BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON D.C. 20268-0001

POSTAL RATE AND FEE CHANGES, 2000	Docket No. R2000-1

Supplemental Testimony of

Walter F. O'Tormey
On Behalf of the
United States Postal Serivce

In Response
To Order No. 1289

TABLE OF CONTENTS

Autobiographical Sketch	2
I. Purpose of Testimony	4
II. Introduction	5
III. Flat Mail Automation Program Background	7
1. Mechanization	7
2. Automation	8
IV. Automation Mail Piece Challenges	10
1. Letter Mail Characteristics	10
2. Flat Mail Characteristics	11
3. Periodicals vs. Standard A Flat Characteristics	13
V. Flat Mail Program Challenges (1993-1999)	13
1. FSM 881 Productivity	14
2. Barcoded & Non-barcoded Flat Mailstreams	15
3. Polywrapped Flats	16
4. Effects of Reorganization	17
5. Allied Labor Workhour Reduction	17
6. 1998 Fall Plan	17
VI. FSM Operations Improvement Efforts	18
1. Operations review	18
2. 1998-1999 Improvement Efforts	19
3 Current Improvement Efforts	20
VII. Conclusion	25

TESTIMONY

OF

WALTER F. O'TORMEY

AUTOBIOGRAPHICAL SKETCH

My name is Walter O'Tormey. I am the manager of Processing Operations, Operations Planning and Processing. My office has national policy and program responsibility for processing operations in Processing and Distribution Centers, Bulk Mail Centers, and Remote Encoding Centers. I am responsible for the processing of letters, flats, and packages. My Processing Operations group includes Processing and Distribution Center Operations, Systems Integration Support, and Operations Technical Support. We work with other functional groups on issues related to automation, equipment deployment, labor negotiations, facilities, transportation, and delivery.

I joined the Postal Service in 1966 as a distribution clerk in the Philadelphia, PA. General Post Office (GPO) while I pursued my college education. In 1973, I entered a Postal Service management training program, and for the next four years I held various supervisory and management positions in mail processing and delivery, including: Foreman of Mails, General Supervisor, Supervisor of Delivery, and Branch Manager.

In 1977, I was promoted to Manager of Distribution in Wilmington, DE. In 1983, I was promoted to Distribution Systems Officer where I had the responsibility for automation implementation for the Eastern Region. In 1994, as

Manager, Systems Integration Support, I and my team developed the 55 remote encoding site network serving over 250 major processing facilities. I received the first Board of Governors award in 1996. I was appointed to my current position in December 1996 where I have continued to work for improved letter mail efficiency and place additional emphasis on flat mail programs and equipment utilization cost control.

I have a Bachelor of Science Degree in Business Administration from St. Joesphs University in Philadelphia, PA.

I. PURPOSE OF TESTIMONY

The purpose of my testimony is to provide a national operational perspective to address the concerns raised by the Postal Rate Commission in Order No. 1289. In Order No. 1289, the Commission depicted relative trends of mail processing costs for letters and flats during approximately the last decade. Using annual data for mail processing and carrier in-office costs since 1989, the Commission illustrated in several graphs a trend of steadily declining costs for First-Class Mail (FCM) and Standard A Mail letters. It contrasted this with graphs depicting trends of both increasing and decreasing costs for various categories of FCM and Standard A Mail flats over the same period of time, and a trend of rising costs for Periodicals regular rate mail since 1993. The Commission also noted a sharp increase in 1998 in unit costs for processing FCM and Standard A flats.

In the following, I will comment on these trends, with particular reference to the Postal Service's efforts over the last decade to automate mail processing and to control costs, while improving service for the processing of FCM, Periodicals, and Standard A flat mail. In this context, I will discuss the challenges of automating flat mail compared to letter mail, and the challenges of automating FCM and Standard A flat mail compared to Periodicals. I will also discuss the challenges the Postal Service has experienced during the past several years controlling flat mail processing costs and FSM 881 productivity, while implementing flat mail automation strategies. In separate testimony filed today, Dennis Unger, Manager, Operations Support, Southeast Area, addresses

specific factors that have contributed to the trend of costs for Periodicals mail from a filed operations perspective, and the circumstances that contributed to the situation in FY 1998.

