

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

**MAIL PROCESSING NETWORK RATIONALIZATION
SERVICE CHANGES, 2012**

DOCKET No. N2012-1

**DIRECT TESTIMONY OF
DAVID E. WILLIAMS
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE
(USPS-T-1)**

TABLE OF CONTENTS

Autobiographical Sketch	i
I. Purpose of Testimony.....	1
II. Careful Planning Must Be Followed By Imminent Action To Adapt To Significant And Continue Declines In Volume and Revenue	1
A. Background	1
B. Additional Structural Changes Are Necessary to Realign the Mail Processing Network and Eliminate Excess Capacity	4
III. Consideration Of Stakeholder Concerns Has Been A Critical Element In Developing The Proposed Service Changes	8
IV. General Description of Proposed Mail Processing and Transportation Changes	9
V. Proposed Service Standard Changes And Anticipated Service Impacts	14
A. The Potential Service Changes Are Nationwide In Scope.....	14
B. Substantial Mail Entry Changes Are Anticipated.	16
C. Substantial Service Standard Changes Are Anticipated.....	16
1. Potential First-Class Mail changes are significant	17
a. Overnight service standard change.	17
b. Two-day service standard change.....	20
c. Beyond the 2-day service standard.	21
d. International implications.	22
2. Periodicals service standard changes are a logical consequence.....	22
3. Standard Mail.	25
4. Package Services.....	25
5. Priority Mail.....	26
6. Express Mail.....	26
7. Non-contiguous destination changes unrelated to network rationalization.....	27
VI. The <i>Federal Register</i> Rulemaking Process Is Being Utilized	27
VII. Decision-Making Process Moving Forward.....	28
VIII. Conclusion.....	29

1 **Autobiographical Sketch**

2 My name is David E. Williams, Jr. Since June 2010, I have been employed
3 as the Vice President of Network Operations at United States Postal Service
4 headquarters. My office has policy and program responsibility for the entire national
5 network of postal mail processing facilities, automation initiatives and related
6 logistics.

7 Previously, beginning in September 2009, I served as Vice President,
8 Engineering, at USPS headquarters, where I managed all engineering and
9 development efforts focused on internal processes, including building and equipment
10 maintenance programs and policies.. I directed all engineering and acquisition
11 support functions, including the design and development of new automation,
12 material handling systems, and vehicles.

13 My earlier responsibilities at headquarters were within the Network
14 Operations function as the Manager, Processing Operations, Manager, Processing
15 and Distribution Center (P&DC) Operations and Manager, Systems Integration
16 Support. My past postal field responsibilities have included assignments as
17 Manager, Processing and Distribution Center, at the North Metro P&DC in Duluth,
18 GA; at the Atlanta P&DC; and at the P&DC in Birmingham, AL. In addition, I was an
19 Operations Support Specialist at the Southeast Area Office and an Operations
20 Program Analyst Principal in the Central Region Office. I joined the Postal Service
21 in 1987 as an Industrial Engineer Professional Specialist Trainee at headquarters.

1 I have a Bachelor of Science Degree in Industrial and Systems Engineering
2 from the University of Florida, and a Masters in Business Administration from the
3 College of William and Mary.

4
5

1 **I. Purpose of Testimony**
2

3 The purpose of my testimony is to describe the nature of the changes in
4 services that the Postal Service proposes to implement in fiscal year 2012 in
5 conjunction with its plan to amend 39 C.F.R. Part 121 to revise the current service
6 standards for First-Class Mail, Periodicals, Package Services and Standard Mail.
7 The most significant revisions would eliminate the expectation of overnight service
8 for significant portions of First-Class Mail and Periodicals and, for each of these
9 classes, modify the two-day range to include pairs that are currently overnight and
10 enlarge the three-day delivery range. These revisions would allow for a significant
11 consolidation of the Postal Service's processing and transportation networks. This
12 would result in an infrastructure that better matches current and projected mail
13 volumes and would result in significant cost savings.

14 My testimony also describes the process through which the service changes
15 being planned were developed and, just as importantly, how the Postal Service
16 carefully considered customer concerns and suggestions in determining the nature
17 and scope of the planned service changes.

18 **II. Careful Planning Must Be Followed By Imminent Action To Adapt To**
19 **Significant And Continue Declines In Volume and Revenue**
20

21 **A. Background**
22

23 Using the process outlined in 39 U.S.C. § 3691(a), the Postal Service
24 established its current market-dominant product service standards in 2007. See 39
25 C.F.R. Parts 121 and 122; 72 *Fed. Reg.* 72216 (December 19, 2007). Section 302

1 of the 2006 Postal Accountability and Enhancement Act (PAEA) directed the Postal
2 Service, after consultation with the Commission, to develop a plan for meeting those
3 service standards and expeditiously rationalizing its mail processing network to
4 address excess mail processing network capacity identified in the President's
5 Commission on the United States Postal Service.¹ The Postal Service submitted its
6 plan to Congress in June of 2008² and identified three core elements:

- 7 • the completion of the postal transportation strategy through
8 closure of Airport Mail Center (AMC) operations;
9
- 10 • the elimination of excess mail processing capacity in
11 Processing & Distribution Centers (P&DCs) through the
12 consolidation of operations using the review process in the
13 USPS Handbook PO-408, *Area Mail Processing (AMP)*
14 *Guidelines*;³
15
- 16 • the possible creation of a time-definite surface transportation
17 network that responds to the shift toward destination entry of
18 mail, and transforms existing Bulk Mail Centers (BMCs),
19 established in the 1970s, into state-of-the-art processing and
20 transportation facilities.
21

22 In pursuing the June 2008 Network Plan, the Postal Service has made significant
23 progress in increasing overall network efficiency.⁴ All AMC mail processing
24 operations have been consolidated, with the exception of one which is currently
25 under review. The Postal Service modified its approach to the BMC network and,
26 through internal redesign, has implemented the Network Distribution Center (NDC)

¹ A copy of the report of the President's Commission has been filed as USPS Library Reference N2012-1/1.

