

USPS-T-4

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

SIX-DAY TO FIVE-DAY CARRIER DELIVERY
AND RELATED SERVICE CHANGES, 2010

Docket No. N2010-1

DIRECT TESTIMONY OF
FRANK NERI
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE

Table of Contents

Autobiographical Sketch	i
I. Purpose of Testimony	1
II. Mail Processing Operations Today	2
A. Outgoing/Originating Mail Flows.....	4
B. Incoming/Destinating Mail Flows	6
III. Changes in the Five-Day Environment.....	8
A. Sorting for Saturday Delivery.....	9
B. Outgoing Operations on Saturday	9
C. Incoming Sorting on Saturday and Sunday for Monday Delivery	10
D. Outgoing Operations on Monday.....	11
E. Incoming Sorting on Monday for Tuesday Delivery	13
F. Incoming Sorting on Thursday for Friday Delivery.....	14
IV. Holiday Processing	14
V. Mail Processing Workhours Savings.....	14
A. The Elimination of Saturday Outgoing Processes	15
B. The Additional Cost to Perform Delivery Point Sequencing for P.O. Box Addressed Mail for Saturday Delivery	17
C. Additional Costs to Support Holiday Processing	17
VI. Maintenance and Custodial Workhour Savings.....	18
VII. Conclusion	18

1 **AUTOBIOGRAPHICAL SKETCH**

2 My name is Frank Neri. Since October 2009, I have served as Manager of
3 Processing Operations in the Network Operations group at United States Postal
4 Service headquarters. My responsibilities include the development and
5 administration of policy and program oversight for mail processing operations at
6 Processing and Distribution Centers (P&DC), Network Distribution Centers
7 (NDCs – formerly Bulk Mail Centers – BMCs), and Remote Encoding Centers
8 (RECs). The Processing Operations group at headquarters consists of five
9 subordinate units: Processing Center Operations; NDC Operations; Operations
10 Technical and Systems Integration Support; Network Alignment Implementation;
11 and Field Operations Standardization. Collectively, we work with other
12 headquarters and field functional departments on issues related to mail
13 processing, equipment deployment, labor negotiations, facilities, transportation
14 and delivery.

15 I began my postal career in 1984 as an Industrial Engineer. I have served
16 in a variety of leadership positions including Automation Advisor in the Northeast
17 Area and Operations Specialist for Systems Integration Support at headquarters
18 in Washington, DC. I have also worked as Manager of In-Plant Support at the
19 Eastern Area Office; Manager of Processing and Distribution at the Akron P&DC;
20 Senior Manager P&DC in Manchester, New Hampshire; Senior Plant Manager
21 Metro in the Boston Massachusetts P&DC, and as District Manager Major in the
22 Philadelphia Metropolitan District.

1 I received a Bachelor of Science in Industrial Engineering degree from
2 Polytechnic Institute of New York. During my postal assignment as a Sloan
3 Fellow, I earned a Masters in Business Administration degree from the
4 Massachusetts Institute of Technology.

1 **I. Purpose of Testimony**

2 The purpose of my testimony is to describe the activities that would
3 change at mail processing plants when the Postal Service eliminates Saturday
4 delivery to street addresses and implements the other related service changes
5 described in the testimony of witness Samuel Pulcrano (USPS-T-1). As
6 demonstrated by the testimony of witness Dean Granholm (USPS-T-4), the
7 overwhelming bulk of operational cost savings expected to result from those
8 service changes are in the area of delivery operations. My testimony shows that,
9 by comparison, mail processing savings are relatively small.

10 Within mail processing, the service changes are expected to have very
11 little impact on operations of the Network Distribution Center network and the
12 dwindling number of Remote Encoding Centers, beyond changes in staffing
13 schedules likely to occur as a result of the elimination of outgoing processes on
14 Saturday. On the other hand, the service changes will have a material impact on
15 activities at Processing & Distribution Centers and Logistics & Distribution
16 Centers. Accordingly, my testimony concentrates on activities at these latter
17 facilities.

