

EXIGENT RATE CASE

Rate Adjustment Due to Extraordinary or Exceptional Circumstances

Docket No. R2010-4

**EXPLANATION OF COST REDUCTIONS,
OTHER PROGRAMS,
AND CORPORATEWIDE ACTIVITIES**

INTRODUCTION

This document summarizes the major programs and management initiatives expected to be active during fiscal years 2010 and 2011. It performs a similar role to the corresponding parts of Library Reference USPS-LR-L-49 in Docket No. R2006-1. The discussion of the programs and activities is organized into the three groupings briefly described below. Personnel-related and non-personnel related expenses are identified by cost component.

Cost Reduction Programs are Postal Service initiated-programs that result in cost savings. The Cost Reduction Programs are organized into two sections: cost savings programs addressing operational and other cost reductions in Section 1A, and Breakthrough Productivity Initiatives to achieve savings in addition to specific operational and other programs in Section 1B.

Other Programs add costs for initiatives related to operational and service improvement as well as security. Cost increases associated with cost reduction programs are also included. The Other Programs are identified in Section 2.

Corporatewide Activities reflect national costs initiatives affecting Headquarters and field service units. These activities are generally non-discretionary and ongoing, as opposed to programs which have a life cycle.

Each of the major programs and initiatives is subjected to an intensive review and validation by our investment review and approval process. During the formulation phase of the budget process, an additional check is performed on all major program assumptions. This step involves field and Headquarters executives who review the program savings/cost targets and resolve issues with the program managers or sponsors. These steps ensure the planning assumptions used in formulating program expectations are reasonable and accurately portray the impact a program will have on the Postal Service's financial position.

Program savings/costs reflect both new programs initiated in the current fiscal year and partial year savings/costs which carryover from the previous fiscal year.

Workhour savings/costs are estimated using the most appropriate methodology for each particular program. For major mail sortation equipment deployments, site-specific data and information concerning equipment and mail flows are used.

Feed rates, read rates, reject rates, densities, flows, etc., for the affected sortation operations are estimated to derive net workhour savings/costs.

Equipment field test data are also used in estimating program expectations.

Some types of program savings/costs are calculated using additional engineering methods studies and management's judgment from past experience. Some programs show lag times ranging from one to several months between the date

of the equipment deployment and the realization of full workhour savings/costs. Individual site savings/costs estimates are aggregated to calculate the total national program costs/savings estimate.

This means that most calculations of savings/costs takes into account local, and generally unique, conditions at each site where the program (or equipment) is going to be deployed. However, for some programs, local factors do not materially impact program expectations and average savings/costs per program (or equipment) calculations are utilized. For these programs, savings/cost projections are generally based on national averages rather than being site specific.

Section 1A

Cost Reduction Programs

739 ADDITIONAL DELIVERY BARCODE SORTERS STACKER MODULES

(EN-61)

This program provides 739 additional stacker modules and 1,478 supporting tray carts for existing DBCS Phase 2 – 6 machines at 110 postal processing facilities.

Each module consists of 16 additional sort bins that help expedite the distribution of letter mail by providing a greater depth-of-sort to existing letter mail processing operations, thereby reducing the number of handlings required to sort letter mail to its final destination.

POSTAL AUTOMATED REDIRECTION SYSTEM (PARS) - PHASE 2 (EN-105)

The Postal Automated Redirection System (PARS) handles Undeliverable-As-Addressed (UAA) letter mail more efficiently than today's process. The UAA mail is intercepted earlier in the sorting process, resulting in a reduction in total handlings.

The initial phase of the PARS program, Phase I, covered comprehensive implementation of the PARS program in 50 Postal Processing & Distribution Centers (P&DCs), all of our Remote Encoding Centers (RECs), and the delivery

units they serve. Additionally, scanners were deployed into Computerized Forwarding System (CFS) units, as appropriate, to allow a PARS database with nationwide coverage to be constructed immediately. Phase II of the program was implemented into 233 additional P&DCs and the delivery units they serve. Some CFS units lost their mechanized letter terminals; others were reconfigured as their automated letter mail workload was redirected to a nearby processing plant. The IMS version 4.0 incentive software, released in July/August 2007 has increased the weighted intercept and AFR finalization rates, and COA REC productivities resulting in additional workhour savings.

