differential by Operation

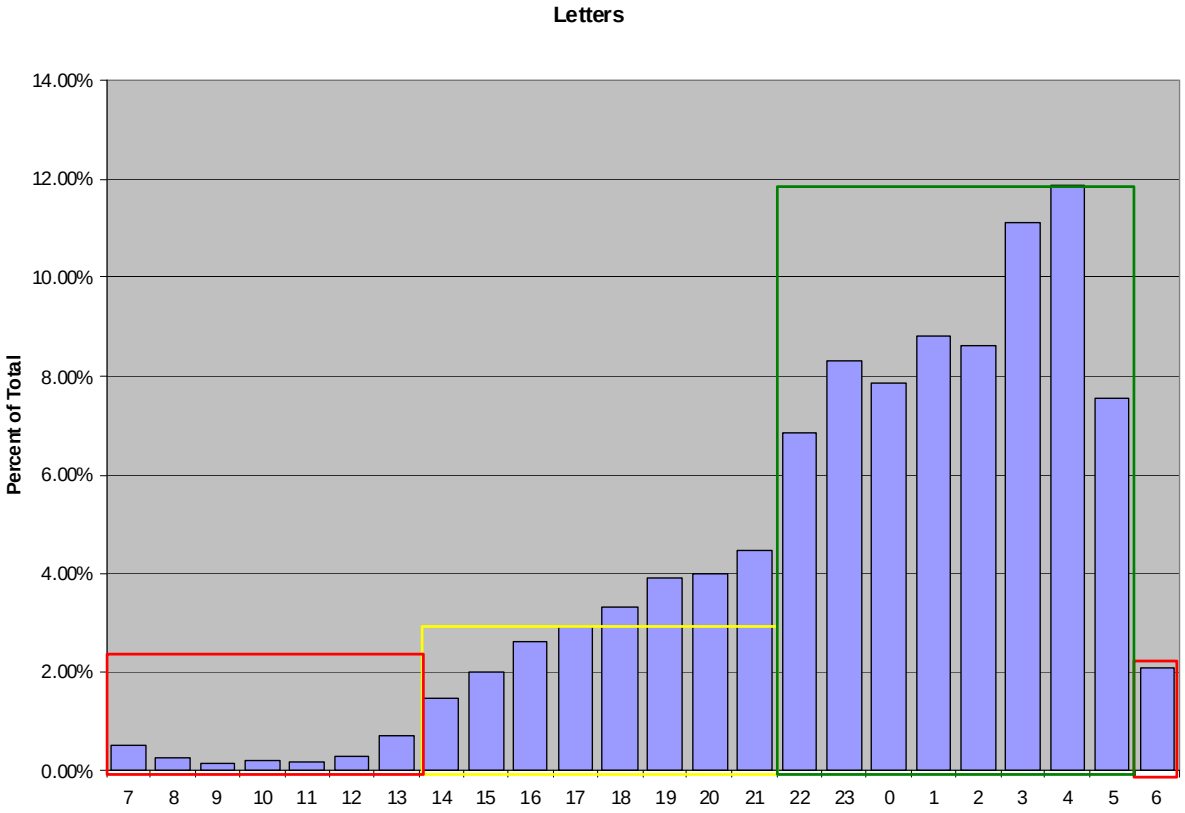
Description	Current % ND	Future % ND
F1 Supervisors	65.6%	39.8%
Auto Letter Incoming Primary	61.6%	0.0%
Auto Letter CRT/DPS	91.1%	57.1%
Auto Letter International	71.3%	71.3%
Auto Letter Outgoing	72.0%	72.0%
Auto Flat AFSM Incoming Primary	61.9%	0.0%
Auto Flat AFSM CRT	73.9%	57.1%
Auto Flat AFSM Outgoing	71.4%	71.4%
Auto Flat DPS	60.8%	60.8%
Auto Flat non-AFSM Incoming Primary	62.7%	0.0%
Auto Flat non-AFSM CRT	81.5%	57.1%
Auto Flat International	38.2%	38.2%
Auto Flat Other	72.9%	72.9%
Auto Flat non-AFSM Outgoing	78.5%	78.5%
Mech Package Incoming Primary	54.8%	0.0%
Mech Package International	38.1%	38.1%
Mech Package Other	51.2%	51.2%
Mech Package Outgoing	72.8%	72.8%
Manual Incoming Primary	86.3%	0.0%
Manual CRT	71.4%	71.4%
Manual International	42.2%	42.2%
Manual Outgoing	85.1%	85.1%
LCREM Operations	67.0%	67.0%
LMLM Operations	70.3%	70.3%
REC Operations	99.3%	99.3%
LDC 17 Flat Mail Prep - AFSM	68.9%	38.5%
LDC 17 Cancellation Operations	71.4%	71.4%
LDC 17 Dock Related Operations	59.9%	59.9%
LDC 17 Inbound Dock Operations	57.0%	0.0%
LDC 17 Incoming Prep & Movement	61.3%	0.0%
LDC 17 Other	63.2%	63.2%
LDC 17 Outbound Dock Operations	61.2%	61.2%
LDC 17 Outgoing Prep	70.4%	70.4%
LDC 17 Presort Operations	71.8%	0.0%
LDC 18 Operations To Ignore	56.2%	N/A
LDC 18 All Other Operations	54.3%	54.3%
Non-Function1 Operations & F1 Training	34.8%	34.8%
Grand Total	58.6%	39.4%