² The USPS Section 302 Network Plan has been filed as USPS Library Reference N2012-1/2.

³ The current USPS Handbook PO-408 (March 2008) has been filed as USPS Library Reference N2012-1/3.

⁴ The Postal Service is required by PAEA section 302(c)(4) to submit annual reports regarding implementation of the June 2008 network plan to Congress. Copies of the reports for fiscal years 2008-10 are provided in USPS Library Reference N2012-1/4.

1 network. The Postal Service has also been eliminating excess capacity in mail
2 processing facilities utilizing the AMP review process in USPS Handbook PO-408.
3 These consolidations have allowed the Postal Service to achieve cost savings
4 through the elimination of redundant facilities and operations. As of the filing date of
5 the Request in this docket, 114 AMP consolidations have been approved under the
6 June 2008 Network Plan, with 11 studies currently ongoing.⁵ Of the 113
7 consolidations fully implemented or in the process of being implemented as part of
8 that plan, 65 involved the removal of all mail processing operations from a P&DC,
9 P&DF, or Customer Service Mail Processing Center.

10 In combination with other initiatives, the June 2008 Network Plan has
11 contributed to the elimination of approximately 4,000 pieces of mail processing
12 equipment, and cumulative savings of approximately \$7.9 billion in mail processing
13 operations' savings since Fiscal Year 2006. These savings are significant.
14 However, as explained in the Direct Testimony of Stephen Masse on Behalf of the
15 United States Postal Service (USPS-T-2), the long-term fiscal solvency of the Postal
16 Service requires that very significant additional measures be taken to align postal
17 operating costs with expected revenues.

⁵ The fiscal year 2011 annual report for the June 2008 Network Plan is due to be submitted to Congress before the end of December 2011. USPS Library Reference N2012-1/4 will be revised to include it, when the report is submitted to Congress. A list of currently pending AMP studies that are a part of the June 2008 Network Plan is provided in USPS Library Reference N2012-1/5. The June 2008 Network Plan has been suspended pending a determination by the Postal Service to proceed with the plan that is the subject of the Request in this docket.

1 **B. Additional Structural Changes Are Necessary to Realign the Mail**
2 **Processing Network and Eliminate Excess Capacity**

3
4 Historically, to a great extent, postal mail processing and transportation
5 network infrastructure⁶ and mail processing technology have been configured and
6 designed to accommodate pursuit of the service standards applicable to First-Class
7 Mail, with considerable emphasis on meeting overnight service standards. After
8 consultations with the Commission and solicitation of and consideration of public
9 comment, the Postal Service continued this long-standing emphasis as it established
10 the current market-dominant product service standards in December 2007, in light of
11 expected trends in mail volume and revenue.

12 However, since December of 2007 and development of the June 2008
13 Network Plan, circumstances have changed drastically. Economic recession has
14 combined with a precipitous and largely irreversible decline in First-Class Mail
15 volume to change the mail mix significantly and reduce revenues that have
16 historically funded the lion's share of cost for operating the mail processing network.
17 These volume declines have resulted in an acceleration of excess capacity in the
18 Postal Service's mail processing and transportation networks. At the same time,
19 additional statutorily mandated costs coupled with the revenue declines have
20 resulted in unsustainable yearly financial losses. As explained by witness Stephen
21 Masse (USPS-T-2), current long-term mail volume projections suggest that this
22 problem will worsen over time. Accordingly, notwithstanding measures taken in the
23 last several years to reduce costs and improve its financial stability, the Postal

⁶ Excluding Network Distribution Centers and associated annexes established for Package Services, and operations supporting Express Mail, Priority Mail and International Mail.

1 Service must expedite the process of bringing its costs in line with expected volumes
2 and revenues.

3 One of the ongoing responsibilities of the Network Operations function at
4 USPS headquarters is to explore opportunities to process and transport mail more
5 economically and efficiently. This includes examination of opportunities to utilize
6 existing resources better, as well as analysis of opportunities to eliminate excess
7 capacity. Internal analysis of potential excess mail processing and transportation
8 capacity has been intensified in recent years in response to the sharp declines in
9 First-Class Mail volume in successive years and projections of continuing declines
10 moving forward. One concern has been whether the scope and pace of mail
11 processing operational consolidations underway as part of the June 2008 Network
12 Plan were sufficient to address the accelerating declines in First-Class Mail volume
13 and revenue that have occurred since that plan was initiated.

14 Due to continued concerns about excess capacity within the mail processing
15 network and expectations of continued declines in mail volumes -- particularly First-
16 Class Mail -- an analysis of the inefficiencies in the mail processing network was
17 initiated in September 2010, utilizing network modeling tools and techniques
18 described in the Direct Testimony of Emily Rosenberg on Behalf of the United States
19 Postal Service (USPS-T-3). The objective of the modeling exercise was to
20 determine whether excess capacity could be reduced significantly within the network
21 if service obligations and operating constraints driven by current overnight First-
22 Class Mail service standards were changed. These results, as described by witness
23 Rosenberg (USPS-T-3), laid the groundwork for developing solutions to address the

1 concerns of declining mail volumes and significantly reduce the Postal Service's
2 current cost structure.

