

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

RATE ADJUSTMENT DUE TO EXTRAORDINARY  
OR EXCEPTIONAL CIRCUMSTANCES

Docket No. R2010-4

RESPONSES OF THE UNITED STATES POSTAL SERVICE  
TO QUESTIONS FROM THE BENCH AT THE HEARING FOR MR. NERI  
(August 19, 2010)

The United States Postal Service hereby provides its response to the oral question posed from the bench at the August 12 hearing at which Mr. Neri responded to questions on the Flats Strategy document. The relevant portion of the transcript is quoted, and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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August 19, 2010

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**TR. 3/315.**

*Do you have a timeline when you think you'll make a decision on them [the automated package and bundle sorters]?*

**RESPONSE:**

On August 12, 2010 a Decision Analysis Report (DAR) was circulated for review by designated stakeholders on the Automated Package and Bundle Sorter (APBS) initiative. While the APBS DAR is only now being circulated for concurrence, expectations are for the report to be presented to the Capital Investment Committee (CIC) on September 23, 2010. If the CIC and Postmaster General approves, the equipment would be purchased in 2011 with deployment expected to begin in the summer of 2011 and finish in January 2012. The APBS technology benefits both flat mail bundle and small parcel processing activities. Based on the procurement and deployment cycle, most of the anticipated savings would be in FY 2012 and thereafter.

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**TR. 3/325-26.**

*How many of the programs have planned implementation dates in the flat strategy?*

*Could you give us the planned implementation dates? How many of these programs will require a DAR before implementation?*

*And how many programs currently have a DAR, and how many of the programs having DARs are in the development stage?*

**RESPONSE:**

Of the 30 flats strategy initiatives, three have a DAR. The initiatives include Flats Recognition Improvement, Electronic Condition-Based Maintenance, and Flats Sequencing System. These have implementation plans and dates, as follows:

- The Flats Recognition Improvement DAR was previously approved in June 2005. Implementation was based on a series of software releases. The first software release, for the AFSM 100, occurred in November 2007 and then was followed by a second release in November 2009. There are two more software releases expected, with one release scheduled for fall 2010 and another in the summer of 2011, which will complete the initiative.
- The Electronic Condition-Base Maintenance DAR was approved in May 2010; deployment is underway with an expected completion by fall 2010.

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- The Flats Sequencing System (FSS) DAR was approved in December 2006. Deployment of the 100 machines purchased is underway and expected to be completed late in calendar year 2011.

The remaining 27 are considered Breakthrough Productivity Improvement (BPI) activities, some of which may require DAR initiatives. Fifteen of the initiatives are in the conceptual stage, while the balance are ongoing management practices or in some variation of the define, analyze, improve phase which could lead to potential DAR initiatives. Also given the complexity, and interdependency of some initiatives, portions of them may have already been implemented or scheduled for implementation. As an example, within the Facility Optimization initiative several Area Mail Processing (AMP) proposals have been implemented, or are scheduled for implementation, while others are still under study.

In further clarifying the various project stages, the following describes the phases in the DAR process. The *conceptual* phase identifies a need or opportunity. The *development* or *planning* phase, often used interchangeably, is where analysis is conducted, improvement steps are identified and proof of concept is completed. Only a select few may require a DAR. Outcome of the analysis will determine whether a capital investment is necessary, and if so, that is when the funding process begins. Activities in this phase include the detailed DAR preparation and subsequent approval process. The next phase for DAR initiatives that receive Capital Investment Committee approval is implementation; and it is at that stage where projected cost savings are assigned. The

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implementation phase may include purchasing, production development, as well as deployment. Given capital outflow, the DAR process provides a method to perform “after” cost study or return on investment analysis.