Finally, I will describe recent efforts to further improve the Postal Service's abilities to drive down costs of processing all flat mail. These include current and planned activities to further automate and enhance the distribution and handling of flats, and efforts specifically directed toward reducing the costs of processing Periodicals.

I am not presenting any workpapers or Library References in this case.

II. INTRODUCTION

Mail processing takes place in a complex operating environment. The requirements for processing various types of mail, and consequently the costs, are the products of interplay among a variety of factors. These include the physical characteristics of the mail pieces, the manner in which mailings are prepared and presented to the Postal Service, the equipment used, and the physical setting in which processing takes place. In addition, other factors can have a significant influence on operational decisions for particular types of mail. Among these, service expectations and commitments play a major role in determining basic choices that are made with regard to use of resources and priority of processing and scheduling. As explained in a more specific context by Mr. Unger, these and other factors, such as budget, create the framework in which decisions leading to cost incurrence are made.

In reviewing the record of mail processing operations over the last decade, it is important to keep in mind that, during any period of time, no one factor or partial group of factors should be looked at in isolation. As illustrated in Mr. Unger's testimony, the factors that influence the operational choices that determine the costs of a class or category of mail tend to be interrelated. Thus, for example, a decision to work a type of mail manually, rather than sorting it on machines, is typically made in the field within the context of overriding service priorities, as well as other factors that determine the most efficient use of the equipment. These might include the prevailing operational conditions, the technical specifications and operating parameters of the machines, and the physical characteristics of the mail. The priorities that dictate such choices are, in turn, influenced by budgetary factors, staffing conditions, and local or national policies, such as those that dictate where equipment will be deployed. Some influences on cost, furthermore, are not within the control of any managerial choice. Examples include the state of technology incorporated in available equipment and external economic and environmental conditions, like increased volumes caused by a strike affecting a major competitor's workforce. A field manager's operational decisions can only be fairly evaluated in light of his or her specific situation. More general policies can be considered, but it must be remembered that only postal management tends to take in and understand the full sweep of the various financial, operational, and technological factors that influence policy and specific operations choices.

III. FLAT MAIL AUTOMATION PROGRAM BACKGROUND

Recent history of the Postal Service's efforts to control and reduce costs for processing and delivering all types of mail has centered on its efforts to move more and more in the direction of automated operations. It is no secret that, just as manual activity historically has dominated operations in the Postal Service, labor costs have dominated total expenses. Consequently, the greatest gains in suppressing costs will be experienced if the Postal Service is able to replace manual operations with the work of more efficient machines, leading to lower unit costs for the mail that is handled. In this regard, the Postal Service has placed a priority on directing investment and operational policy toward creating a comprehensive automated environment. As the Commission's graphs show, we have begun to be quite successful in driving down the costs of letter-shaped mail. The graphs also show that the experience with all types of flats is mixed, although Periodicals represents a special case. As a result of these uneven experiences, the Postal Service has devoted considerable effort and made major investments during the past decade to automate and control costs for the processing of all FCM, Periodical, and Standard A flat mail.

1. Mechanization

In the early 1980's, the Postal Service began to mechanize the sorting of outgoing and incoming primary flat mail with several deployments of the flat sorting machine (FSM) 775. In 1989, additional flat sorting machines were purchased to increase capacity and provide for incoming secondary distribution. However, in the early 1990s, prior to deployment of these additional machines ,

they were converted to the 2+2 configuration to provide better throughput. These new machines were designated as FSM 881s. In addition, the existing FSM 775s were modified to the 2+2 configuration at the same time. Flat mail was sorted on the FSM 881 by an operator feeding mail and keying address information.

2. Automation

In the early 1990's, after experiencing continued successes with letter mail automation, the Postal Service announced plans for a flat mail automation program. Investing in barcode application technology for flats, however, would have required addressing such difficult issues as mail piece orientation, address location, and barcode application. It would also have required changing the appearance of the mail piece by applying labels or spraying barcodes and obtaining barcode ink capable of adhering to and being readable on the mail piece. Therefore, the flats automation program was based on a strategy of providing incentives to induce customers to apply barcodes meeting basic requirements. This partnership with the flat mailing industry was the foundation of the flat mail automation program. The Postal Service began to install barcode readers on the FSM 881s and provide discounts for customer barcoded flat mailings.