3 In June of 2011, senior postal management directed Network Operations to
4 examine more closely the feasibility of a change in operations and how such a
5 change could impact service standards and customers -- with a focus on the service
6 standards for First-Class Mail. The results of the modeling exercise were then
7 shared with Area and District officials. Taking into account driving distances and
8 times between plants, the geographic service areas of respective plants and the
9 objective of significantly reducing excess network capacity, their local mail
10 processing and transportation expertise and judgment was applied through an
11 iterative process involving multiple rounds of vetting to identify Processing &
12 Distribution Centers that could potentially absorb operations from nearby plants.
13 The product of this iterative review was a list of plant-to-plant consolidation
14 proposals that could be subjected to the rigorous USPS Handbook PO-408 Area
15 Mail Process (AMP) analysis to validate the feasibility of implementing each
16 consolidation proposal as part of a system wide network redesign.⁷ Facility-specific
17 AMP analysis was well underway at the time of filing the instant Request and is
18 described in the Direct Testimony of Frank Neri on Behalf of the United States
19 Postal Service (USPS-T-4).

⁷ A copy of the list has been filed as USPS Library Reference N2012-1/6. This list should not be construed as the final list of plants to be studied by the Postal Service for consolidation opportunities within the scope of this initiative. Analysis of the listed plant consolidation opportunities underway at the time of the filing of the Request may lead to identification of alternative or additional opportunities that warrant examination under the USPS Handbook PO-408 guidelines. Should that occur, the Postal Service will study these proposals contingent upon the outcome of the market dominant product service standard change rulemaking that will be conducted concurrently with this docket.

1 In conjunction with the operational modeling and to consider further related
2 service and operational issues, a cross-functional Headquarters team was
3 established that included program managers, analysts and economists with different
4 perspectives and subject matter expertise in such areas as delivery, mail
5 processing, retail service, transportation, engineering, employee and labor relations,
6 financial analysis, customer relations, information systems, service measurement,
7 market research, sustainability, government relations, and law. The team conferred
8 with other Headquarters and field managers representing a broad array of functional
9 responsibilities related to mail acceptance, collection, processing, transportation, as
10 well as external experts in market research, postal costing and economic analysis.
11 As a result of their efforts, the Request in this docket was filed.

12 The Postal Service has determined that facility-specific mail processing
13 network consolidations beyond those previously completed or underway as part of
14 the June 2008 Network Plan must be undertaken. More importantly, the Postal
15 Service has determined that, to align its infrastructure with current and projected
16 mail volumes and to bring operating costs in line with revenues, it must also modify
17 current First-Class Mail and related market-dominant product service standards on a
18 system-wide basis. Such measures must be pursued even if they consist of
19 changes in service levels to which postal customers have long been accustomed.

20 The proposed service standard changes are predicated on the volume
21 realities now faced by the Postal Service. Long-term First-Class Mail is expected to
22 continue to decline significantly in the future. First-Class Mail revenue has
23 historically been the primary source of funding for mail processing and delivery

1 infrastructure. As First-Class Mail volume continues to decline, the Postal Service
2 will be hard-pressed to cover these costs into the future. In addition to the revenue
3 impact, continued volume declines will result in ever-increasing excess capacity
4 within mail processing facilities. The Postal Service must take steps now to face this
5 reality head-on and develop a flexible mail processing network that allows it to deal
6 with the today's realities, as well as the future. Accordingly, the Postal Service has
7 decided to pursue operational changes that result in the determination to implement
8 system-wide changes in the nature of service.

9

10 **III. Consideration Of Stakeholder Concerns Has Been A Critical Element In**
11 **Developing The Proposed Service Changes**

12

13 As described in the Direct Testimony of Susan LaChance on Behalf of the
14 United States Postal Service (USPS-T-13), stakeholders were briefed throughout the
15 process and their reactions formed the basis for some of the operational changes
16 described herein. Indeed, the Postal Service solicited and considered input from all
17 different types of customers.

18

19 While we could not accommodate all of our customers' feedback, we have
20 considered all of the feedback submitted and adjusted our plans in response to
21 specific customer concerns. While the planned service changes will affect some
22 mail senders and recipients differently, such results are based on a reasonable
23 consideration of service and operational considerations. Changes of the magnitude
24 proposed here cannot be implemented without requiring some customers to adjust
their mail entry operations or patterns and their delivery expectations, sometimes at

1 a cost to customers who wish to minimize any inconvenience or to preserve levels of
2 service to which they have been accustomed.

3 The Direct Testimony of Rebecca Elmore-Yalch on Behalf of the United
4 States Postal Service (USPS-T-11) describes the methodology employed to conduct
5 qualitative and quantitative market research on potential household and business
6 customer responses to the proposed service change. The Direct Testimony of Greg
7 Whiteman on Behalf of the United States Postal Service (USPS-T-12) summarizes
8 the results of that research, estimates changes in household and commercial
9 customer mailing behavior, and the potential adverse revenue consequences to the
10 Postal Service that might result from the planned service changes.

11 As part of its analysis, the Postal Service also corresponded with its
12 employee unions and management associations. As the concept evolved, we met
13 face-to-face with representatives of these organizations to keep them apprised of
14 progress. The Postal Service also responded to Congressional requests for similar
15 briefings.

16

17 **IV. General Description of Proposed Mail Processing and Transportation**
18 **Changes**

19

20 The Postal Service is planning to implement a fundamental realignment of the
21 mail processing network to utilize capital assets and personnel more efficiently over
22 the long-run, while also meeting its obligation to provide regular and effective levels
23 of mail service.

1 The most significant changes will consist of the consolidation of mail
2 processing and distribution operations that currently take place in 251 Processing
3 and Distribution Centers/Facilities (P&DCs/P&DFs)⁸ into many fewer such locations.
4 At the time of the filing of the Request in this docket, the Postal Service was in the
5 process of applying its USPS Handbook PO-408 guidelines to examine the feasibility
6 of consolidating the operations of those plants into approximately 200 such facilities,
7 and making corresponding changes to its transportation network.⁹ These potential
8 operational changes are premised upon the assumption that the Postal Service also
9 will implement the proposed service standard changes discussed below.¹⁰ As
10 described below, in order to achieve significant mail processing consolidation, and
11 generate increased efficiencies in mail processing, a modification to current service
12 standards is necessary.