POSTAL AUTOMATED REDIRECTION SYSTEM (PARS - 3) – LETTER INCENTIVE PROGRAM (EN-88)

The PARS Letter Incentive Program provided a single PARS software release that was deployed in May 2009 and provided the following PARS performance improvements:

- 1.87% increase in Undeliverable-as-Addressed (UAA) intercept rate
- 12.33% increase in Advanced Forwarding Reader (AFR) intercept finalization rate
- 5.72% increase in AFR Carrier Identified Forward finalization rate
- 12.77% increase in AFR Return-to-Sender (RTS) finalization rate
- 48 images per hour increase in Remote Encoding Center (REC) keying productivity for UAA images

- 34 images per hour increase in REC keying for Change-of-Address (COA) form images
- 1.03% reduction in non-UAA mail intercepted incorrectly

Other benefits of this software release included:

- Supports Intelligent Mail Barcode (IMB) requirements by increasing the limits for Mailer Identification (ID) numbers from 6- to 9-digits
- Supports the national COA address database by consolidating multiple Computerized Forwarding Site (CFS) site-specific databases into a single national database
- Provides the capability to implement future rate changes via a loadable table instead of requiring a software release

Deployment of the software upgrade began on May 01, 2009 and ended May 18, 2009.

ADVANCED FACER CANCELLER SYSTEM (AFCS) IMPROVEMENTS (EN-84)

This program improves the performance of letter mail cancellation equipment by providing double feed detection and cancellation upgrades for all 1,086 Advanced Facer Canceller System (AFCS) machines. The double feed detector will recognize double feeds as they occur and create a more efficient mail handling process. The inkjet printer will automate the AFCS cancellation process from the current manual method.

These enhancements will increase the efficiency of letter mail processing operations by reducing remote keying requirements, decreasing the amount of mail that has to be rehandled manually due to miscoding by the AFCS, and eliminating the manual effort required to update the AFCS machine's cancellation date stamp. Maintenance costs will also be reduced.

AUTOMATED LETTER MOVEMENT SYSTEM

The Automated Letter Movement System (ALMS) will connect multiple Advanced Facer Canceller Systems (AFCS) to multiple Delivery Bar Code Sorters (DBCS).

It will allow mail processed by multiple AFCS/ISSs to be routed directly to multiple DBCS/OSSs.

The ALMS will eliminate manual sweeping of the AFCS stackers and movement of mail in trays from the AFCS to downstream operations by mail handlers (LDC-17), as well as significantly reduce the manual feeding of mail into the DBCS/OSS by mail processors (LDC 11). This program will also improve customer service by increasing mail quality and reducing mail processing time through implementation of a continuous flow (from AFCS to DBCS) process.

DISTRIBUTION QUALITY IMPROVEMENT – PHASE 1 PROGRAM (EN-102)

The Distribution Quality Improvement (DQI) Program is enhancing the address

recognition technology used in letter mail automation equipment. This program is encoding much of the letter mail that cannot be barcoded or can only be partially barcoded to a finer depth of code, and sorted to delivery points. Increases in acceptance and finest depth of sort rates reduce keying workhours required at Remote Encoding Centers (RECs) and manual distribution workhours at plants and delivery units. Lower RCR error rates produce workhour savings in manual distribution and carrier casing.

DISTRIBUTION QUALITY IMPROVEMENT (DQI) – PHASE 2 (EN-86)

The DQI Phase 2 Program is enhancing the address recognition technology used in letter mail automation equipment. This is the second phase of an incentive-based program that is improving Remote Computer Reader (RCR) encode rates and reducing error rates through the use of a commercially available name and address database. The following improvements are targeted under this program:

- 0.20 percentage point increase in the RCR accept rate
- 1.65 percentage point increase in RCR finest depth of sort rate
- 0.50 percentage point reduction in RCR error rates

The plan included four incremental software releases from April 2009 – August 2011.