In the mid 1990's, the Postal Service began an effort to mechanize flats processing, which at the time was done manually due to the physical characteristics of the flat mail piece. In connection with this effort, the Postal Service began deployment of the FSM 1000. The FSM 1000 was designed to

process nearly all of the FSM 881 nonmachinable flat mail at a higher productivity than manual operations, but at a lower productivity than experienced with the FSM 881. The FSM 1000 was intended to complement, rather then replace, the FSM 881.

Until the late 1990's, the flat mail automation program relied on customer-applied barcodes and customer presorted volume for its mail base. However, because the volume was less then expected, the Postal Service recognized the need to automate the remaining portion of the non-carrier-route presorted flat mail volume, and it aggressively pursued a flat mail optical character reader (FMOCR) for the FSM 881. Currently, all FSM 881s have been modified with the FMOCR. Also, in the late 1990's, barcode readers were installed on the FSM 1000 to provide additional automated barcode processing capability for flat mail.

The Postal Service began searching for a new flat sorting machine that could be used to meet additional capacity needs and to replace the aging inventory of existing FSM 881 machines. In early 2000, the Postal Service began deployment of the automated flat sorting machine (AFSM) 100. The AFSM 100 offers several features not available on the FSM 881, including three automatic feeders, a tray take-away conveyer with adaptability to robotic handling, and on-line video keying for non readable flat mail.

In addition to the flat sorting equipment programs described above, the Postal Service pursued several research and development efforts directed towards improving the processing efficiency of flats mail. During the early 1990's, to further enhance automated flat mail processing and reduce staffing on

the FSM 881, we began searching for an automated flats feeder for the FSM 881.Until recently, a viable feeder modification could not be found. In addition, during this time, the Postal Service installed and evaluated an AFSM that was equipped with automatic feeding, sweeping, and barcode reading technology. Although this AFSM was not deployed, it helped define processing requirements for future FSMs, such as the AFSM 100.

IV. AUTOMATION MAIL PIECE CHALLENGES

During the planning phase of the flat mail automation program, the question was often asked "how did we do it with letters?" Often, a similar approach would prove to be successful. However, flat mail is quite a different product.

1. Letter Mail Characteristics

Certain physical characteristics of letter mail contribute to lower processing costs. Letter mail is more uniform in size and shape, which allows better optimization of processing equipment parameter settings. The "Address Block" and "Barcode Clear Zone" for automation compatible letter mail are strictly defined by the Postal Service and are universally accepted.

The application and use of barcodes and/or ID Tags on letter mail have greatly reduced the cost of processing letters. The application of an 11-digit barcode or ID Tag equivalent at the first handling on automation saves costs on downstream processing operations. This allows the letter to remain in the highly efficient automation mail stream.

The processing equipment used by the Postal Service to distribute automation compatible letter mail utilizes one induction station, as opposed to four for flat equipment. It also processes mail at a much higher speed than flat sorters, and requires less staffing. Letter mail is presented in full trays for processing, as opposed to being presented in packages, like flat mail. This makes letter mail easy and efficient to load.

2. Flat Mail Characteristics

The physical characteristics of flat mail are not as conducive to automated or mechanized processing as are the characteristics of letter mail. The flat mail stream includes envelopes, flimsies, newspapers, digests, catalogs, and magazines. The allowable variation in the size, weight, shape, and thickness of flat mail makes it inherently more difficult to process. most bulk flats mailings are prepared as packages or bundles. When bundles break open prior to distribution, the benefit of any presort is lost. Also, additional costs are incurred for attempts at bundle recovery or for individual piece distribution. There is no specific address block location or barcode clear zone for flat mail, as there is for letters. This, along with the requirement for flat mail to be inserted into automation and mechanized equipment with the bound or folded edge in a certain orientation, requires more facing and handling in order for it to be sorted.