13 The Postal Service has determined that, in order for the planned mail
14 processing consolidations to generate significant cost savings, changes to the
15 existing inter-plant transportation network must be made that necessitate changes to
16 existing service standards. As explained in further detail below, the most significant
17 service changes are in the narrowing of the scope of the overnight and two-day

⁸ And their associated customer service facilities, logistics and distribution centers, destinating distribution centers and annexes.

⁹ These changes are further described in the Direct Testimony of Cheryl Martin on Behalf of the United States Postal Service (USPS-T-6).

¹⁰ The service standard changes are summarized in section IV of my testimony below. The changes are fully described in the content of a *Federal Register* notice to be published shortly after the filing of the Request, which will be filed in this docket as USPS Library Reference N2012-1/7.

1 First-Class Mail service standards.¹¹ Concurrently, a significant operational change
2 resulting from mail processing consolidation and transportation changes will be in
3 the expansion of the operating window for Delivery Point Sequencing (DPS) of
4 letters and an expansion of the operating window for flats sortation by means other
5 than Flats Sequencing Systems (FSS). Delivery Point Sequencing involves the use
6 of automated mail processing equipment¹² at destination plants to sort mail pieces
7 into the order in which they will be delivered on letter carrier routes or in Post Office
8 Box sections.

9 Today, First-Class Mail is typically processed within very short operational
10 windows at plants throughout the mail processing network in order to meet
11 applicable overnight service standards. Although not all letter- or flat-shaped pieces
12 are First-Class Mail and the majority of letters and flats (even within First-Class Mail)
13 do not have an overnight service standard, all letter mail is required to be processed
14 together during incoming sortation in order to maximize the degree to which it is
15 finalized into delivery point sequence (DPS) via automated equipment. In addition,
16 those flats not delivery point sequenced via FSS are often sorted separately so as to
17 take full advantage of flat sorting equipment capacity, which causes two runs for the
18 same carriers in a given day. This allows the Postal Service to take full advantage
19 of the flat sorting equipment, but causes inefficiency within the operation.

¹¹ This will also have the effect of requiring corresponding changes to the overnight and two-day service standards currently applicable to Periodicals.

¹² Delivery Barcode Sorters are used for letters; Flats Sequencing Systems and Automated Flat Sorting Machines are used for flats. The use of technology to automatically sequence the mail to match carriers' lines of delivery along their routes greatly reduces the cost of delivery and expedites the time of day at which delivery can begin. Prior to this innovation, letter carriers manually sequenced this mail volume in cases at delivery units.

1 The benefits of automated delivery point sequencing are so substantial that the
2 Postal Service has invested considerably in such equipment and has expanded
3 facility capacity to accommodate the machinery. Investment in additional machinery
4 and facility space was prudent and affordable during periods when mail volume was
5 more robust and growth could confidently be predicted. However, as overall
6 volumes have declined sharply, and the mail mix has changed, service standards
7 and the mail processing network required to meet those standards have remained
8 the same.

9 Delivery Point Sequencing requires that mail be run through DPS equipment
10 twice in order to be finalized for dispatch to delivery units or letter carriers. For
11 CSBCS equipment,¹³ three passes are required. The second pass of mail through a
12 DPS sort plan cannot begin until completion of the first pass for all mail being
13 sequenced as part of that sort plan. To maximize the volume that can benefit from
14 DPS on any given delivery day, the operation must be conducted during a narrow
15 time window before dispatch. Therefore, even with rapidly declining First-Class Mail
16 volumes, DPS operations typically occur during a narrow time window in the early
17 morning hours of each delivery day in order to ensure that a maximum degree of
18 First-Class Mail with an overnight service standard can reach this downstream
19 operation and meet its delivery standard. The combination of the overnight service
20 standard and short DPS processing window requires that more transportation be
21 operated between mail processing plants and from each plant to its subordinate
22 delivery units than under different circumstances. Current service standards and the
23 DPS processing window require that significantly more DPS equipment be available

¹³ "CSBCS" is carrier sequence bar code sortation.

1 to operate at more mail processing plants (or large Post Offices) than otherwise
2 would be the case. Such equipment occupies more total floor space, requires the
3 deployment of more maintenance personnel and supplies at more locations, and
4 generates more operating cost than if other operational and service requirements
5 were in effect. As explained by witnesses Frank Neri (USPS-T-4), Dominic Bratta
6 (USPS-T-5) and Cheryl Martin (USPS-T-6), the expansion of the DPS processing
7 window and the realignment in how we process mail volumes will lead to mail
8 processing and transportation efficiency.

9 The Postal Service has determined that a realignment of mail processing
10 operations should be initiated. This realignment should be based upon a change in
11 the overnight service standard for First-Class Mail and Periodicals. When fully
12 implemented, this will result in a large reduction in requisite network capacity and
13 associated mail processing costs. In this new environment, some mail processing
14 operating windows will function much differently than they do today. While
15 cancellation and outgoing primary operations will remain similar to today, there will
16 be a fundamental shift in processing incoming mail. Currently, typical cancellation
17 and outgoing operations begin at approximately 5:00 p.m. and run until
18 approximately 10:00 p.m. In addition, incoming primary operations typically run from
19 7:00 p.m. through 2:30 a.m., with DPS beginning as early as 10:30 p.m. and running
20 until approximately 6:30 a.m.¹⁴ Under the new operating plan, incoming primary
21 operations will begin at 8:00 a.m. and run to 12:00 p.m. DPS sequencing of letter

¹⁴ Each facility has its own specific operating plan based on its geographic service area and operational considerations, such as the location of plants that are overnight. The operating time windows used in my testimony present a general framework and will vary by location.