18 My testimony begins with a general overview of current letter and flat mail
19 processing and then expands to explain what operational and procedural
20 changes would need to occur to implement a five day street delivery
21 environment. I will then present an overview of the expected operational
22 workhour savings and the basis for those expectations. My testimony provides
23 an overview of the changes within each critical operation, including how those

1 changes will be affected by variations in workload. I conclude with a discussion
2 on how these changes will be implemented. My testimony serves as a basis for
3 the mail processing related cost savings estimates of witness Jeffrey Colvin
4 (USPS-T-7).

5 The following Library Reference is associated with my testimony:

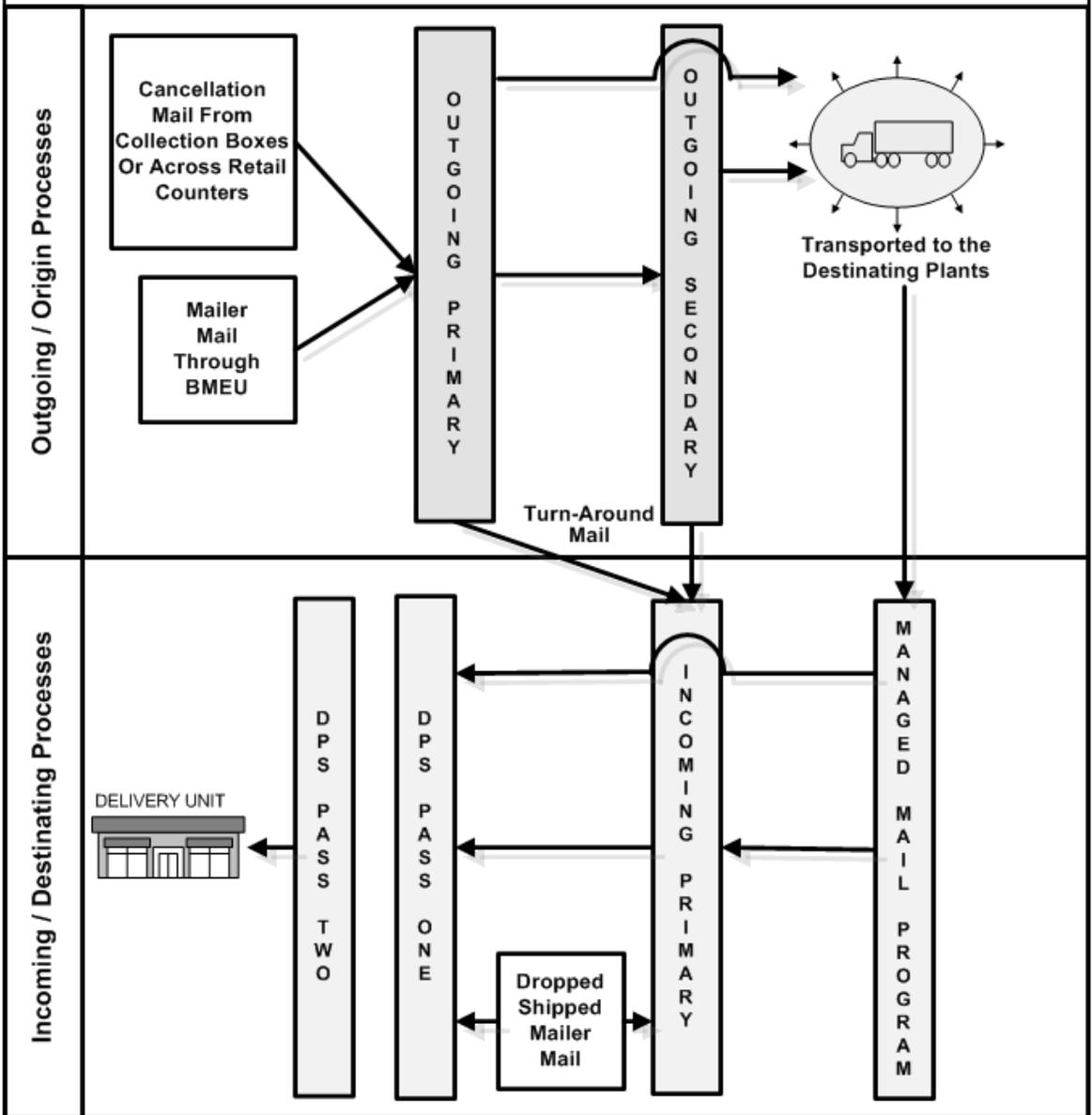
6 USPS Library Reference N2010-1/5.