Even though the Postal Service allows mail as thin as .009 inches and as thick as .75 inches to receive a barcoded discount, given capacity limitations, mail at these extremes is not always processed on flat mail automation equipment. Such mail is more prone to causing jams and/or being damaged.

Therefore, mail that is barely within the tolerance limits is often processed in a manual operation to ensure service, and to allow the automation equipment to be utilized for other flat mail that is less likely to cause machine problems.

The only requirement for placement of the address on a barcoded flat mail piece is that it has to be on the same side of the mail that allows insertion into automation with the bound or folded edge to the right. There is no requirement that it be positioned for ease of readability. Therefore, mail from different sources tends to have addresses in various locations and in multiple orientations (such as upside down or placed vertically, instead of horizontally). This requires (in keying operations) the constant rotation of the mail pieces by the operator, which increases the amount of time required for handling each piece. The requirement that the bound edge be inserted into automation equipment to the right also creates the same readability problem for downstream operations. The mail must be rotated for address readability, even in a manual operation. In addition, there is often other information on the same side as the address, which can cause OCR address interpretation problems. As stated in witness Kingsley's testimony,

> the OCR may have trouble recognizing the delivery address on a mail piece when a flat contains other information on the same side as the delivery address. The OCR has difficulty discerning the intended delivery address and may interpret a portion of the incidental information as the delivery address. Likewise, when a return address is more prominent (e.g., font size, print quality) than the delivery address, the OCR may interpret the return address as the delivery address.

Witness Kingsley goes on to explain that

> field sites closely monitor the flats that come through FSM 881 operations and use discretion to determine whether to process non-barcoded pieces on the OCR or to key them. The Postal Service has published articles in mailer publications and has worked with mailers locally regarding the proper OCR standards for flats, but it appears more educational efforts or additional standards are needed.

USPS-T-10, at 15-16. The fact that field sites use discretion to determine whether mail should be processed by the OCR, or keyed by higher level employees, and in some cases worked manually at an even greater cost, is a reflection of the concern to provide the customer with the proper service. Field managers incur cost to avoid missorting mail, which can result in delay.

3. Periodical vs. Standard A Flat Characteristics

To fully understand why the cost trends for Periodical flats have been different from other flats costs, it is necessary to explore the differences between classes. As explained by Mr. Unger, there are Periodical mail piece and preparation characteristics that make processing Periodicals even more of a challenge than processing FCM and Standard A flats. These include differences in makeup requirements for packaging, in typical volumes in a mailing, in densities of destinations, in presort levels, in whether they are sequenced by line of travel (LOT), in whether they are skin sacks, etc. These differences and their impacts are described in more detail in witness Unger's testimony.

V. FLAT MAIL PROGRAM CHALLENGES (1993-1999)

The flat mail automation program has been a challenging effort from the start. There have been continued enhancements to existing processing

equipment (FSM 881s), as well as deployment of new processing equipment (FSM 1000s) to incorporate more flat mail volume to automated processing. There have also been projected barcoded volume shortfalls, mail makeup and packaging modifications, and changes to corporate policy. Several of the changes that affected cost and productivity include the following.

1. FSM 881 Productivity

The FSM 881 has been the backbone of mechanized and automated flat mail processing for many years. The machine has been improved numerous times, with modifications, such as the 2+2 configuration; a jam reduction modification; a digest mail modification, the addition of barcode readers (BCR) and optical character readers (OCR); and recently, in some instances, the addition of an automated flats feeder. As the FSM 881 aged and received new modifications, maintenance requirements were increased, and more of the maintenance window was utilized

The FSM 881 has seemed to have an inherent jam problem with certain types of flat mail. With the deployment of the FSM 1000, flat mail that was difficult to run on the FSM 881, which caused jams and downtime (polywrap, flimsies, etc.) migrated to the FSM 1000.

After the mid 1990s, barcoded flat volume grew, and more and more barcoded flat sort plans were being run. However, as the barcoded run increased, the keying operations began to experience shorter runs. Just as with low volume barcoded runs in the early 1990s, shorter keying runs resulted in

additional workhours for sweeping, relabeling, changing sort plan, and dispatching partial tubs, etc.