1 mail will occur between 12:00 p.m. and 4:00 a.m. for peak day processing. The DPS
2 window will therefore expand to sixteen hours. This expanded operational window
3 will allow the Postal Service to take fuller advantage of its capital assets throughout
4 the entire operating day. The changes to processing operations are explained in
5 greater detail by witness Neri (USPS-T-4).

6 These mail processing operational changes will have an impact to
7 transportation patterns. Current transportation exists to support current service
8 standards. As service standard constraints are changed, realignment of the
9 transportation network allows for a reduction in overall miles within the system, as
10 explained by witness Martin (USPS-T-6).

11 These operational changes will also have an impact on mail processing
12 equipment maintenance requirements. The level of maintenance required within the
13 network is generally proportional to the amount of equipment and facility space
14 within the network. As operational windows are expanded, equipment sets can be
15 reduced. In addition, as locations are consolidated, facility space is reduced. This
16 reduction in equipment sets and facility space will allow for a reduction in system
17 wide maintenance cost. The maintenance changes are explained by witness Bratta
18 (USPS-T-5).

19

20 **V. Proposed Service Standard Changes And Anticipated Service Impacts**

21 **A. The Potential Service Changes Are Nationwide In Scope.**

22 As described above, the Postal Service is proposing to change service
23 standards and initiate operational changes to allow for the more efficient use of its
24 mail process assets and personnel in the long-term. This will involve a substantial

1 reduction in the number of Processing and Distribution Centers/Facilities and
2 associated annexes. It will include a realignment of mail processing capacity and
3 operations to match anticipated declines in volumes, and to utilize more fully what
4 equipment remains throughout each operating day in the future. By implementing
5 these changes, the Postal Service ultimately expects to realize long-term cost
6 savings that will allow it to continue meeting its universal service obligations on a
7 more financially stable basis.

8 Concurrently with the filing of the Request in this docket, the Postal Service is
9 conducting several hundred associated AMP studies.¹⁵ The Postal Service intends
10 to make decisions within 90 days after the filing of the Request in this docket
11 regarding which of those mail processing consolidation proposals to implement,
12 contingent upon the outcome of the rulemaking in which changes to its market-
13 dominant mail service standard regulations (39 C.F.R. Part 121) are being
14 contemplated. The changes in the nature of service associated with this Request
15 will not be implemented sooner than 120 days after the filing of the Request..¹⁶

16 As described below, different mail classes/products are expected to be
17 affected to varying degrees by the network rationalization plan. By any measure, the
18 service changes that are anticipated to result from the mail processing and
19 transportation changes will be system wide, and at least substantially nationwide.

¹⁵ See footnote 7 above.

¹⁶ Assuming a 60-day rulemaking comment period that commences in early-to-mid-December 2011, and 30 days thereafter to consider all comments and then formulate and publish a final rule, the rulemaking could be concluded by early-to-mid March. The earliest effective date for the service changes associated with Docket No. N2012-1 would be in early-to-mid April 2012.

1 **B. Substantial Mail Entry Changes Are Anticipated.**

2 Service standard changes aside, the potential consolidation of several
3 hundred mail processing plants will result in some impact to Business Mail Entry Unit
4 (BMEU) operations located at plants that are shuttered. This may have some impact
5 on bulk mail senders. To mitigate this impact, the Postal Service will continue
6 offering customer access to mail entry through former BMEU operations at
7 consolidated sites, if it makes operational sense for that location to remain; or, the
8 Postal Service may elect to retain such temporary capabilities at nearby locations.
9 The Direct Testimony of Pritha Mehra on Behalf of the United States Postal Service
10 (USPS-T-7) discusses the measures the Postal Service will take to mitigate
11 customer impact.

12 The potential impact of plant consolidations on entry of single-piece First-
13 Class Mail as a whole would be much less significant, since the more expansive
14 retail network is unaffected by this initiative and serves as the primary channel
15 through which single-piece mail is entered.¹⁷

16 **C. Substantial Service Standard Changes Are Anticipated.**

17 Domestic service standards are comprised of two components: (1) a delivery
18 day range within which all mail in a given class or product should be delivered, and
19 (2) business rules that determine, within the applicable day range, the number of

¹⁷ Single-piece mailers have a variety of alternative entry points within the service area of a P&DC through which to enter mail that would be virtually unaffected by a plant consolidation. Only a relatively small percentage of their mail is entered at a retail counter or collection box located at a P&DC. The overwhelming majority of single-piece mail is entered at retail windows; lobby slots, P.O. boxes or collection boxes at Post Offices, stations or branches; picked up by letter carriers; deposited in collection boxes not on postal premises; or deposited via alternate access channels such as Contract Postal Units or Approved Shippers.

1 delivery days after mail piece acceptance by which a customer can expect delivery,
2 based upon the 3-digit ZIP Code prefixes associated with its entry point and delivery
3 address. Current market-dominant service standards for each domestic 3-digit ZIP
4 Code pair will be filed in USPS Library Reference N2012-1/8. *Hypothetically*—
5 assuming the implementation of each of the hundreds of AMP studies currently
6 under way and associated with the instant Request—that library reference only
7 illustrates *potential* 3-digit ZIP Code to 3-digit ZIP Code changes in service
8 standards that *could* result.¹⁸ Any ZIP Code-specific or granular service standard
9 changes that are ultimately implemented are *also* contingent upon proposed
10 changes in the service standard day ranges and business rules summarized below.