VIII. Productivity

Revision of service standards and the opportunity to streamline and consolidate facilities throughout the network are expected to generate productivity gains. The main sources for productivity improvements include smoothing the processing profile, less and more efficient use of mail processing equipment, sorting to fewer destinations, and eliminating redundant processes.

Productivity opportunities are gained through balancing of the processing profile. As shown in the following graph, our current service standards require an operating plan that causes an unbalanced processing profile, with consequent negative productivity impacts. Under the current service standards, the percentage of letters available for processing fluctuates greatly across different time periods each day. As processing windows are expanded and the workload is balanced across the mail processing day, the Postal Service would be able to manage processing operations effectively, match workhours to workload, and plan for peak load issues.

Figure 11: Automated Letters



By consolidating facilities and expanding processing windows, the same mail processed today could be completed using less mail processing equipment (MPE). For DPS, 40 percent less equipment would be required and the number of sort programs used to process DPS would be reduced by over 10 percent.

Another source for productivity improvements is the reduction in the number of sort destinations. Reducing to less than 200 sorting facilities allows for the elimination of AADC and ADC sortation. At origin, mail would be sorted directly to the destinating facility, reducing the number of handling units generated, increasing the density of mail in each handling unit and reducing the number of handlings each unit must receive. At the destination, fewer individual handlings would be necessary to complete processing and distribution.

A final source for productivity improvements is the elimination of redundant processes. Currently, the following processes at each mail processing facility must be performed, regardless of size: Platform (dock) operations, empty equipment processing, the handling of Registered Mail, and other mail processing support functions. By streamlining the network and consolidating facilities, these redundant processes are also consolidated. Smaller, less efficient operations will be eliminated as workload is absorbed into the remaining facilities.

Based on these components and my operational experience, I estimate in Figure 12 the following productivity improvements:.

Figure 12: Productivity

Category	% Productivity Improvement
BCS/DBCS	22%
OCR	22%
AFSM100	15%
FSM 1000	15%
Mechanized Parcels	8%
SPBS Non Priority	8%
SPBS Priority	8%
Mechanical Sort - Sack Outside	15%
Mechanical Tray - Sorter / Robotics	15%
Manual Flats	3%
Manual Letters	3%
Manual Parcels	3%
Manual Priority	3%
Cancellation	15%
Dispatch	20%
Flats Preparation	0%
Mail Prep - Metered	0%
Opening Unit - BBM	15%
Opening Unit - Preferred Mail	15%
Opening - Manual Transport	15%
Platform	20%
Pouching Operations	25%
Presort	25%
Manual Sort - Sack / Outside	25%
Air - Contract DCS and Incoming/SWYB	0%
Business Reply / Postage Due	0%

Registry	50%
Damaged Parcel Rewrap	0%
Empty Equipment	10%
Miscellaneous	10%
Mail Processing Support	25%

IX. Staffing

When the proposed network changes are fully implemented, staffing will ultimately be significantly reduced, resulting in fewer mail processing personnel, facility managers, tour managers, supervisors, and support personnel. Craft employee reductions are addressed in the Direct Testimony of Kevin Rachel on Behalf of the United States Postal Service (USPS-T-8).