2. Barcoded & Non-barcoded Flat Mailstreams

At the beginning of the flat mail automation program in 1992, the amount of barcoded flat mail projected was not realized. Sufficient volume for efficient processing was not available until the mid 1990s. In addition, commingling of barcoded and non-barcoded flat mail was allowed within a mailing. For some time, there was an insufficient volume of barcoded flat mail available to warrant separation from non-barcoded mail during mail preparation and distribution. When the flat barcoded volume began to increase in1996, the field was instructed to run separate barcoded and non-barcoded operations, *if* management determined it would be cost effective. However, due to the additional workhours required to separate the mail upon receipt, to maintain separation during processing, and to provide additional handling for barcode rejects, many sites were reluctant to do so. It took quite some time before the separation of the mailstreams in mail preparation, distribution, and dispatch became the standard throughout our processing facilities. Furthermore, as I stated earlier, with the increased number of incoming secondary 5-digit zones being processed came additional costs in the FSM operation.

By 1998, we were processing about forty percent of the barcoded flat volume in automated operations. However, many larger mailings now qualified for a 5-digit presort level discount, and most of the barcoded volume received was prepared in bundles and sacks labeled 5-digit presorted, pre-barcoded. In

many locations, the 5-digit zones for these mailings did not receive enough barcoded flat volume to justify a separate sort run (sweeping, relabeling, changing sort plan, dispatching partial tubs, etc.) on our constrained FSM 881s. Consequently, much of the barcoded flat mail receiving the highest discounts was either processed with non-barcoded flats in an FSM keying operation, or it was worked manually at the highest processing cost, depending on FSM capacity, operating windows, mail arrival times, and dispatch schedules.

To address the problem of separate (barcode and non-barcoded) multiple runs on the FSM 881, and the associated costs, the Postal Service recently completed deployment of a flat mail optical character reader (FMOCR) on the FSM 881. The FMOCR will allow processing of both barcoded and nonbarcoded mail at the same time. In addition, we are planning to install a FMOCR on the FSM 1000 in the future.

3. Polywrapped Flats

Initially, polywrapped flats, which included many Periodicals, were specifically excluded from qualification for the flat mail barcoding incentive because they were classified as non-machinable on the FSM 881. However, in mid-1994, in cooperation with the flat mailing industry, the Postal Service began to test different polywrap materials and methods, and to evaluate possible FSM 881 modifications. After several months of evaluation, polywrapped flats that utilized specific acceptable polywrap compositions, and wrapped to specific standards, were approved for rate incentives, if they met specific testing criteria established in the Postal Service I Engineering lab. Eventually, this testing

requirement would be modified, and today approved lists of polywrap material are provided. However, even with the testing and approval process, polywrapped flats run with varying degrees of success at different locations and on the FSM 881s within those locations. When difficulties are experienced running polywrapped flats on the FSM 881, they will be removed and distributed on the FSM 1000 or in manual operations.

4. Effects of Reorganization

Also during the mid 1990s, we experienced a steady downward trend in operational productivity in FSM automation and mechanized operations. This decline can be attributed to several conditions. A contributing factor was a reduction in the number of experienced supervisors who chose to retire during an internal reorganization.

5. Allied Labor Workhour Reduction

Shortly after the reorganization, management initiated an effort to reduce and better manage the workhours in indirect mail processing operations. Tasks that were in direct support of a distribution operation had the workhours linked to that operation. In flat processing operations, this resulted in a significant number of workhours associated with prepping and dispatching mail for FSM operations shifting from an Indirect workhour cost to a direct workhour cost. This shift had a negative impact on reported FSM productivity during the transition.

6. 1998 Fall Plan

In early 1998, in response to mailer criticism for relatively poor performance during the fall of 1997, the Postal Service began preparing for the

1998 fall mailing season. The Postal Service worked closely with the mailing industry to develop the Fall Mailing Plan. The 1997 fall plan was complicated by preparations for increased package volumes as a result of the pending United Parcel Service (UPS) strike.. The 1998 fall plan was based on expectations of greater volume, and called for additional hiring, annex leases, and additional transportation. As explained by Mr. Unger, when the actual volumes experienced in 1998 did not meet expectations, the Postal Service had difficulty reducing the number of employees. This contributed to the increasing cost of processing flats in general. It is important to understand, however, that the decisions and circumstances that led to increased costs in that regard were made within the same context of interrelated factors described above and in Mr. Unger's testimony. In the final analysis, the available resources were employed effectively to meet the service needs of the mailers who benefited from our ability to use the additional resources to distribute volumes that exceeded capacity on the automation equipment.

