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

: **POSTAL RATE AND FEE CHANGES, 2001** :

Docket No. R2001-1

**DIRECT TESTIMONY
OF
JAMES P. COCHRANE
ON BEHALF OF
UNITED STATES POSTAL SERVICE**

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1 Direct Testimony
2 Of
3 James P. Cochrane
4 Autobiographical Sketch
5

6 My name is James P. Cochrane. I have been the Associate Vice-President,
7 Expedited/Package Services Marketing since March 1999. My office directs new
8 business development, new business initiatives and advertising for package
9 products – Express Mail, Priority Mail, Parcel Post, Parcel Select, and Global
10 Express Guaranteed. We exchange information regarding these services internally
11 with Operations, Finance, Pricing, and Sales. We also provide and receive
12 information on these services through our ongoing dealings with Postal Service
13 customers.

14 I joined the Postal Service in 1974 as a clerk at the Dominic V. Daniels
15 Processing and Distribution Center (P&DC) in Kearny NJ. In addition, I served as
16 expeditor, training technician, data technician and supervisor of distribution
17 operations. I then worked as the Senior Distribution Programs Specialist for the
18 Newark, NJ Division and the Operations Support Specialist for the New York Metro
19 Area. I have also served several detail assignments as the Plant Manager of the
20 West Jersey P&DC, Terminals Manager in Bronx, NY, and Plant Manager, NY Metro
21 Priority Mail Center.

22 In 1995 I served as the Senior Plant Manager in Northern Virginia, and in
23 1997 I was the District Manager of Customer Service and Sales in the Capital
24 District Performance Cluster. In 1998 I served as the Associate Vice President,
25 Sales for the Northeast Region, and in March 1999 I accepted my current position.

26 I am currently enrolled in the Executive Masters of Public Administration
27 (MPA) Program at American University.
28

1 I. Purpose and Scope of Testimony

2 The purpose of my testimony is to describe past, current and future Priority
3 Mail operations. Specifically, I will describe the acceptance, processing,
4 transportation and delivery of Priority Mail. Section II will discuss the operational
5 environment for Priority Mail in the Base Year (FY2000) including a description of
6 the Priority Mail Processing Centers (PMPCs), the in-house network, processing
7 equipment, and transportation arrangements.

8 Sections III and IV will follow the same format as Section II, but Section III will
9 address the current environment (FY2001/2002) and Section IV will address the
10 transition to the Test Year environment (FY2003).

1 **II. Priority Mail - Base Year Operational Environment (FY2000)**

2 In this part of my testimony, I will provide an overview of the Priority Mail
3 acceptance, processing, transportation and delivery in the Base Year, FY2000. I will
4 discuss these areas separately for the Emery Worldwide-run Priority Mail Processing
5 Centers (PMPCs) and the in-house or "non-PMPC" environment.

6

7 **A. Priority Mail Processing Centers (PMPC) Environment**

8 **1. Acceptance**

9 Priority Mail entered the USPS mail stream in one of three ways – over the
10 window, via carrier collection, or directly from the mailer through Bulk Mail Entry
11 Units (BMEUs). In areas served by the PMPCs listed below, Priority Mail was not
12 only separated from other classes of mail, but also by shape. Mail from delivery
13 units (DUs) was usually transported to the nearest Postal plant to be consolidated
14 with other Priority Mail of the same shape and cross-docked for transportation to the
15 PMPC.

16 **2. Originating Processing**

17 In FY2000 there were ten experimental PMPCs: Pittsburgh PA, Philadelphia
18 PA, New York Metro, Nashua NH, Springfield MA, Northern NJ, Rochester NY,
19 Jacksonville FL, Orlando FL, and Miami FL. These facilities were run by Emery
20 Worldwide as part of the PMPC contract. The primary purpose of these PMPCs was
21 to: 1) test centralization – shrink the number of outgoing facilities to accumulate
22 mass and achieve economies of scale; 2) test new sorting methodologies – instead
23 of a primary sort to the first three digits of the ZIP Code, the primary sort was to the
24 first digit (0-9); and 3) test separate shape-based mail streams. Approximately 30
25 percent of all Priority volume was processed through these facilities.

26 PMPCs employed a new manual sorting technique of a simple primary sort
27 from 0 to 9. This allowed for more timely processing and made it easier to train
28 personnel. A secondary sort was then needed to sort to the other PMPCs and the
29 160 Postal Service Area Distribution Centers (ADCs). Flats were processed
30 manually and sorted into tubs. Parcels were processed manually and through
31 machines. Four of the PMPCs used mechanized tilt tray sorters for machinable

1 parcels. Parcels were sorted into sacks if they were going to be transported by air
2 and into gaylords (cardboard cartons on pallets) or rolling stock if they were to be
3 transported by ground. Once mail was sorted to the destination facility (PMPC or
4 ADC), it was prepared for air or surface transportation.