7 **II. Mail Processing Operations Today**

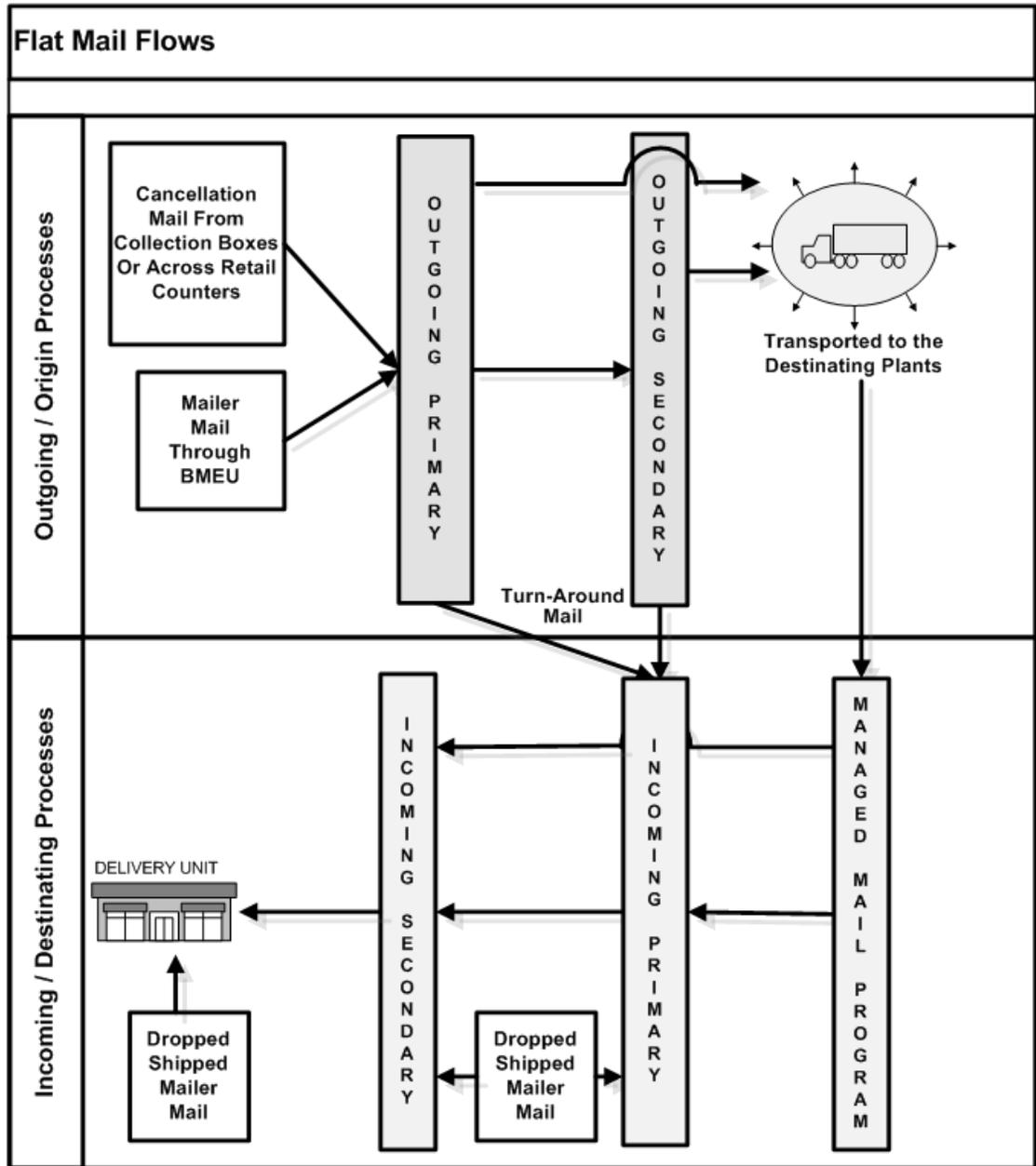
8 To help provide context for the changes that will need to take place for
9 mail processing to migrate to a five-day street delivery environment, I will first
10 generally describe how we process letter and flat mail today.