Now, certain initiatives do not require a DAR or capital funding. Since the Postal Service expanded its quality improvements efforts by adopting Lean Six Sigma principles, many initiatives will follow the DMAIC or Define, Measure, Analyze, Improve and Control process. Similar to project stages of a DAR, *define, measure* and *analyze* is the development or planning phase of an initiative. The *improve* phase describes implementation of selected solutions or processes to drive improvement. Much like the DAR process, the *control* phase of the DMAIC model provides an opportunity to measure results and to track whether improvements are sustained after implementation. This terminology is more commonly used in the DAR process than the terminology (Concept, Development, Planning) used in the Flats Strategy homework response provided on August 3, 2010, following the Flats Strategy technical conference.

Initiatives that follow the DMAIC process are most commonly BPI opportunities.

Additionally, it should be recognized that the Postal Service views many of the "flats strategy" initiatives as part of ongoing day-to-day management activities, not limited specifically to flats opportunities. For example, the Route Adjustment process is a well-established practice agreed upon with the letter carriers union to match workload to resources. The Joint Alternate Route Assessment Process (JARAP) further leverages the current route adjustment

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process; however fewer resources and less time allocated to make adjustments, as described within the terms of the Memorandum of Understanding (MOU).

Implementation of the initial alternate route adjustment process was in October 2009, with subsequent memorandums negotiated. The current JARAP MOU will expire in February 2011. A further example of day-to-day management activities is the elimination of Periodicals and Standard Mail from being flown initiative.

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**TR. 3/333-34; 336.** How has the flats processing operation been performing in relationship to its budget? Are you meeting expectations with your flats processing, based on productivity and performance indicators?

**RESPONSE:**

Analysis indicates that flats mail processing operation has experienced continuous improvement over the last several years. In reviewing the past 4.7 years, from FY 2006 through July 2010, the flat operations have realized work hour reductions each year while productivity has improved. Total flat productivity for mail processing MODS facilities between FY 2006 and FY 2009 has increased by 35.2 percent for flat prep and distribution operations. The increase in productivity is from initiatives implemented over time, as well as day-to-day management activities.

Furthermore, total flat workhours from FY 2006 to FY 2009 have decreased by 26 percent, with a projected additional decrease of 14.4 percent in flat prep and distribution operations for FY 2010 in mail processing MOD facilities. The decrease has outpaced total work hour reductions in mail processing MODS facilities; which has declined by 24.5 percent from FY 2006 to FY 2009. Expectations are for flats workhours to decline another 11 percent in FY 2010.

While volume declines have contributed to some of the reductions, deliberate day-to-management oversight has also contributed as reflected in the improved productivity.

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Additionally, it should be noted that the cost measurement systems for products are more broad-based, and encompass all activities and cost segments, not only mail processing. The below data illustrate operational performance trends limited to distribution operations, and do not reflect total costs that are associated with the flat-shaped products, such as facilities, delivery, fuel, etc.

Type	FY06	FY 07	FY08	FY09	FY 09 SPLY	July YTD FY10
Flats Hours	36,832,205	35,011,751	31,437,878	27,270,043	23,036,343	19,720,500
Total Hours	311,517,528	296,473,656	273,562,414	235,153,735	199,001,830	177,028,006
Volume	54,221,639,437	60,574,857,305	56,697,424,931	54,270,032,312	45,693,425,771	39,067,831,757

Work Hours Comparison					
Type	FY10 YTD vs FY09 SPLY TD	FY09 vs FY 08	FY08 vs FY 07	FY07 vs FY 06	FY 09 vs FY 06
Flats Hours	-14.4%	-13.3%	-10.2%	-4.9%	-26.0%
Total Hours	-11.0%	-14.0%	-7.7%	-4.8%	-24.5%

	FY06	FY 07	FY08	FY09	FY 09 SPLY TD	July YTD FY10
Productivity	1,472	1,730	1,803	1,990	1,984	1,981

Productivity Comparison					
	FY10 YTD vs FY09 SPLY TD	FY09 vs FY 08	FY08 vs FY 07	FY07 vs FY 06	FY 09 vs FY 06
Productivity	-0.1%	10.3%	4.2%	17.5%	35.2%