VI. IMPROVEMENT EFFORTS

1. Operations Review

Special mention must be made here to the efforts of the joint USPS-Periodicals Industry Operations Review Team, established in the aftermath of Docket No. R97-1. Fifteen recommendations were issued in the Team's March 1999 Report, and its work is ongoing.

2. 1998 –1999 Improvement Efforts

To reverse the declining trend in FSM productivity, control processing costs, and increase automated flat processing, management initiated several improvement efforts.

(a) In March 1998, the Strategic Improvement Guide for Flats Processing (Pub.128) was completed and distributed to all Processing and Distribution Centers (P&DC). In September 1999, the guide was updated and reissued.

(b) In March 1999, the Management Instructions for handling Loop Mail (PO-420-1999-1) were expanded to include flat shaped mail that might get caught in a loop due to automation processing. An example of loop mail occurs when, because of the better readability of a return address, an OCR continues to read that address rather than the delivery address each time the piece is processed on automation. Unless the piece is removed from the automated mail stream or the return address made non readable by the OCR, the probability that the piece will be resorted to the return address is high.

(c) In May 1999, a 4-hour nationally televised postal satellite training network (PSTN) presentation dedicated to FMOCR training was broadcast to all P&DCs

(d) In December 1999, a national Standard Operating Procedure (SOP) for Periodicals processing was delivered to the field for

implementation. This document established minimum requirements and procedures for processing.

(e) An initiative to reduce the cost and improve the service for Periodicals included the publication of several articles in both the Mailer's Companion and Memo to Mailers that specifically described the address and barcode read capabilities of the Flat Mail Optical Character Reader (FMOCR).

(f) The Postal Service issued instructions to the field re-stating national policies concerning FSM utilization, maximizing automation processing, and the proper staffing for all FSM operations. There are scheduled teleconferences with the Area Managers of Operations Support every two weeks to monitor overall flats processing performance.

3. Current Improvement Efforts

As highlighted in other parts of my testimony, the Postal Service continues to assess and adjust as necessary, its approach to meeting the specific challenges presented by processing flat-shaped mail. In some cases, those adjustments have been made through capital investments (new equipment, or enhancements to existing equipment), work sharing opportunities (e.g., enhanced barcode discounts), or internal operating changes. In this part of my testimony, I identify additional opportunities we see as having potential for further reducing flats processing and delivery costs in the future.

(a) AFSM 100: The Postal Service is implementing several Capital Investment Programs to further automate and enhance the distribution and handling of flat mail. As mentioned earlier, the AFSM 100 will provide much needed additional system capacity. Additionally, this new flats sorter offers significant processing advantages over today's current mix of equipment. In that regard, the performance of the AFSM in Baltimore (the pre-production unit site) has met our expectations. We will continue to closely monitor actual performance as the Phase I deployment progresses. The initial deployment will supplement our current fleet of FSM 881s and FSM 1000s by providing additional processing capacity.

(b) NGFSM: There is an effort underway to identify the best method and next generation flat sorter machine (NGFSM) design to process flats to the delivery point sequence (DPS) level through automation processing.

(c) FSM 1000: Adding OCR and automatic feeder capabilities to the FSM 1000 would offer additional opportunities for performance improvement for that particular piece of equipment. The possibility of adding those enhanced capabilities is being explored and, should the associated technology challenges be overcome we would expect reduced operating costs.

(d) SPBS: Material handling activities are an important component of total flats costs. In an earlier part of this testimony I highlighted the

impacts of broken bundles on those operations. As part of their ongoing effort to find ways to improve the performance of all of our equipment, our engineering group is exploring options for improving equipment where bundle breakage occurs.