11 **1. Potential First-Class Mail changes are significant**

12 **a. Overnight service standard change.**

13 The current First-Class Mail overnight service standard business rule in
14 39 C.F.R. § 121.1(a) requires that domestic intra-Sectional Center Facility mail
15 (“intra-SCF”) be subject to overnight delivery¹⁹ if it enters the mailstream before the
16 applicable Day-Zero Critical Entry Time (“CET”).²⁰ In addition, subsection 121.1(a)

¹⁸ It cannot be overemphasized that the degree to which service standards will *actually* change depends upon (a) the outcome of the each AMP study, (b) what amendments to 39 C.F.R. Part 121 result from the market dominant product service standard rulemaking, and (c) any further modifications that result from consideration of the advisory opinion issued at the conclusion of this docket. Accordingly, the *potential* changes depicted in library reference 8 are *merely illustrative*, provided solely for the purpose of indicating the nature and magnitude of service standard changes that could conceivably result. The library reference should *not* be understood as indicating that any decision about specific changes has been made.

¹⁹ Excluded from this standard, however, is intra-SCF mail between Puerto Rico and the U.S. Virgin Islands and intra-SCF mail in certain designated 3-digit ZIP Code service areas (or portions thereof) in the state of Alaska.

²⁰ The start-the-clock Day Zero is the date on which the clock starts for purposes of service measurement. For a mail piece or a bulk mailing, it is generally determined on the basis of the

1 includes criteria for establishing an overnight service standard for destinations
2 outside of an origin SCF area.

3 The Postal Service is proposing to change the foundation for the business
4 rule defining the scope of overnight First-Class Mail to one that depends upon the
5 planned expansion of the delivery point sequencing (DPS) operating window
6 discussed above in section IV. Under current First-Class Mail service standards
7 mail entered before the CET on Day Zero has an expectation of delivery on the next
8 delivery day if it is intra-SCF or destined for designated zones outside of the origin
9 SCF area. In addition, overnight is provided to intra-SCF within Puerto Rico,
10 excluding the U.S. Virgin Islands, intra-SCF Honolulu (does not include Guam) and
11 intra-SCF mail originating and destinating in the following 5-digit ZIP codes of
12 Alaska: 99501-99539.

13 Under the proposed overnight First-Class Mail service standard change, the
14 Day Zero CET changes in a manner corresponding to the advancement of the
15 initiation of the Delivery Point Sequencing window from approximately 10:30 p.m. on
16 the day of dispatch to the delivery unit to 12:00 p.m. on the operating day before that
17 dispatch. Thus, for example, a First-Class Mail piece picked up from a collection
18 box before the final collection on a Tuesday destined to an address within its SCF
19 area of origin would have an expected delivery day of Thursday. For the same
20 reason, a bulk mailing consisting of tray-laden pallets of mail, properly presorted and

relationship between (a) the day and time of day at which a mail piece is deposited in the mail stream or tendered to the Postal Service and (b) the applicable Critical Entry Time. The CET is the latest time on a particular calendar day that a mail piece (or in the case of a bulk mailing, a reasonable amount of a class of mail) can be received at designated induction points in the postal network and still be processed and dispatched with an expectation that it will meet service standards based on the date of entry.

1 prebarcoded intra-SCF First-Class Mail letters or flats entered at the BMEU of the
2 same SCF at 5:00 p.m. on Tuesday, would have the same expected delivery day of
3 Thursday.

4 In the current mail processing environment, mail must be entered before the
5 Day Zero Critical Entry Time so it can be dispatched to necessary mail processing
6 operations at a Sectional Center Facility, processed, and then dispatched to
7 downstream operations before it can meet next day delivery expectations associated
8 with the day and time of entry. In exchange for the opportunity to enter their mail at
9 times after the designated Day Zero Critical Entry Time while still preserving the
10 same delivery expectation as if it had been entered by that CET,²¹ it is common for
11 bulk workshare mailers to engage in certain additional sortation or other mail
12 preparation beyond that required for qualification for a workshare price category.
13 Notwithstanding advancement of when the DPS processing window is initiated to
14 12:00 p.m. on the operational day before the expected delivery day for overnight
15 First-Class Mail, the Postal Service intends to preserve the opportunity to establish
16 similar arrangements locally, subject to the following conditions. Properly prepared,
17 sorted and containerized bulk workshare intra-SCF First-Class Mail entered at the
18 destination SCF (or designated facility within its service area) by 8:00 a.m. on
19 operating Day Zero will retain an overnight delivery expectation. In addition,
20 properly prepared, 5-digit or scheme sorted and containerized bulk workshare intra-
21 SCF First-Class Mail entered at the destination SCF (or designated facility within its
22 service area) by 12:00 p.m. on operating Day Zero will retain an overnight delivery

²¹ Such arrangements are negotiated with the management team of the mail processing plant where the mail is entered.

1 expectation. This will allow bulk Presort First-Class Mail users to continue the
2 mutually beneficial practice of engaging in extraordinary preparation that permits
3 entry after the CET in a manner aligned with downstream postal mail sortation
4 operations.

5 **b. Two-day service standard change.**

6 The current First-Class Mail business rule in 39 C.F.R. § 121.1(b) generally
7 applies a 2-day service standard to mail not subject to an overnight standard, if
8 properly accepted before the Day Zero Critical Entry Time, and if the origin P&DC/F
9 to Area Distribution Center surface transportation time is 12 hours or less, with
10 certain specified exceptions associated with the state of Alaska and the territories of
11 Puerto Rico and the U.S. Virgin Islands. The Postal Service proposes to modify the
12 2-day standard by applying it to all intra-SCF Single-Piece mail entered prior to the
13 published and established Critical Entry Time, and to all bulk Presorted mail entered
14 prior to the published and established Critical Entry Time that is neither
15 containerized to the SCF facility nor sorted to the destination SCF facility. All mail
16 between Puerto Rico and the U.S. Virgin Islands that is entered prior to the
17 established and published CET would be 2-day. All Alaska intra-SCF mail not
18 subject to an overnight standard that is entered prior to the established and
19 published CET would be 2-day. In addition, the 2-day standard would apply to all
20 inter-SCF mail entered prior to the established and published CET where the
21 originating facility to destination SCF surface transportation drive time is four hours
22 or less, unless the inter-SCF origin-destination 3-digit ZIP Code pairs are in the state
23 of Alaska.

