Postal Regulatory Commission
Submitted 1/29/2009 4:16:23 PM
Filing ID: 62008
Accepted 1/29/2009

BEFORE THE

POSTAL REGULATORY COMMISSION

WASHINGTON, D.C. 20268-0001

REVIEW OF NONPOSTAL SERVICES	Docket No. MC2008-1

STATEMENT

OF

RICK L. OSBURN

ON BEHALF OF THE

UNITED STATES POSTAL SERVICE

SWORN STATEMENT OF RICK L. OSBURN

The following statement is submitted to the Postal Regulatory Commission to aid in its deliberations in Docket No. MC2008-1:

1. My name is Rick L. Osburn. I am the Team Leader of the Spares Commodity Team (CT) located in Topeka, Kansas. I have been in this management role since November of 1992. The Spares CT is part of the Mail Equipment Portfolio located in Merrifield VA. The Mail Equipment Portfolio is responsible for the purchase of Postal Service major automation platforms. The Spares CT is responsible for the purchase of all the spare parts that are used on these platforms for the life of the equipment. Additionally, the Spares CT is responsible for the contract and oversight of two repair center operations: the Central Repair Facility (CRF) located in Topeka, Ks, and the Texas Repair Facility (TRF) located in Grand Prairie, Texas. These two repair centers are the primary repair centers for the Postal Service. They provide the 4th echelon repair of Postal Service parts and equipment, and have been in continuous operation since the original Postal automation efforts of the 1970's. The CRF and TRF combined repair over 130,000 parts annually for the Postal Service.

2. The Spares CT and our internal Postal Service clients, Engineering (located in Merrifield VA) and the Maintenance Technical Support Center (located in Norman OK), have jointly partnered in the development and application of a repair program for the last 4 years. Within my part of the Postal Service, we refer to this program as the Fee For Service (FFS) program. The program resulted from the Postal Service's on-going business contacts with the Original Equipment Manufacturers (OEMs) of postal automation equipment. These OEMs expressed interest in what became this program because they have an obligation to repair equipment (or equipment parts) they have manufactured which are still under warranty. Therefore, the OEMs have a commercial interest in seeking the most efficient means of having such repair services provided. In some instances, that means that the OEMs are willing to pay a markup to have the Postal Service perform the required repairs.

3. An example of the type of OEM whose parts are being repaired under the Fee For Service program is Imaje Printer. Imaje is a French firm dedicated to the manufacture of ink jet printers. Imaje printers are used extensively on currently deployed Postal Service automation platforms for the labeling of mail. Imaje has no external repair centers in North America. Previously, all damaged or inoperable Imaje equipment had to be returned to France, repaired, and then re-routed back to the United States for delivery to the Postal Service. This repair cycle burdened both Imaje and the Postal Service with increased costs, delays, longer lead times for the repair cycle of spare parts, increased float stock requirements, and significantly increased transportation costs. The alternative

that evolved is an arrangement by which Imaje equipment is repaired on site at the Central Repair Facility (CRF) under the Fee for Service Repair program.

4. Since inception in 2004, the Fee For Service program focus has been centered on the repair of a limited number of identical and/or similar Postal Service spare parts items. Like all of our non-warranty repairs for spare parts, repairs are either performed at the Central Repair Facility or the Texas Repair Facility, both under USPS contract by Northrop Grumman Technical Services. Northrop Grumman Technical Services is currently under contract to the Postal Service to provide for the repair of all parts and equipment. All repairs under this program are charged a straight pass-through price, based on time and materials needed for these repairs, plus a percentage markup. In other words, an OEM participating in the program reimburses the Postal Service for the time and materials charges paid by the Postal Service to Northrop Grumman Technical Services, and pays an additional percentage markup above those charges which is retained by the Postal Service. The markup revenues generated from the Fee for Service program are used to offset the costs of running both the Central Repair Facility and the Texas Repair Facility. In essence, this program has allowed the Postal Service and the OEMs to share jointly the cost savings generated by the creation of a more efficient warranty repair process.