11 The charts below are a simplified view of how letter and flat mail move
12 within a processing facility (*i.e.*, a plant) from one operation to another. Mail
13 processing and distribution in the plants is accomplished through a system of
14 mail flows. The term “mail flow” refers to the movement of mail either within a
15 facility or between facilities. Each plant performs two basic functions: it sorts
16 outgoing (or originating) mail and/or it processes incoming (or destinating) mail. I
17 will review each general function separately below the charts.

Letter Mail Flows



1



1

2 **A. Outgoing/Originating Mail Flows**

3 Outgoing (or originating) mail enters the mail stream from within a plant's
 4 local service area, which is defined by the 3-digit ZIP Code prefix areas the plant
 5 is assigned to serve. This mail comes from one of two general sources. The first
 6 is single-piece mail that is typically deposited in our collections boxes or is

1 tendered to retail associates at one of our Post Offices or other retail units.
2 Usually, this is either stamped First-Class Mail that must be cancelled or
3 Business Reply Mail (BRM). The second category is generally commercial mail
4 presented at Business Mail Entry Units (BMEUs) in bulk. It includes First-Class
5 Mail, Periodicals, Standard Mail and Packages Services¹ and is worked on
6 outgoing operations. Commercial mail is typically presorted to a level where it
7 can bypass outgoing operations, so only the residual mail or mail with no presort
8 level is worked in outgoing operations.

9 Once the stamped single-piece mail is cancelled, and the commercial mail
10 is accepted, all of the cancelled mail and any of the commercial mail requiring an
11 outgoing sortation is worked on an outgoing primary operation. Outgoing primary
12 operations hold out mail to specified locations defined by two National
13 Distribution Network Logistics directories: the Area Distribution Center (ADC) and
14 the Automated Area Distribution Center (AADC) directories. The ADC directory
15 is used for the sortation of manual letters, flats and parcels, and the AADC
16 directory is used for the sortation of automation letters. Outgoing primary
17 operations hold out the heavier density destinations and combine the lighter
18 density locations into a single bin. The lower density volumes are worked again
19 on an outgoing secondary sort program and are ultimately sorted to the final
20 destinations. Mail leaving the origin plant is generally dispatched on either air or
21 surface transportation. Mail that is destined for addresses within the delivery
22 service area of the originating plant is commonly referred to as "turn-around mail"

¹ Package Services refers to Parcel Post, Media Mail, Library Mail, and Bound Printed Matter.

1 and is further sorted to destination via the incoming operations at that same plant
2 and then dispatched to the local Post Offices and other delivery units.

3 **B. Incoming/Destinating Mail Flows**

4 Incoming (or destinating) mail consists of mail transported from other
5 plants, from mailers who dropship their mail at destination, and local turn-around
6 mail. Mail arriving from other plants is typically worked on a Managed Mail
7 Program (MMP) sort scheme. This operation holds out heavy volume
8 destinations and sorts the remainder to either the 3-digit ZIP Code prefix or 5-
9 digit ZIP Code level. Incoming volumes are processed on an incoming primary
10 sort scheme and are merged with the turn-around volumes that originated in the
11 plant during outgoing operations.

12 A major incoming letter mail processing operation is the delivery
13 point sequencing (DPS) of letters. DPS is the process of arranging barcoded
14 letters into the precise order in which they will be delivered by the letter carrier.
15 This operation relieves the carrier of having to manually sort the mail before
16 going to the street. In most cases, this requires processing the mail in two
17 passes on an automated Delivery Bar Code Sorter (DBCS) using a DPS sort
18 program.²

19
20
21

² Some mail is still worked on a smaller footprint Carrier Sequence Bar Code Sorter (CSBCS) in some delivery units.