1 **d. International implications.**

2 No changes are proposed for the First-Class Mail service standard business
3 rules in 39 C.F.R. §§ 121(f) and (g) that apply, respectively, to the domestic transit of
4 Outbound Single-Piece First-Class Mail International and Inbound Single-Piece
5 First-Class Mail International (FCMI). Those standards match the standards
6 applicable to purely domestic First-Class Mail with the same domestic origin-
7 destination patterns. Accordingly, corresponding changes to the domestic transit of
8 Outbound and Inbound FCMI will occur when domestic First-Class Mail service
9 standard changes are implemented.

10 **2. Periodicals service standard changes are a logical**
11 **consequence.**

12 The current Periodicals mail overnight service standard business rule in 39
13 C.F.R. § 121.2(a) specifies that domestic intra-Sectional Center Facility mail is
14 subject to overnight delivery²³ if it enters the mailstream before the applicable Day
15 Zero Critical Entry Time. In addition, all mail that receives a Destination Delivery Unit
16 (DDU) entry discount and is dropped at the appropriate DDU and all mail that
17 receives a Destination Sectional Center Facility (DSCF) entry discount and is
18 dropped at the appropriate DSCF before the applicable Day Zero Critical Entry Time
19 is subject to an overnight standard.²⁴

that originates in Guam and destines outside of Guam, other than in Hawaii; or that destines in
Guam and originates outside of Guam, other than in Hawaii.

²³ Intra-SCF mail between Puerto Rico and the U.S. Virgin Islands and intra-SCF mail in certain designated 3-digit ZIP Code service areas (or portions thereof) in the state of Alaska constitute exceptions to this rule.

²⁴ Intra-SCF mail between Puerto Rico and the U.S. Virgin Islands and intra-SCF mail in certain designated 3-digit ZIP Code service areas (or portions thereof) in the state of Alaska constitutes an exception to this rule.

1 The Postal Service is proposing to change the business rule defining the
2 scope of the overnight standard for Periodicals to one based on the timing of mail
3 entry around the planned expansion of the Incoming Secondary operating window
4 for origin entered volume, discussed above in section IV. The Postal Service
5 proposes no change to the current business rule for dropship Periodicals; however,
6 there will be some modification to the CET for dropship Periodicals mail volume.
7 Under the current Periodicals service standard, mail entered before the CET on Day
8 Zero has an expectation of delivery on the next delivery day. In addition, there is an
9 overnight delivery expectation for intra-SCF Periodicals mail within Puerto Rico,
10 excluding the U.S. Virgin Islands; intra-SCF Honolulu (excluding Guam); and intra-
11 SCF mail originating and destinating within the 99501 through 99539 5-digit ZIP
12 Code range within Alaska. Under the proposed overnight Periodicals service
13 standard change, the Day Zero Critical Entry Time changes in a manner
14 corresponding to advancement of the initiation for the Incoming Secondary
15 processing window.

16 The Postal Service has already modified its Critical Entry Times for
17 Periodicals upon the introduction of FSS into the mail processing network. The
18 current CET for FSS locations in which the mail requires a bundle sort is 8:00 a.m.,
19 and for FSS locations in which no bundle sort is required, the CET is 11:00 a.m. No
20 changes to these times are proposed.

21 For Non-FSS Periodicals processing, the Postal Service is proposing a
22 change in CET for overnight service from 5:00 p.m. with no bundle sort required and
23 4:00 p.m. when a bundle sort is required to 2:00 p.m. and 11:00 a.m., respectively,

1 for volume entered at the plant. Thus, for example, a Periodicals piece entered into
2 the network on a Tuesday, after the Day Zero Critical Entry Time established for a
3 given site based on its processing characteristics, and destined to an address within
4 its SCF area of origin, would have an expected delivery day of Thursday. For the
5 same reason, a bulk mailing consisting of bundles on pallets of properly presorted
6 and prebarcoded intra-SCF Periodicals entered at the BMEU of the same SCF at
7 5:00 p.m. on Tuesday would have the same expected delivery day of Thursday.

8 In the current processing environment, mail must be entered before the Day
9 Zero Critical Entry Time if it is to have an opportunity for dispatch to the necessary
10 Sectional Center Facility processing operations, and then processed and dispatched
11 to downstream operations in order to meet delivery expectations associated with the
12 day and time of entry. Under the proposed overnight business rule, end to end
13 Periodicals mail overnight service standards would be limited to properly prepared,
14 sorted and containerized bulk workshare intra-SCF Periodicals mail entered at the
15 destination SCF (or designated facility within its service area) by 8:00 a.m. at FSS
16 sites requiring a bundle sort, and 11:00 a.m. at non-FSS sites requiring a bundle sort
17 on operating Day Zero. In addition, properly prepared, 5-digit sorted and
18 containerized bulk workshare intra-SCF Periodicals mail entered at the destination
19 SCF (or designated facility within its service area) not requiring a bundle sort by
20 11:00 a.m. at FSS locations, and by 2:00 p.m. at Non-FSS locations requiring a
21 bundle sort on operating Day Zero will retain an overnight delivery expectation.

22 Beyond these Periodicals service standard business rule changes, there will
23 be changes in the service standards applicable to specific 3-digit to 3-digit ZIP Code

1 origin-destination pairs based on the reconfiguration of the network, and changes to
2 the labeling lists which implement the current service standard business rules.