5. With over six billion dollars worth of equipment-related assets integral to the processing and distribution of the mail, the Postal Service (since the 1970s) has had the absolute need to provide and ensure the continued availability of repair parts to keep that equipment in operation. Obviously, the Postal Service did not originally establish the two internal repair centers in Topeka and Grand Prairie with the purpose of seeking customers for a relatively small program initiated several decades later. Moreover, the Postal Service's absolute need for these two repair center operations will continue to be an operational requirement, regardless of whether or not the Fee For Service program is continued. The Postal Service has no choice but to continue to provide for the repairs of Postal equipment and parts necessary to ensure day-to-day that Mail Processing and Distribution operations are up and running. The Fee For Service program merely allows the Postal Service to offset a small part of the costs of operating its critical repair network.

6. By agreeing to initiate the Fee For Service program, the Postal Service has significantly improved our supply chain processes for obtaining and supporting repaired equipment, reduced costs for this equipment, reduced the overall lead times for reparable parts, and generated additional revenue that can further offset the costs of maintaining our necessary repair facilities. The Fee For Service program is a mutually beneficial program to both the Postal Service, and our Original Equipment Manufacturers (OEMs).

7. In addition to the repair of postal equipment, our major OEMs have informed other users of this equipment within the industry of the Postal Service's ability to

provide a source for repair services that usually are no longer available anywhere else due to the age of the equipment, changes in platforms, and or obsolescence issues. Market demand dictates that most of our major OEMs move onto newer components, platforms, and designs after 3 to 5 years. A good comparison would be that if you bought a TV (or some sort of electronic equipment) 5 years ago, it is difficult or near impossible to replace today a component part on that piece of equipment that will provide the same form, fit, and function. If you then compare the Postal efforts of maintaining over $6 billion worth of deployed equipment and assets with different OEMs, different configurations, and varying ages of deployment (some platforms are 20 plus years old), you can see that our presence in the repair of equipment is absolutely necessary. It is out of necessity we plan to provide this repair service within the Postal Service for many years to come. Similarly, if there are other owners of the same equipment who have the same need for repair service, but no other readily available source for that repair service, it makes sense for them to utilize our existing repair facilities to obtain repairs for their equipment.

8. Therefore, beginning in FY06, the Postal Service expanded the Fee For Service program to include not only repairs made by the Postal Service on behalf of OEMs with continuing warranty obligations, but also to other equipment owners likewise unable to obtain reasonable repair services except from our repair facility. The revenues from repair services rendered to equipment owners other than the Postal Service totaled $284 in FY06, $11,455 in FY07, and $34,098 in FY08.

9. The Postal Service's overall objective is to obtain markup revenues of 10 percent to 60 percent from external owners of repaired equipment Application of this range is established within three basic pricing perimeters:

1. Markup for evaluation services. The charge in these instances is calculated before the repair, based on an estimate of what the repair costs will be, plus a markup.

2. Markup for time and materials,. The charge in these instances is calculated after the repair, based on the actual costs of the repair, plus a markup.

3. Markup for firm fixed price. The charge in these instances is set for what is expected to be a series of similar repairs, and is calculated based on an estimate of the average costs of these types of repairs, plus a markup.

In exercising the range of 10 percent to 60 percent we take into account the following: market trends, age of the item being repaired, obsolesce issues with the item being repaired, economy of scale, frequency of repair, volume flow, our internal through-put efficiencies for the same or similar type of item, type of repair

(electronic or mechanical), standard turn around time, turn around time requested by the supplier, and available resources at the CRF (Central Repair Facility) or the TRF (Texas Repair Facility). Based on the above factors we may negotiate a markup for repairs within the ranges of 10 percent to 60 percent.

I, Rick L. Osburn, declare under penalty of perjury that the foregoing statement is true to the best of my knowledge, information, and belief.

Rick L. Osburn

Rick L. Osburn

1/24/09

Date