1 The first DPS sortation pass separates the mail into sequence
 2 order (*i.e.*, mail for all of the carriers' first delivery points are sorted together, then
 3 mail for all of the carriers' second delivery points are sorted together, etc.), and
 4 the second pass then separates the sequenced mail by carrier. The DPS
 5 process is graphically depicted below.



6
 7
 8

9 The flat mail flow follows a course similar to that of letters. For incoming
 10 or destinating volumes, flats are worked on an incoming primary sort program

1 where it is separated to the 5-digit level. For many destinations, this mail is then
2 processed to the secondary level which sorts the mail to the Carrier Route. The
3 flat mail flow will change with the introduction of the Flats Sequencing System
4 (FSS) at a limited number of locations. The FSS is designed to perform the
5 automatic sequencing function for flat-sized mail, which includes large
6 envelopes, catalogs, circulars, and magazines. Similar to letter DPS operations,
7 the FSS machine is designed to automate the last handling – namely, the sorting
8 of flat mail pieces into the precise order in which they will be delivered.

9 Parcels do not have the same level of automated processing or delivery
10 sequence sortation as letters and flats. Parcels are worked in outgoing
11 (originating) and incoming (destinating) operations and are dispatched to carrier
12 operations for delivery.

13

14 **III. Changes in the Five-Day Environment**

15 In processing facilities, the most significant change to mail processing in
16 the planned five-day delivery environment is the elimination of all Saturday
17 outgoing mail processes.³ This includes the bulk cancellation of letters, flats and
18 parcels, the processing of mail on outgoing sort programs and the dispatch of
19 mail from plants into the network. This is the source of most of the mail
20 processing workhour savings.

³ With the exception of outgoing Express Mail operations, which will continue. Incoming operations will generally continue on Saturdays as well.

1 Another change is to the processes that support the delivery of Post Office
2 Box mail on Saturdays. This will require modifications to our distribution software
3 and method changes.

4 **A. Sorting for Saturday Delivery**

5 The sortation of Post Office Box mail (including remittances and other
6 mail) for delivery at Post Offices and other retail units open on Saturday requires
7 processing changes on Friday. These changes are necessary to segregate mail
8 that retains a Saturday delivery expectation in a five-day environment from
9 street-addressed mail, which will be delivered on the following Monday.

10 Automated mail processing equipment sort program software is being modified to
11 segregate for Saturday delivery any P.O. Box addressed mail that is fed on DPS
12 sort programs on Friday night.

13 Periodicals, First-Class flat mail, standard flat mail, Priority Mail, other flat
14 mail and parcels will be worked Friday night and dispatched early Saturday
15 morning to the delivery units. This will include all P.O. Box mail and may include
16 any available street-addressed mail. Processing and dispatching of some street-
17 addressed mail to delivery units on Saturday will allow us to more fully utilize
18 existing transportation capacities and advance available work to the carriers for
19 the following Monday.

20 **B. Outgoing Operations on Saturday**

21 Along with the planned elimination of scheduled Saturday retrieval of mail
22 from blue collection boxes, the pickup and dispatch of mail from retail units to
23 processing facilities operations for outgoing processing on Saturday will be

1 eliminated. The exception will be Express Mail, which will continue to be
2 processed.

3 **C. Incoming Sorting on Saturday and Sunday for Monday**
4 **Delivery**

5 Although there will be no outgoing operations on Saturday in the five-day
6 environment, mail that originates from another plant and is still in transit will
7 continue to arrive at destinating plants to be processed. For instance, mail sent
8 from St. Louis MO to Washington DC on Friday will arrive in Washington DC over
9 the weekend and will be processed in order to meet Monday's delivery
10 expectation. P.O. Box addressed remittance mail will continue to be available for
11 pick-up on Saturdays and Sundays.

12 We expect that a significant amount of mail that is currently delivered on
13 Saturday will shift to a Monday delivery. Since both Saturday and Sunday will be
14 non-delivery days, mail processing plants will have ample time and capacity to
15 process mail on existing equipment. Accordingly, our objective will be to improve
16 the arrival profile of mail to the delivery units so that, if necessary, carrier start
17 times can be adjusted to earlier on Mondays.