110 ADDITIONAL DELIVERY BARCODE SORTERS PHASE 6 (DBCS 6) AND 394 ADDITIONAL STACKER MODULES (EN-50)

This program provides 110 new Delivery Barcode Sorter Phase 6 machines (DBCS-6) and 394 additional stacker modules for existing DBCS Phase 2 – 5 machines. The new DBCS equipment is used to increase the amount of letter mail that can be processed in automated operations. It provides additional capacity needed to increase delivery point sequenced volumes. The number of sort bins provided for each new machine is specific to the respective facility's requirements.

Each stacker module consists of 16 additional sort bins that help expedite the distribution of letter mail by providing a greater depth-of-sort and a reduction in the number of total piece handlings. The additional stacker modules increase the number of firm holdouts available during DPS operations.

DELIVERY BAR CODE SORTER (DBCS) CENTRAL VACUUM SYSTEMS (EN-101)

The DBCS Central Vacuum System program is installing 1,307 centralized vacuum systems to maintain 4,427 DBCS machines (Phase 2 through 5) at 480 postal facilities. Each central system consists of a heavy duty vacuum unit and a network of steel tubing connected to a group of up to four DBCSs. Debris is deposited at a central location. The central vacuum unit is mounted on heavy-duty wheels and can be easily moved and re-located within the plant. This

program will reduce the maintenance workhours required to service the DBCSs. This program will also provide parts savings due to elimination of the multiple bags and filters used in the existing portable systems and longer motor life expectations in the central vacuum systems.

CENTRAL VACUUM SYSTEMS FOR PHASE 1 DELIVERY BAR CODE SORTER (DBCS) MACHINES (EN-51)

The Central Vacuum Systems for Phase 1 Delivery Bar Code Sorter (DBCS) Machines program will install 227 centralized vacuum systems to maintain 676 existing Phase 1 DBCS machines located at 129 postal facilities. Each system consists of a heavy duty vacuum unit and a network of steel tubing connected to a group of up to four DBCSs. Debris is deposited at a central location. The central vacuum unit is mounted on heavy-duty wheels and can be easily moved and re-located within the plant. This program will reduce the maintenance workhours required to service the DBCS Phase 1 machines.

DBCS 7 MACHINES

Currently under further review. This program would provide new Delivery Barcode Sorter machines.

AFSM 100 CANCELLATION UPGRADE PROGRAM (EN-87)

This program purchased 230 AFSM 100 cancellation upgrade kits (227

operational and 3 training/support systems) that allowed cancellation of First-Class flat mail on the AFSM 100. The program reduced flat mail processing costs by significantly reducing the need to process flats on stand-alone cancellation machines or via hand cancellations.

FUTURE FLAT SEQUENCING SYSTEM

This program is currently undergoing further evaluation. The Flats Sequencing System (FSS) will be used to walk sequence flat mail pieces that are to be delivered within one or more 5-digit delivery zones. The FSS machine will have 360 sortation bins and flat mail pieces will be passed through it twice, resulting in flats in walk sequence for each letter carrier.

The first 100 FSS machines are being deployed under the BOG approved FSS Phase 1 Program. This program would cover additional deployments beyond Phase 1.

FLAT RECOGNITION IMPROVEMENT PROGRAM (FRIP) PHASE 2 (EN-103)

Phase 2 of the Flat Recognition Improvement Program (FRIP) will provide additional enhancements to the address recognition technology used in flat mail automation equipment. This program will improve optical character reader (OCR) accept rates and reduce OCR error rates on all AFSM 100 and UFSM

1000 equipment.

Increases in the AFSM 100 OCR accept rate will reduce keying workhours at Remote Encoding Centers, while a higher UFSM 1000 OCR accept rate will decrease UFSM 1000 keying or manual flat sorting workhours in our plants. Lower OCR error rates will produce workhour savings in manual flat sorting and carrier operations.

