

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

MAIL PROCESSING NETWORK
RATIONALIZATION SERVICE CHANGES, 2011

Docket No. N2012-1

RESPONSES OF UNITED STATES POSTAL SERVICE WITNESS SMITH TO
GREETING CARD ASSOCIATION INTERROGATORIES GCA/USPS-T9-5 TO 14
(March 9, 2012)

The United States Postal Service hereby provides the responses of witness Marc Bradley to the above-listed interrogatories of the Greeting Card Association. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Pricing & Product Support

Nabeel R. Cheema

475 L'Enfant Plaza, S.W.
Washington, D.C. 20260-1137
(202) 268-7178; Fax -5402
March 9, 2012

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-5

On page 2 of your testimony, lines 10 and 11, you discuss “replacement of Carrier Sequence Barcode Sorter (CSBCS) with more efficient sortation and additional letter automated sorting (incoming secondary and delivery point sequencing (DPS)).” On page 13, lines 12 and 13, you cite witness Rosenberg to the effect that the current (FY2010 mid-year total) number of DBCS is 5,916, and would be reduced to 3,165 with the new network.

(a) Are all of the 5,916 pieces of equipment newly purchased automation machinery that is designed only or primarily for DPS sorts? Or, can such equipment do other sort schemes?

(b) Are any of the 5,916 pieces of equipment older, existing automation machinery that has been converted to DPS through adding DPS sort schemes and stacker bins to older automation equipment?

RESPONSE:

a.-b. The 5,916 DBCS in use in FY 2010 were fully capable of DPS sorting and other sorting at the time of purchase or acquisition, as indicated by witness Neri in his responses to GCA/USPS-T4-18 and 19. See my response to GCA/USPS-T9-4(a) for a summary of the history of the purchases of these 5,916 DBCSs over the past 20 years.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-6

On page 13 lines 8-11 of your testimony you state that DBCS “account for about one-third of these equipment related costs” “\$119 million for depreciation” “\$631 million for maintenance labor” “and \$58 million for parts and supplies.”

(a) What mail processing equipment other than DBCS is depreciated at \$793 million minus the \$119 million for DBCS? Please be specific, by type of equipment and depreciation cost for each type.

(b) What mail processing equipment other than DBCS has maintenance labor of \$1,371 million minus the \$631 million for DBCS? Please be specific, by type of equipment and maintenance labor cost for each type.

(c) What mail processing equipment other than DBCS has parts and supplies costs of \$194 million minus the \$58 million for DBCS? Please be specific, by type of equipment and parts and supplies cost for each type.

(d) What portion of the equipment that is not DBCS has been sold or discarded completely, and not put to any other use at the Postal Service?

(e) What portion of the equipment that is not DBCS is still in operation as of FY2010 mid-year, FY 2011 mid-year and FY 2012 mid-year (approximated)?

RESPONSE:

a.-c. See Docket No. ACR2010, USPS-LR-8, spreadsheet “fy10equip.xls,” tabs
“PAGE II-8” and “PAGE IV-4.”

d. I do not have this information.

e. I do not have this information.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-7

On page 16 lines 9-12 you state that keeping current service standards would require “more equipment, such as DBCSs”.

(a) Since First-Class Letter Mail (FCLM) volumes are continuing to fall, why would more than the 5,916 DBCSs (as of mid-year FY2010) be needed? Please explain your answer fully.

(b) At lines 2-3 you state “the Postal Service is likely keeping the newer DBCSs”. What are the older DBCSs that it may discard, and are these older BCS that were retrofitted to perform DPS?

(c) Why would it take 5,916 DBCSs (or more) to replace 3,700 CSBCSs when the throughput of each DBCS is substantially greater than a CSBCS?

(d) Why under the new network would it take 3,165 DBCSs to replace 3,700 CSBCSs, when the capacity of the former is much greater than the latter (i.e. throughput per hour and number of bins)?

RESPONSE:

- a. See my responses to APWU/USPS-T9-5 and POIR No. 2, Question 7.
- b. As I indicate in my response to GCA/USPS-T9-4(a), the Postal Service has about 2,500 DBCS that are at least 15 years old, so these may be more likely to be removed. As indicated in my response to GCA/USPS-T9-5, all DBCS were capable of DPS sorting when acquired.
- c-d. It is not clear what these questions relate to. The Postal Service only has approximately 305 CSBCS in use as of the end of FY 2011 (as per End-of-Run (EOR) data). My testimony at pages 23-24 puts forth the labor savings from transferring the annual DPS volume on these remaining machines (about 1.508 billion pieces) to DBCS DPS. It is my understanding that Network Rationalization enables this transfer, in the same way that Network Rationalization enables letter

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

mail for additional zones to receive DPS, as discussed in my response to
GCA/USPS-T9-10.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-8

Regarding your statement from page 20, line 20 – page 21, line 2:

(a) Why would the Postal Service use the \$327 million of “net revenue” from vacating 93 buildings to make “capital investments for postal plant, equipment or vehicles, earning at least a 10 percent annual return”?