(e) Productivity: In addition to the Capital Programs mentioned above, the Postal Service has established a group (Breakthrough Productivity Index group) to work exclusively on developing and identifying methods and strategies to improve processing productivity and to establish new productivity benchmarks in all flat and letter operations. As part of the breakthrough productivity initiative, we will be setting more aggressive performance targets in the coming years. One area where we have already realized improvement, is manual flats distribution operations, where we are achieving increased productivity levels.

(f) Transportation: In our ongoing efforts to reduce costs, we monitor the mix of mail that is transported by the most expensive transportation option, i.e., air. I have been advised that our progress in this effort can be tracked in the various finance systems that measure transportation costs.

(g) Methods: We continually strive to improve work methods at the operating level. Toward that end, we have recently issued instructions to the field on various operating procedures specifically related to the following: the induction of flats bundles into the SPBS, preferred

recovery methods for bundles which have broken prior to reaching piece distribution operations and instructions regarding individual piece distribution on the SPBS.

(h) Bundle Breakage: In addition to the internally focused (equipment and methods) efforts to reduce bundle breakage, the Postal Service has been working closely with an MTAC sponsored work group focused on identifying the causes of bundle breakage and developing recommendations for flats bundle preparation requirements which will result in reduced instance of breakage. We anxiously await the results of that effort.

(i) Line of Travel (LOT): A review of the differences in mail preparation requirements which may have some impact on the relative cost patterns of one class versus another, identified a possible cost reduction opportunity in carrier operations. Specifically, the requirement for LOT order within carrier route mailings has not been extended to Periodicals mail. As a result, the associated benefits of that make up requirement have not accrued to Periodicals mail. We are currently considering making that a universal requirement for carrier route presort discounts.

(j) Letter Carrier MOU: The Postal Service and the National Association of Letter Carriers (NALC) recently signed a memorandum of understanding (MOU) addressing a work methods change which should have a positive impact on flats handling costs in carrier

operations. Specifically, this agreement gives management the authority to implement the vertical flats casing method for those routes not currently using it. Under this method, flats are sequenced in the order of delivery in one handling by the carrier rather than in two handlings as was the more traditional flats sorting method.

(k) Mail Preparation: The Periodicals industry and the Postal Service are looking at changes in preparation requirements for Periodicals that may create more efficient preparation.

(l) "Skin Sacks": One of the possibilities being explored is the elimination of CRRT "skin sacks" (sacks with fewer than 24 pieces). These sacks are often prepared by the periodicals industry to improve or protect service. The theory is that pieces in direct sacks, i.e, sacks that do not have to be opened until they reach the carrier are less likely to be delayed during interim processing steps (sack sorting, opening, dumping, distributing bundles, etc.). Eliminating that sacking option but allowing "skin sacks" at the 5-digit level would reduce the number of sack handlings in the system without jeopardizing service since those sacks would not be opened until they were at the delivery unit.

(m) L-001: Recognizing that there are opportunities to better match mail preparation to USPS operations, the Postal Service implemented an optional preparation requirement in 1999 which allowed for the combining of volumes for multiple 5-digit Zip Codes in the same 5-digit

container (sack or pallet). Specifically, those combinations are allowed for zones which are sorted to carrier route in the same facility. This option helps to ensure greater densities (i.e., more direct containers) by massing mail on those locations where the piece distribution takes place. This option, called 5-digit scheme sort, or L-001 (from the number of the labeling list to be used in preparing mail this way) has had a positive impact on USPS operations, and consideration is being given to making it a requirement.

VII. CONCLUSION

In the discussion, above, I've addressed the topics raised in Order No. 1289, with particular reference to the history of the Postal Service's flats program, as compared to our letter automation program. I've highlighted the unique challenges presented by the flats mail stream piece characteristics and reviewed the adjustments we've made to our flats strategy over time, as technology and changing circumstances (e.g., mailer reaction to work sharing incentives) have dictated. I've also included a review of the operational challenges (e.g., separating barcoded and non barcoded mail) we've faced while incorporating that changing technology. Finally, I've summarized current efforts directed at improving our flats processing efficiencies and highlighted opportunities for further improvement which are under consideration.