18 All mail currently worked to the delivery point sequencing (DPS) level will
19 retain this level of sortation in a five-day delivery environment.

20 BMEU originating mail entered at the plants on Saturday will be processed
21 on Monday. As explained by witness Pulcrano (USPS-T-1), there will be an
22 exception at locations where a BMEU is collocated with a plant and the mailer
23 specifically holds out the local intra-Sectional Center Facility (SCF) mail

1 separately. For this intra-SCF mail, processing on incoming primary operations
2 will be performed in order to meet delivery service expectations.

3 Drop ship destinating mail that is entered at plants during the weekends
4 will be processed to meet delivery service expectations.

5 **D. Outgoing Operations on Monday**

6 In the five-day delivery and collection environment, we anticipate an
7 increase in collection volumes on Monday due to the elimination of scheduled
8 collections during the weekend. Since most Post Offices and other retail units
9 will not dispatch mail to processing facilities on Saturday, the earliest that mail
10 (other than Express Mail) tendered at retail windows on Saturday will be
11 dispatched to the origin mail processing plant will be the following Monday
12 morning. This will improve the mail arrival profile of collection mail on Monday
13 compared to the current six-day environment. The transportation that is used to
14 dispatch mail to Post Offices and other units early in the morning on Monday for
15 delivery will be utilized to transport the retail counter Saturday tendered volumes
16 back to the plants. Having a surge of mail available at the plants Monday
17 morning will allow operations to be scheduled earlier, resulting in increased
18 capacity to complete the timely processing of mail.

19 It is anticipated that mailer behavior will change in a five-day environment.
20 The testimony of witness Whiteman (USPS T-9) discusses the likelihood of
21 household mailers and small businesses changing their mailing practices to
22 adapt to a five-day delivery environment. Although this behavior change is likely
23 to occur, we are planning to have adequate capacity based on the assumption

1 that all of Saturday's outgoing processing work will shift to Monday. We are
2 currently modeling operations at each processing facility location to determine
3 any changes that may be necessary to facilitate five-day delivery in its service
4 area. However, it is important to remember that single piece First-Class Mail is
5 declining at a fast pace and is anticipated to continue to decline because of the
6 growth of electronic mail. As necessary on a local basis, we anticipate that the
7 following strategies will be employed:

- 8 ▪ Perform early collections at sites that generate heavy volumes or sites
9 with limited cancelling capabilities;
- 10 ▪ Use Lean Six Sigma tools and analysis to improve cancellation processes;
- 11 ▪ Review the deployment schedule for the Advanced Facer Canceller
12 System 200 to ensure proper placement of cancellation equipment;⁴
13
- 14 ▪ Supplement capacity needs with earmarked legacy AFCS machines
15 scheduled for replacement under the AFCS 200 program.⁵

16 Address recognition rates for letter mail continue to improve as additional
17 equipment and software upgrades are deployed. The most recent address
18 recognition improvement software, which was released under the Distribution
19 Quality Improvement (DQI) program in November 2009, increased read rates for

⁴ The AFCS 200 is the next generation of the Advance Facer Cancelling System. The Postal Service has purchased 550 of these machines, of which 542 will be deployed to the field (the remaining eight will be used as training systems). Deployment is expected to take 13 months and is currently scheduled to begin in the summer of 2010. These machines have an increased productivity and the capability to dispatch mail addressed to heavy volume destinations in a manner that bypasses certain outgoing operations.

⁵ We will phase out legacy AFCS equipment but will not dismantle these machines until we have completed our capacity analysis. This will allow for some of these machines to be utilized at their current locations or moved to nearby plants in order to boost processing capacities if local volumes warrant.

1 letters to 97.0 percent and improved error rates to 1.4 percent.⁶ In addition there
2 were three substantial software releases under the DQI program in fiscal year
3 2008.

4 During 2008, 110 new Delivery Barcode Sorter (DBCS) Phase 6 machines
5 were deployed and 1,133 stacker modules were installed on existing DBCS
6 machines, further increasing our capacity for sorting letter mail.