FLATS SEQUENCING SYSTEM (FSS) RESEARCH & DEVELOPMENT ENGINEERING(EN-107)

The Flats Sequencing System (FSS) will be used to walk sequence flat mail pieces that are to be delivered within one or more 5-digit delivery zones.

Under this R&D project, one PreProduction FSS machine will be installed in the Dulles VA P&DC. It will be a full-sized FSS that is expected to have 360 sortation bins and all of the functionality of the FSSs that subsequently will be deployed. Flat mail pieces will be passed through it twice, resulting in flats in walk sequence for each letter carrier.

Following the completion of the Postal Service's field acceptance test, a one year operational test will be conducted, frequently with live mail, with postal employees staffing the machine.

FLATS SEQUENCING SYSTEM (FSS) – PHASE 1 (EN-108)

The Flats Sequencing System (FSS) will sort flat-sized mail into delivery sequence at high speeds and at a much higher productivity than today's manual process. The FSS will process flats from the AFSM 100 and UFSM 1000 mail streams along with a significant amount of carrier presorted mail that is not handled on our automation equipment today.

The production FSS machine will have 360 sortation bins and flat mail pieces will be passed through it twice, resulting in flats sorted to walk sequence for each letter carrier. The FSS Phase 1 program will deploy 100 FSS machines.

Savings are expected to result in a reduction in carrier workhours , carrier supervisor hours , and delivery unit clerk hours as a portion of our flat mail arrives at the delivery units in walk sequence order. For the portion of flats that can be processed on the FSS, the manual casing and pull-down activities will no longer be necessary.

FIELD MATERIAL HANDLING SYSTEMS(EN-75)

Material Handling Systems are being deployed to support material handling operations in our plants, Bulk Mail Centers (BMCs), and Air Mail Centers (AMCs). The primary goal is to reduce LDC-17 labor hours associated with the

handling of all types of mail by providing better material handling solutions and system modifications to the facilities.

This program is being implemented through a series of individual, site-specific projects initiated by requests from the plants, or identified through proactive site staff.

PACKAGE RECOGNITION IMPROVEMENT PROGRAM – PRIP (EN-106)

The Package Recognition Improvement Program (PRIP) will upgrade the address recognition capabilities of the 76 Phase 1 Automated Package Processing System (APPS) machines that have been purchased. This program will improve the efficiency of parcel and bundle sorting operations by reducing the amount of mail that requires remote keying support at the Remote Encoding Centers (RECs) that process APPS images.

The upgrades consist of three incremental software releases over a three-year period. All of the savings expected from this program are at the Remote Encode Centers. The savings are based on incremental improvements in OCR recognition capabilities for the Phase 1 APPS machines.

CENTRAL VACUUM SYSTEMS FOR AUTOMATED FLAT SORTING MACHINE (AFSM) 100s (EN-85)

This program deployed centralized vacuum systems for all Automated Flat

Sorting Machine (AFSM) 100 equipment. A total of 534 centralized central vacuum systems, one for each AFSM, were purchased as replacements for the costly portable vacuums previously used. A total of 530 of the 534 systems purchased were deployed and installed. The remaining systems are being held at Topeka. Deployment began in February 2009 and was completed in November 2009.

PHILADELPHIA NETWORK DISTRIBUTION CENTER (NDC) – (EN89)

This program cover the work required to allow the Philadelphia NDC to process the originating Priority Mail flats and parcels being relocated from the P & DC due to its planned closure when the lease expires in March 2010. The project includes demolishing two Parcel Sorter Machines and two Sack Sorter Machines and relocating the control room and computer room. In addition, a 200 bin Automated Package Processing System (APPS) will be transferred from another site and a Small Parcel and Bundle Sorter (SPBS) and SPBS feed system will be removed.

SURFACE VISIBILITY (NO-01)

The Surface Visibility system collects information and reports on asset tracking, providing visibility into the movement of each sack, tray, container, and trailer within the USPS supply chain. This kind of real-time visibility affords the Postal Service the opportunity to identify problems such as:

-Mail that was processed late, resulting in a container missing its assigned dispatch.