5 3. Transportation

6 Under the PMPC contract, Emery Worldwide provided transportation to the
7 destination facilities. Emery Worldwide used dedicated air and highway networks to
8 transport Priority Mail to the other PMPCs, ADCs, or Air Mail Facilities (AMFs).

9 4. Destinating Processing

10 Mail arriving at a destination PMPC from other PMPCs was already
11 segregated by shape and ready for processing. Mail from out-of-network ADCs had
12 to be segregated by shape before it could be processed. At some PMPCs
13 machinable parcels were processed on a tilt tray sorter and sorted directly to a 5-
14 digit ZIP Code. This sorter included up to 400 separations into tubs or containers.
15 The remaining PMPC parcels were sorted manually into sacks and hampers. This
16 generally required two sorts. The first sort was to the 3-digit ZIP Code and the
17 second sort was to the 5-digit level.

18 Flats were processed manually into tubs and usually required two sorts to
19 reach the 5-digit ZIP Code. Priority Mail was then transported to the plant where it
20 was cross-docked, to the DU. At the DU, clerks with scheme knowledge sorted
21 parcel-shaped Priority Mail to carrier route hampers. Priority Mail flats that arrived in
22 flat tubs from the plant, were cased to carrier route with the incoming FCM mail in
23 Function four distribution. It was then handed off to the carriers for casing to
24 destination and prepared for delivery.

B. In-House or "Non-PMPC" Environment

1. Acceptance

Regardless of processing environment, Priority Mail entered the USPS mail stream in one of three ways – over the window, via carrier collection, or directly from the mailer through Bulk Mail Entry Units (BMEUs). In areas not served by the PMPCs, Priority Mail was usually only separated from other classes of mail, but was generally not separated by shape. Some of the larger DUs would begin separation by putting all local Priority Mail in a sack and placing the rest (or "world" mail) in a container (gaylord or rolling stock). Mail from DUs was then transported to the nearest plant – one of over 300 facilities where Priority Mail was processed.

2. Originating Processing

The goal of in-house originating processing operations was to sort Priority Mail to the destinating ADC or PMPC. Most Postal Service processing facilities had a manual primary sort of low-high – separating ZIP Codes 001 to 450 and 451 to 999. Some facilities had a 4-way primary sort – 001 to 250, 251 to 500, 501 to 750, and 751 to 999. Both of these sort processes were more labor intensive than the PMPC 0-9 process because the clerk had to look at the first three digits of the ZIP Code as opposed to just the first digit in the PMPC operation. The secondary sort then separated flats and parcels to ADCs. In the secondary sort the distribution remained complex with as many as 80 sorts.

In addition to the manual sort, some facilities also had Small Parcel and Bundle Sorters (SPBS) where a clerk would key in the first three digits of the ZIP Code and the piece would be sorted into one of 98 bins. A second primary sort was then needed to sort to the remaining ADCs. Most facilities could process about 80 percent of their volume on the first primary sort and about 20 percent on the second sort.

Containerization played a very important role in the processing. It was much easier and quicker to sort into hampers or other containers than sacks. Sacks have to be hung on racks, changed when they get full, (which is much more often than hampers), and more caution has to be used by the clerk to get the parcel in the correct sack. Containers also make it much easier on the destination facility

1 because all the parcels could be dumped out and worked, whereas sacks have to be
2 opened and dumped individually. Containers hold hundreds of parcels, and sacks
3 only hold dozens. Containerization is also determined by the size of the plant.
4 Smaller plants do not generate the volume to use a container such as a gaylord and
5 therefore all their Priority Mail is sacked.

6 Containers were prepared and staged on the loading dock for transport.
7 There were several scenarios when Priority Mail was transported by air. In some
8 cases each sack was scanned in the Scan Where You Band (SWYB) operation. In
9 other cases where the volumes were smaller it was all combined into one container
10 and the airport would do the scanning. Finally, in some of the larger plants aircraft
11 containers (LD3s) were loaded or Over-the-Road (OTR) containers were filled with
12 sacks or single-pieces and bulk-billed to the airlines.

13 3. Transportation

14 Ideally, the Postal Service targeted all mail destined within 500 miles to be
15 transported by truck. Mail that originated outside the PMPC network and needed to
16 be flown used a variety of air transportation including the Air Systems contract with
17 commercial airliners (the ASYS contract) and dedicated air operations, such as the
18 Daynet. Carriers under the ASYS contract handled a major share of Priority Mail
19 volume – roughly 35 percent. Problems arose when airlines were at or near
20 passenger capacity and they could not accept mail. In these instances ground
21 transportation was utilized and this compromised service standards. Lastly, since
22 Priority Mail originated in many locations, containers and sack utilization were often
23 less than 100 percent.