7 Processing capabilities for flats has also grown over the past year.
8 Designed to fully automate the sortation of flat mail into carrier walk sequence,
9 the Flats Sequencing System (FSS) has begun deployment. It is projected that
10 100 machines will be installed by the end of fiscal year 2011. The FSS machine
11 also frees up capacity on the Automated Flats Sorter machine (AFSM100).
12 Under the Flat Recognition Improvement Program (FRIP), an October 2009
13 AFSM100 software release increased read rates to 96.0 percent and reduced
14 error rates to 1.82 percent.⁷

15 **E. Incoming Sorting on Monday for Tuesday Delivery**

16 Increased outgoing volume on Monday will result in additional incoming
17 workloads for Tuesday delivery. Currently, most processing facilities have the
18 greatest available capacity on Monday night for Tuesday delivery; therefore, we
19 should be able to process this workload and do not anticipate any capacity

⁶ For test results from the latest DQI software releases, see USPS Library Reference N2010-1/5, spreadsheet, "FRIP and DQI Test Results"

⁷ For test results from the latest FRIP software releases, see USPS Library Reference N2010-1/5, spreadsheet, "FRIP and DQI Test Results"

1 issues that would affect our ability to dispatch mail from processing facilities to
2 delivery units in time for delivery on Tuesdays.

3 **F. Incoming Sorting on Thursday for Friday Delivery**

4 We expect mailers who currently want in-home delivery in time for the
5 weekend to adjust their mailing patterns. This may result in increased incoming
6 volumes for delivery on Friday. If this shift occurs, we currently have adequate
7 capacity to be able to dispatch such mail to delivery units in time for delivery.

8

9 **IV. Holiday Processing**

10 We are prepared to meet the challenge created by the additional volume
11 movement due to a holiday. We are continuing to evaluate processing the day
12 after a holiday to determine any processing capacity issues. Additional
13 workhours have been added to account for any workhours that may be needed to
14 timely process the mail when there is a holiday.

15

16 **V. Mail Processing Workhours Savings**

17 We have developed a model to calculate the mail processing workhours
18 that are expected to be saved when we migrate to a five-day delivery
19 environment. The model evaluates the three distinct activities that would be the
20 most impacted and their associated workhours. These are:

- 21 • The workhours saved through the elimination of Saturday outgoing
22 processes;

- 1 • The additional workhours to perform Delivery Point Sequencing for P.O.
- 2 Box addressed mail for Saturday delivery; and
- 3 • Additional workhours in support of holiday processing;

4 **A. The Elimination of Saturday Outgoing Processes**

5 The elimination of Saturday outgoing processing will save mail processing
6 workhours. However, not all of the workhours used on a Saturday in support of
7 outgoing operations can be identified as savings because it is assumed that
8 Saturday's volume will move to another day, thus creating work on the day that
9 receives Saturday's volume. Nevertheless, there will be significant workhour
10 savings, because a large portion of the activity performed in our plants is
11 constant and does not vary with changing mail volumes.

12 The USPS Management Operating Data System (MODS) Handbook M-32
13 governs the use of operation numbers and defines the activities to be charged to
14 each of the operation numbers. The M-32 states the following:

- 15 "Allied labor is charged to the distribution operation, and includes, but is
16 not limited to, the following:
- 17 1. Obtaining mail from staging areas.
 - 18 2. Opening and dumping mail from sacks or containers.
 - 19 3. Traying letters.
 - 20 4. Loading ledges.
 - 21 5. Sweeping processed mail from cases, tying out loose packing, and
22 dispatching of mail.
 - 23 6. Moving mail to subsequent handling or staging areas.
 - 24 7. Obtaining, handling, labeling, closing, and disposing of sacks or
25 containers to dump holes, staging areas, and so forth.
 - 26 8. Loading or unloading of containers.
 - 27 9. Processing letter or flat tie outs (bundles).