(b) Would not the combined impact of falling postal volumes and large annual deficits lead USPS to forego any such investments, regardless of whether it was new investment or replacement investment?

(c) To what extent would the above-cited \$327 million of net revenue from vacating 93 buildings be used to make capital investment primarily or exclusively serving (i) flat-shaped mail (regardless of class), (ii) parcel-shaped mail (regardless of class), (iii) package services, whether market-dominant or competitive, and/or (iv) products in the competitive sector, subject to 39 U.S.C. § 3631 et seq.?

RESPONSE:

a.-c. My statement and my understanding of the investment rationale and opportunities are based on the 2011 Report on Form 10-K of the United States Postal Service, at page 9, as discussed in footnote 17, page 21, of my testimony.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-9

On page 24, lines 12-13, you state “there are 2,072 zones not being sorted to the finest depth of sort and placed in DPS.”

(a) What is the frequency of each of the following characteristics among the 2,072 zones:

- (i) urban 5 digit ZIP codes?
- (ii) rural 5 digit ZIP codes?

(b)

- (i) What is the total annual volume of letters for the 2,072 zones?
- (ii) What is the geographic distribution of the 2,072, by region and by state?

(c) How many zones as you define them above are there in the country?

(d) What is the percentage of all FCLM that is now delivery point sequenced (DPS)?

RESPONSE:

There are 2,082 zones not being sorted to the finest depth (an errata will be filed).

- a. See the attached (GCA.USPS.T9.9.xls) listing these 2,082 5-digit zones.
- b. The total annual automation compatible letter volume is as shown in Table 10 of my testimony. There are 499 zones currently receiving manual incoming secondary and manual carrier casing with 90.4 million annual volume. There are 1,583 zones currently receiving automated incoming secondary and manual carrier casing with 687.4 million annual volume. This totals 777.6 million in annual volume of automation compatible letter mail. As discussed in my response to POIR No. 5, Question 23, these volume estimates are based on data from August 2011. I do not have the information on the volume of non-automation compatible letters.
- c. 2,082.
- d. I don't know what the percentage is for First-Class Mail letters.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-10

(a) Please refer to your comment on page 24, lines 6-9. Why can't manual letters be moved into automation operations now rather than being sent to a separate facility for manual letters, flats and parcels?

(b) Short of ending overnight delivery for all Single-Piece FCLM, what changes would have to be made that allowed manual letters to be sent directly into automation operations, (thus ending overnight delivery only for manual letters)?

RESPONSE:

- a. The referenced statement from my testimony was a point that is further elaborated in the paragraph which follows the referenced one. To summarize, I am saying that it is my understanding that, under the proposed network, there is an opportunity to automate the processing of additional letter mail, since there are automation compatible letters which are not currently receiving DPS sorting, some of which don't even receive an automated incoming secondary sort. End-of-Run (EOR) data for automated incoming primary was used to identify letter volumes going to 5-digit Zones (or Zip Codes) which do not currently receive DPS processing or in some cases don't receive either DPS or automated incoming secondary. This letter mail is currently being processed manually at various locations – though the current treatment isn't one of "being sent to a separate facility for manual letters, flats and parcels," as characterized in part (a) of the question. My response to part (b) addresses the question of whether such mail could be moved to automation operations now.
- b. As to whether this letter mail currently getting manual sorting could be automated now or via some other way than the proposed service standard

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

changes under Network Rationalization, I have been informed of the following. Without looking at the reasons each of these 5-digit zones don't currently receive automated sorting, it is not possible to say what options there are. If these are offices that either:

- have relatively small letter volumes, with relatively small number of carrier routes.
- Are located relatively far away from the plant or SCF.

These two factors when combined with the short DPS processing window associated with current service standards make it uneconomical to run this mail on DPS. Automating this mail would require the proposed Network Rationalization. To the extent the mail in these zones were excluded from automation due to capacity shortages, during the current narrow processing windows, shortages that will be alleviated as volumes decline – then there could be opportunities under the current network. Based on the volume data for these 2,082 non-automated 5-digit zones (which have approximately 777.6 million annual volume) the average daily volume per zone is 1,153 pieces, with the smallest being 4 pieces per day and the largest being 34,368. This suggests that small volumes are an important part of the reason these zones are non-automated. For zones with relatively small letter volumes there won't be an opportunity under current operations to automate such mail or if there is an opportunity the costs associated with keeping DBCS maintained and staffed just to run small volumes of mail may greatly reduce the savings.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