-Handling units that were loaded into the wrong containers and containers loaded onto the wrong trailers.

AUTOMATED PACKAGE PROCESSING SYSTEM (APPS) – SORT ACCURACY IMPROVEMENT (SAI) PROGRAM

The APPS Sort Accuracy Improvement Program (SAI) upgraded all 74 existing Automated Package Processing System (APPS) machines with Sort Accuracy Improvement kits. This enhancement reduces sorting errors resulting in improved service for mail processed on the APPS.

Deployment of all 129 operational kits and 2 training/support kits began on June 30, 2009 and ended November 18, 2009. Each of the 55 dual induction APPS machines received two (2) SAI kits (one per induction station); and each of the 19 single induction machines received one (1) SAI kit.

REMOTE ENCODING CENTER (REC) CONSOLIDATIONS

As the technology for computerized resolution of addresses improves, the percentage of mail requiring manual keying at the RECs is reduced. Currently, the reduction of keying requirements due to improvements in computerized encoding is being offset by additional keying requirements for other products such as flat mail, Automated Package Processing Systems (APPS) and the

Postal Automated Redirection System (PARS). Although the keying requirements for each are different, and they are handled in separate operations, the Postal Service is pursuing their integration.

MULTI-CHANNEL CUSTOMER EXPERIENCE IMPROVEMENT PROJECT (HR03) -- PROJECT PHOENIX

Project Phoenix will address increasing competitive and technological challenges by improving the underlying information technology (IT) that supports three key revenue generating channels within USPS: the website (USPS.com), the contact center, and retail. Project Phoenix will also fund enhancements to USPS.com and the contact centers. These improvements will support a more positive and consistent customer experience across channels by offering more products and services, and will positively impact customer satisfaction, retention, and revenue growth. The improvements will also reduce IT maintenance and integration costs over time.

Project Phoenix will be implemented in two phases and multiple releases.

Revenue growth is anticipated due to Project Phoenix. This project will generate an increase in revenue primarily by enhancing the customer experience through the Internet channel and contact centers. Enhancements to the website will make it easier for customers to find the products they need by creating a more streamlined and intuitive user interface. Customer data integration between the

contact center and Internet channels will promote customer satisfaction by enabling agents to provide consistent personal service.

The redirection of Shipping and Stamps revenue from the retail channel to USPS.com will result in cost savings and cost avoidance due to a reduction in retail staffing hours.

LEARNING MANAGEMENT SYSTEM (HR-02)

The Learning Management System is a comprehensive learning solution that will enable the Postal

Service to manage and integrate a full range of its training, administration, delivery, and talent management processes. Currently, these processes are managed using multiple legacy systems that lack interoperability and are inefficient and costly to maintain.

The LMS system includes an intuitive learning portal and learning management software, as well as test authoring, content structuring, content management, and collaboration functionality. The system offers back-office functionality for competency management and comprehensive support of performance management. It provides strong analytical functionality that includes support for ad hoc reporting. The LMS tailors learning paths to an individual's educational

needs and personal learning style. This personalized learning that is based on job requirement, tasks preferences, and existing knowledge improves learning efficiency for employees by providing the training needed for their development.

Section 1B

Breakthrough Productivity Initiatives (BPI)

Breakthrough Productivity Initiatives (BPI) refer to various initiatives and actions by the Field and Headquarters to achieve savings in addition to specific operational programs. The savings are achieved through implementation of standardized field operations procedures and information systems resulting in increased efficiencies in operational functions, reductions in administrative functional areas, and more efficient transportation utilization. The improved processes enable the Postal Service to develop specific measures of performance and national targets, and support the Transformation Plan goal of better aligning workhours to workload.

In Fiscal Year 1999, efforts were underway to develop and establish a mechanism that would fairly measure the performance for plant and delivery Operations. From this effort, the Breakthrough Productivity Initiative (BPI) was developed and implemented.