3 The remaining Periodicals Mail service standard business rules changes
4 being proposed are in 39 C.F.R. §§ 121.2(a)(7) and (b)(4&5); the changes pertain to
5 non-contiguous U.S. destinations and are unrelated to network rationalization, as
6 detailed below in section V.C.7.

7 **3. Standard Mail.**

8 The Postal Service is not planning any changes to the Standard Mail service
9 standard business rules in 39 C.F.R. 121.3 as a result of network rationalization;
10 however, there will be changes in the service standards applicable to specific 3-digit
11 to 3-digit ZIP Code origin-destination pairs based on the reconfiguration of the
12 network, and changes to the labeling lists which implement the current service
13 standard business rules.

14 Relatively minor Standard Mail service standard business rule changes in
15 39 C.F.R. §§ 121.3(a)(5) and (b)(5) unrelated to network rationalization are being
16 proposed for mail addressed to non-contiguous U.S. destinations, as described
17 below in section V.C.7.

18 **4. Package Services.**

19 The Postal Service is not planning any changes to the Package Services
20 service standard business rules in 39 C.F.R. Part 121.3 as a result of network
21 rationalization; however, there will be changes in the service standards applicable to
22 specific 3-digit to 3-digit ZIP Code origin-destination pairs based on the

1 reconfiguration of the network, and changes to the labeling lists which implement the
2 current service standard business rules.

3 Relatively minor service standard business rule changes for Package
4 Services in 39 C.F.R. §§ 121.4(a)(5) and (b)(4) unrelated to network rationalization
5 are being proposed for mail addressed to non-contiguous U.S. destinations, as
6 described below in section V.C.7.

7 **5. Priority Mail.**

8 Priority Mail is a competitive product for which service standards are not
9 required to be published in the Title 39 of the Code of Federal Regulations. The
10 current service standards associated with Priority Mail range from 1-3 days based on
11 origin-destination 3-digit ZIP Code pairs. The Postal Service will continue to provide
12 a 1-3 day Priority Mail service after network consolidation is implemented. Overnight
13 delivery will continue to be provided to local service areas, with 2-day and 3 day
14 standards from each origin zone to the remainder of the country defined by the
15 capability of the realigned mail processing network.

16 **6. Express Mail.**

17 Express Mail also is a competitive product for which service standard
18 regulations are not required to be published in Title 39 of the Code of Federal
19 Regulations. The current service commitments associated with Express Mail are 1-2
20 days based on origin-destination 5-digit ZIP Code pairs. The Postal Service will
21 continue to provide overnight Express Mail service. The standards from each origin
22 zone to the remainder of the country will be defined by the capability of the realigned
23 mail processing network.

1 **7. Non-contiguous destination changes unrelated to**
2 **network rationalization.**

3
4 The service changes described to this point are a product of the network
5 rationalization initiative. In addition to the market dominant service standard
6 business rule changes described above for 39 C.F.R. Part 121, the Postal Service is
7 proposing additional business rule changes in Part 121. The latter changes relate to
8 the service standards for Periodicals, Standard Mail and Package Services destined
9 for non-contiguous states and territories (from outside of the destinating state or
10 territory), to conform with the achievement potential based on actual transportation
11 availability for these products and locations. Transportation to these destinations is
12 dependent on inter-modal types of transport that include surface, boat, and air-taxis.
13 This transportation often does not run daily, which results in some mail having to
14 wait for the next available trip to these destinations.²⁵ The current service standards
15 are based on an imperfect alignment between the time this mail is available for
16 transport and the availability of the transportation required. This leads to some mail
17 not having the ability to meet the standard because the transport modes do not run
18 daily. The changes that are planned would modify the upper range of Periodicals
19 service standards to 26 days, Package Services to 26 days, and Standard Mail to 27
20 days.

21
22 **VI. The *Federal Register* Rulemaking Process Is Being Utilized**

23 An advanced notice of proposed rulemaking was published at 76 *Federal*
24 *Register* 58433 on September 21, 2011. That notice served as a formal mechanism

²⁵ Waits can be as short as one day or as long as a week.

1 with which to solicit comments from the general public regarding the development of
2 proposed amendments to the market dominant product service standards in 39
3 C.F.R. Part 121. The comments were received over a 30 day period and the
4 customer feedback was thoroughly reviewed and analyzed. Based on the customer
5 feedback received through stakeholder discussion, and through the advanced notice
6 of proposed rulemaking, proposed rules relating to changes to market dominant
7 service standards will be published for notice and comment soon after the filing of
8 the Request in this docket. A copy of the text prepared for publication will be filed as
9 USPS Library Reference N2012-1/7. Once the proposed rulemaking comments
10 have been received and reviewed, the Postal Service will finalize its notice of final
11 rule for a change to service standards.

12

13 **VII. Decision-Making Process Moving Forward**

14 The Postal Service will continue to utilize the USPS Handbook PO-408 AMP
15 guidelines to analyze facility consolidation opportunities. The Postal Service expects
16 to have virtually all of the AMP studies associated with this network rationalization
17 initiative completed in the second quarter of fiscal year 2012. Initiation of the service
18 standard changes and operational changes can be expected in the second quarter
19 of fiscal year 2012, no sooner than early April 2012. This will begin the
20 transformation of the mail processing and transportation networks that will result in
21 the expected cost savings.

22

1 **VIII. Conclusion**

2 The proposed service changes reflect the need to significantly reduce postal
3 operating costs and implement changes consistently across all facets of a complex
4 mail processing system. Postal management deems the implementation of these
5 service changes described in this filing as necessary to assure that the Postal
6 Service remains a viable, financially healthy institution that can continue to play a
7 vital role in serving the changing communications and delivery needs of the
8 American people well into the 21st century.