Under Network Rationalization, the opportunity to automate the sorting of this mail grows due to the longer operating window of the proposed network in two ways. First, I am told that longer operating windows afford greater opportunity to combine 5-digit zones with small volumes into one DPS sort scheme enabling more efficient sorting. The combining of 5-digit zones to form DPS sort schemes is discussed by witness Rosenberg, USPS-T-3 at page 24. Second, it is my understanding that in the DPS environment described by witness Neri, USPS-T-4, at pages 19-21, and witness Rosenberg, USPS-T-3, pages 24-26, the longer operating window affords running more DPS sort schemes on each machine including scheduling the processing of further away zones earlier to accommodate the longer distances. In current operations running mail volume for small volume, far away zones can only be done by putting such mail on DBCS early in tour 1, at risk of running out of time for processing other zones, on heavier volume days.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-11

The Postal Service OIG reported in June of 2006 (Report Number NO – AR – 06 -005, page 2) that “the Postal Service placed over 3,700 CSBCSs in its facilities to increase overall mail processing capacity nationwide in anticipation of increased letter mail volume. Unfortunately, the entire growth of projected letter mail volume did not occur.”

(a) What was the financial loss to the Postal Service of that excess capacity it created in CSBCSs?

(b) How many CSBCSs have been replaced by DBCS equipment?

(c) Please explain fully why the number of DBCSs purchased does not represent substantial excess capacity, in light of the experience with DPS on CSBCS equipment, as reported by the OIG.

RESPONSE:

- a. I have no information relating to your question. I am not aware of a study with this information.
- b. Approximately 3,750 CSBCS were deployed in the FYs 1995 to 1997. As of the end of FY 2011, there are 305 CSBCS in use (based on EOR data). From this we can say that about 3,445 CSBCS have been removed.
- c. My testimony does not deal with these types of questions. I don't have any information regarding whether the “number of DBCS purchased does not represent substantial excess capacity.” The only pertinent information I can offer is contained in my response to GCA/USPS-T9-4(a) on the Postal Service's DBCS purchases over the past 20 years.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-12

(a) Please confirm that the throughput of CSBCS is about 19,000 letters per hour, and is about 39,000 letters per hour for DBCS. If you do not confirm, please give the throughput figures you consider correct and explain the reason(s) for the difference.

(b) Can DBCS equipment be created by retrofitting older automation equipment that has multiple stacks?

(c) If purchased new, what is the respective cost of a DBCS and CSBCS? Assume for purposes of answering this question that CSBCS equipment has 12-25 bins, and DBCS has between 190-238 bins.

RESPONSE:

- a. This is not information I use in my testimony, and I am unable to comment on these throughputs.
- b. Not to my knowledge.
- c. I am told that we have no reliable price information concerning the cost of new DBCS or CSBCS.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-13

(a) As the transition of mail processing using CSBCS in associate offices to using DBCS at P & DCs, how many entirely new DBCSs have been purchased and how many DBCS stacker bins only have been moved from other plants?

(b) To what automation machinery were the stacker bins attached before being moved to a P & DC?

(c) To what automation machinery are the stacker bins moved into a P & DC attached?

RESPONSE:

a. I am told that no DBCS were purchased to phase out the use of CSBCS. I have no information on the movement of stacker modules between plants relating to phasing out CSBCS.

b.-c. I am told that DBCS stacker modules can only be used on DBCS.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS SMITH
TO GREETING CARD ASSOCIATION INTERROGATORY

GCA/USPS-T9-14

On page 13, lines 11-13, of your testimony you discuss the number of DBCS machines currently (5,916), and the number after the new network is operational (3,165). However, the throughput of DBCS 7 machines is said to be 30 percent greater than DBCS 6 machines.

(a) Are both calculations you cite based on DBCS 6 machine throughputs? If your answer is "yes", please answer parts (b) and (c) below. If it is not, please specify and describe the throughputs underlying these calculations

(b) Assuming DBCS 7 equipment is deployed nationwide by the time the new network is "full up", please confirm that the number of DBCS to process the same volume would be reduced to 4,551 machines (5,916 /1.3). If you do not confirm, please explain.

(c) Please confirm that the elimination of 1,365 DBCS 6 machines due to the higher throughput of DBCS 7 machines could be accomplished without any change in current service standards. If you do not confirm, please explain.

RESPONSE:

- a. I have not done any calculations to determine the number of DBCS. I have merely reported the number of DBCS in use in FY2010 and the number of DBCS needed in the proposed network as per witness Rosenberg, as indicated in my testimony.
- b. I am not aware of any DBCS 7 deployments. In any event, I have no idea how many DBCS 7 machines would be needed.
- c. I am unable to answer this question.