- 1 10. Obtaining empty equipment for use in the operation and moving
2 excess empty equipment such as trays, tubs, containers, or sacks
3 to designated internal storage areas.
- 4 11. Recording and reporting missent mail received from other Post
5 Offices, as required.
- 6 12. Examining and spreading empty sacks.
- 7 13. Labeling trays, placarding containers, setting up dispatch
8 containers and other duties needed to process mail.“

9 Most of the above-referenced activities are not perfectly correlated to the
10 quantity of mail pieces processed. I have listed several examples below:

- 11 • When obtaining mail from staging areas, it is far more
12 productive to move an APC (All Purpose Container) that is
13 full of mail⁸ across the floor than to move multiple containers
14 that are less than full.
- 15 • Operations that require the opening and dumping of mail from
16 sacks and containers are more efficient if the sacks and
17 containers are full of mail.
- 18 • Employees who move mail from one operation to another
19 typically drive a tow motor. This tow motor can pull up to
20 three APCs of mail. Moving three APCs at once is more
21 efficient.
- 22 • Expeditor and supervisor workhours needed on Monday will
23 not increase in a five-day environment, because expeditor
24 and supervisor work is not dependent on volume. Expeditors
25 monitor the movement of mail; supervisors oversee
26 employees and are accountable for the operation as a whole.

27 We have performed an analysis using workhours obtained from the Management
28 Operating Data System (MODS). Workhours were evaluated during the four-
29 week period of September 12 to October 9, 2009. In every case, Saturday's
30 volume and productivities were lower than Monday's volumes and productivities.
31 The increase in productivity is due partly to an increase in the efficiency of the

⁸ If the trays of mail in the APC are full and the APC itself is full of such trays.

1 allied operations performed in support of the direct operation, even though both
2 of these activities are bundled in the same operation number.

3 I estimate that approximately 2.38 million craft workhours and 385
4 thousand supervisory workhours will be saved annually in a five-day delivery
5 environment through the elimination of Saturday outgoing processes. See USPS
6 Library Reference N2010-1/5, Spreadsheet "Summary".

7 **B. The Additional Cost to Perform Delivery Point Sequencing for**
8 **P.O. Box Addressed Mail for Saturday Delivery**

9 Isolating P.O. Box mail at processing plants for Saturday delivery will
10 require additional handling. I estimate that the annual number of additional
11 workhours necessary to perform this function is nearly 226 thousand. See USPS
12 Library Reference N2010-1/5, Spreadsheet "Summary".

13 **C. Additional Costs to Support Holiday Processing**

14 The processing of mail for delivery on the day after a holiday, especially
15 when the holiday falls on a Friday, Saturday or Monday, will require additional
16 workhours. For this reason, I estimate that the annual number of additional
17 workhours necessary to support holiday processing is nearly 110 thousand craft
18 hours and 10 thousand supervisor hours. See USPS Library Reference N2010-
19 1/5, Spreadsheet "Summary". The net savings in mail processing is 2,042,337
20 craft workhours and 375,062 supervisor workhours. See USPS Library
21 Reference N2010-1/5, spreadsheet, "Summary".

22

23

24

1 **VI. Maintenance and Custodial Workhour Savings**

2 The elimination of outgoing processes on Saturdays results in fewer
3 maintenance workhours needed to perform preventive maintenance on our
4 machines. I estimate the savings in maintenance craft workhours is nearly 258
5 thousand hours. There will also be a reduction in the number of custodial
6 workhours due to less people working in operations. I estimate that the annual
7 number of custodial workhours that will be saved is approximately three
8 thousand. The total estimated maintenance and custodian savings are 261,035
9 craft workhours. See USPS Library Reference N2010-1/5, Spreadsheet,
10 "Summary".

11
12 **VII. Conclusion**

13 The adjustments in mail processing operations are a critical element of the
14 Postal Service's ability to implement the service changes described in the
15 testimony of witness Pulcrano (USPS-T-1). The Processing Operations group
16 will be prepared to implement all changes needed for us to continue to pursue
17 achievement of service expectations in a five-day environment. We will strive to
18 capture workhour reductions that maximize cost savings and contribute to the
19 financial stability of the Postal Service when these service changes are
20 implemented.