24 4. Destinating Processing

25 Priority Mail destinating at non-PMPC facilities was processed manually or on
26 an SPBS. A small amount was processed on Flat Sorting Machines (FSM 1000s).
27 Sacks and tubs were opened, dumped and mixed with other containers of flats and
28 parcels such that both shapes were often processed simultaneously. Less than 10
29 percent of flats were processed separately from parcels. The first sort, incoming
30 primary, was to the 3-digit level and a secondary sort was to the 5-digit level. When
31 capacity permitted, some Priority Mail was directed to the BMC for sorting on the

1 Parcel Sorting Machine (PSM) to take advantage of the mechanization. Once sorted
2 to 5-digit, sacks and hampers were moved to the dock to be loaded onto trucks
3 destined to DUs. Regardless of processing environment, once at the DUs scheme
4 knowledgeable clerks would sort the mail into hampers by carrier route.

5 5. Delivery

6 Delivery is the same regardless of processing environment. Some carriers
7 may look through the hamper and separate flats from parcels and case the flats for
8 delivery. When the carrier was ready to begin his route, the hamper was taken to
9 the vehicle and the mail was arranged roughly in the order of delivery.

1 **III. Priority Mail – Current Operational Environment (FY2001/2002)**

2 In this part of my testimony, I will provide an overview of the Priority Mail
3 acceptance, processing, transportation and delivery in the current environment. I
4 will discuss the areas formerly served by the Emery Worldwide-run Priority Mail
5 Processing Centers (PMPC) separately from the in-house or “non-PMPC”
6 environment.

7
8 **A. Former PMPC Service Areas**

9 On January 7, 2001, the Postal Service assumed operational control of the
10 PMPC facilities. All buildings and equipment were now the property of or leased by
11 the Postal Service. Full-time, part-time and casual employees were hired to operate
12 the PMPCs in the same fashion as when Emery Worldwide ran the facilities but with
13 more flexible work rules and staffing parameters than traditional Postal Service
14 facilities.

15 **1. Acceptance**

16 Acceptance in the current environment is the same as in the Base Year.

17 **2. Originating/Destinating Processing**

18 In 2001, the Postal Service opened three new PMPC test sites in Phoenix AZ,
19 Charlotte NC, and Atlanta GA. These facilities were opened utilizing lessons
20 learned from the original PMPC sites. Specifically, the Postal Service is examining
21 shape-based processing and automated flat processing equipment (FSM 1000 and
22 SPBS) for potential productivity improvements.

23 Although the Postal Service operates these facilities, Priority Mail is generally
24 processed the same way today as it was in the base year. One difference has been
25 the introduction of other mail classifications to the PMPC network to prevent facility
26 idle time. Any introduction of other mail streams is limited to individual PMPC
27 availability, equipment, and geographic location.

28 **3. Transportation**

29 The termination of the Emery Worldwide contract resulted in the Postal
30 Service assuming responsibility for the transportation of Priority Mail to the
31 destinating facility. As in the non-PMPC environment, the Postal Service targets

1 mail destined within 500 miles to be transported by trucks. For mail transported over
2 500 miles, a variety of transportation is used. On August 27, 2001, air transportation
3 became a combination of ASYS and FedEx Express.

4 4. Delivery

5 Delivery in the current environment is the same as in the Base Year.

6

7 B. In-House or Non-PMPC Service Areas

8 1. Acceptance

9 Acceptance in the current environment is the same as in the Base Year.

10 2. Originating/Destinating Processing

11 Processing in the current environment is the same as in the Base Year.

12 3. Transportation

13 On August 27, 2001, air transportation became a combination of ASYS and
14 FedEx Express.

15 4. Delivery

16 Delivery in the current environment will be the same as in the Base Year.

1 **IV. Priority Mail – Test Year Operational Environment (FY2003)**

2 The Postal Service continually attempts to improve the acceptance,
3 processing, transportation and delivery of Priority Mail. This effort will certainly
4 continue throughout the test year and beyond, and will undoubtedly attempt to take
5 advantage of lessons learned from the PMPC experiment.

6 Although no final plans have been made as of the time this testimony is being
7 filed, I can indicate some general areas under consideration that could possibly
8 affect Priority Mail operations in FY2003 and/or later years. Among the potential
9 improvements that may be considered are attempts to bring greater standardization
10 to Priority Mail operations throughout the country, using best practices discovered in
11 the recent past. The Postal Service hopes that by using the experience gained in the
12 PMPC environment, it can improve Priority Mail on-time service and reduce Priority
13 Mail transportation and operation costs. The Postal Service may also look at
14 changing its separation schemes in processing operations, introducing different
15 types of equipment to process parcels and flats, collapsing the Priority Mail
16 destination network to reduce sorting complexity, expanding the Hub and Spoke
17 Program (HASP) and other measures. I also expect that Priority Mail transportation
18 will continue to evolve. For example, in FY2002 some Priority Mail will be carried on
19 the FedEx day turn, while other Priority Mail is expected to continue to travel on
20 commercial air and surface transportation. See the testimonies of Witness Hatfield
21 (USPS-T-18) and Witness Spatola (USPS-T-20).

22 In summary, now that the contracted PMPC concept has been taken over by
23 the Postal Service there is a renewed effort to pursue multiple paths that can reduce
24 costs of processing and transporting Priority Mail.