The staffing for managers, tour managers, and supervisors would be determined based on the number of craft employees along with the ranking of a facility. Under the new network, the ranking of a facility would be determined based on a weighted calculation of multiple mail processing factors: Proposed volumes, number of 5-digit ZIP Codes served, total possible deliveries, equipment set, and facility complexity. The facility complexity factor consists of product types (letters, flats, parcels) and unique facility characteristics (*i.e.* facilities with an associated annex and multi-level facilities). The specific management and craft staffing reductions will not be known until all AMP feasibility studies are completed and approved.

The staffing for support personnel (i.e. In-Plant Support) would be proposed based on the ranking of a facility and determined by some of the above factors. Based upon these considerations, it is reasonable to project that staffing for In-Plant Support would be reduced by approximately 29.65

percent. *See Direct Testimony of Michael D. Bradley on behalf of the United States Postal Service* (USPS-T-10) at pg. 23, Table 9.

X. Implementation

The Mail Processing Network Rationalization service changes will be implemented through a sequence of critical milestones that are projected to transpire throughout calendar year 2012. To ensure a smooth transition of this implementation, effective communication to customers, employees, and applicable stakeholders will be accomplished. More detailed communication initiatives are described in the Direct Testimony of Susan LaChance on Behalf of the United States Postal Service (USPS-T-13).

A. Area Mail Processing (AMP) Feasibility Studies

Through AMP feasibility studies, mail processing facilities are being assessed to determine whether a business case exists for consolidation and/or closure under the proposed Mail Processing Network Rationalization service changes.

B. Business Rules

Application of the business rules to relax the current service standards governing First-Class Mail and Periodicals will be the initial step in the implementation process.

C. Facility Activation Plan

A defined set of implementation tasks and timelines have been developed for both the activation and deactivation locations, which will be facilitated by a local project management team. Postal Headquarters will facilitate oversight of this implementation and has

developed a high-level set of tasks to ensure support of the local field tasks. A series of milestones will provide a view of the overall progress of implementation.

All local site field implementation tasks will begin upon implementation of the proposed business rules for service standards.

The duration of the project timelines for each location will depend on complexity.

D. Operating Plan

One of the critical milestones includes development of the operating plan. Tasks involved in developing the new operating plan include applying the new operating parameters, determining the equipment sets, designing the sort programs, developing new preventative maintenance windows, and developing BMEU windows of operation.

E. Transportation Plan

Along with these essential milestones, Network Operations must develop optimized transportation schedules, solicit and award new contracts, and implement associated changes.

XI. Conclusion

The proposed Mail Processing Network Rationalization service changes would allow the Postal Service to consolidate mail processing operations to potentially fewer than 200 locations, resulting in lower costs and significant workhour savings, when fully implemented. On a national level, the total amount of equipment required to run Delivery Point Sequence mail

would be significantly reduced by approximately 40 percent. The reduced equipment set would allow greater utilization of equipment and result in lower maintenance costs. Maintenance opportunities are described in detail in the Direct Testimony of witness Dominic Bratta on Behalf of the United States Postal Service (USPS-T-5).

Revision of the current service standards along with consolidation and closure of mail processing facilities would allow the Postal Service to implement the Network Rationalization service changes as described in this docket. The associated benefits would include: Network alignment; a significant improvement in the ability to project and plan for mail volume and arrival; reduced redundancy; fewer mail processing facilities and less equipment; and a leaner, more efficient organization. Such benefits would result in centralized mail processing operations with more effective use of space, staffing, processing equipment, and transportation.

Network Rationalization would enable the Postal Service to expand processing capacity to use under-utilized mail processing equipment more efficiently. If mail processing windows were expanded, the collection area for an originating mail processing facility could be expanded to a larger geographic region covering locations with longer travel times to that facility. This would also be true for destinating distribution operations. Currently, a large percentage of First-Class Mail must be processed and tendered overnight to the delivery office by 8:00 a.m. Network Rationalization would allow an additional day of processing and transportation time, which expands the geographic reach.

For the United States Postal Service to regain viability, immediate steps must be taken to optimize our network, to significantly reduce capacity across the board and to cut costs. I believe these proposed Mail Processing Network Rationalization Service Changes would help the Postal Service to achieve its goals of increased efficiency and reduced capacity.