The Breakthrough Productivity Initiatives for Mail Processing, Customer Service, and Delivery Services are a tool used to measure production efficiency. This is accomplished by collecting data (volume and actual hours) by processing category type, (e.g. automation or manual, office or street delivery).

The Performance Achievement measure is the computed value that corresponds to the production efficiency for a unique operation and is represented as a percent value, 0% to 100%, with 100% representing the highest. The Performance Achievement Percent is computed as follows:

- Total Mail Volume by unique category - Actual
- Total Work Hours by unique category - Actual
- Predefined Target Productivity – Computed yearly based on actual productivity by category
- Earned Hours – Computed value based on Total Mail Volume divided by Predefined Target Productivity
- Opportunity Hours – Computed value based on Total Work Hours minus Earned Hours

Although opportunity hours are calculated for each type of operation, it is unlikely that field initiatives will result in the same percentage reduction in opportunity hours for each type of operation. Since savings estimates are more predictable for larger groups of operations, BPI savings are assumed distributed to each of the following groups in direct proportion to the opportunity hours in each group.

- Letter Distribution such as the Delivery Barcode Sorter (DBCS) and manual letter casing.
- Flats Distribution such as the Advanced Flats Sorting Machine 100 (AFSM 100) and manual flats casing.
- Bulk Mail Centers

- Manual Priority and Parcels
- Other Mechanized operations such as the Small Parcel and Bundle Sorter (SPBS) and the Tray Sorter

The Breakthrough Productivity Initiative for Maintenance currently encompasses two efforts. The first initiative focuses on improving the performance of the custodial staffs and monitoring performance using workhours per 1,000 square feet of interior and exterior space. The second initiative focuses on reducing the replenishment costs of maintenance spare parts and supplies in field maintenance stockrooms by comparing actual inventory value with the inventory value that would exist at two inventory turns per year.

Section 2

Other Programs

Most programs add costs as well as generate savings. The cost portion is called and labeled "Other Programs". The following programs include identified costs, as well as cost savings, during the period. For program descriptions, see Section 1A, Cost Reduction Programs.

- AUTOMATED LETTER MOVEMENT SYSTEM (ALMS)
- DELIVERY BAR CODE SORTER CENTRAL VACUUM SYSTEMS
- CENTRAL VACUUM SYSTEMS FOR PHASE 1 DBCS'S
- DBCS 7 MACHINES
- CENTRAL VACUUM SYSTEMS FOR AFSM 100 MACHINES
- AFSM 100 CANCELLATION UPGRADE
- PHILADELPHIA NETWORK DISTRIBUTION CENTER
- FUTURE FLAT SEQUENCING SYSTEM (FSS)
- FLATS SEQUENCING SYSTEM PHASE 1
- FIELD FIXED MECHANIZATION /FIELD MATERIAL HANDLING SYSTEM (CURRENT&FUTURE)
- APPS SORT ACCURACY IMPROVEMENT

Section 3

Corporatewide Activities

EXPEDITED MAIL SUPPLIES & SERVICES

This activity is intended to cover printing of Express Mail and Priority Mail envelopes, boxes, labels, forms, and tags.

ADVERTISING

The advertising program provides information on our products and services using the following media: television, radio, outdoor, transit, magazines, newspapers, direct mail and newsletters, film and video, yellow pages, post office lobby posters and displays, and promotional materials such as posters, brochures, and point-of-purchase items.

RESEARCH & DEVELOPMENT

Corporatewide activities include research and development which have the objectives of improving service, reducing costs, and providing an adequate working environment by implementing new and improved technology-based

systems. These systems affect practically all areas of the postal system, including mail processing, transportation, delivery, retail services, administrative services, and new postal products. Many cost reduction program savings are based on new and improved technology-based systems resulting from Research and Development.

ALL OTHER CORPORATEWIDE ACTIVITIES

This item reflects the estimated change in expenses for corporatewide activities that have not been listed separately (i.e., activities that are centrally funded and managed, such as debit/credit card, mail transport equipment and postage stock).