

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

INSTITUTIONAL RESPONSES OF UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF MAJOR MAILERS ASSOCIATION,
REDIRECTED FROM WITNESS ABDIRAHMAN
(MMA/USPS-T21-16, 17, 33)
(May 17, 2005)

The United States Postal Service hereby provides its institutional responses to the following interrogatories of Major Mailers Association, filed on April 21, 2005: MMA/USPS-T21-16, 17, 33.

Each interrogatory is stated verbatim and is followed by its response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Kenneth N. Hollies

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-3083, Fax -3084

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

MMA/USPS-T21-16. Please describe your understanding of Postal One Phase I and explain how this form of worksharing saves the Postal Service money in terms of both reduced processing and transportation costs.

RESPONSE:

“Phase I” of the Postal Service’s deployment of PostalOne! was a limited introduction of PostalOne! to gain operational experience prior to the wider scale (“Phase II”) deployment of PostalOne!. At this time, there is no operational distinction between customers who implemented PostalOne! during Phase I and those who implemented PostalOne! during Phase II. Please see the response to MMA/USPS-T21-33.

While PostalOne! may facilitate worksharing, installation of PostalOne! in and of itself does not consist of “worksharing.” “Worksharing” includes presortation, making mail automation compatible, and dropshipping mail closer to destination and generally involves customers performing work that the Postal Service would otherwise do. To the extent that PostalOne! customers perform worksharing activities, the costs avoided by that worksharing are incorporated in the cost avoidance models presented by witnesses Abdirahman, Miller and Mayes. However, these models do not explicitly distinguish worksharing performed by PostalOne! customers from worksharing performed by other customers.

Additionally, installation of PostalOne! may allow customers and the Postal Service to reach agreement on a local level that, for example, allows the customer to enter mail later than normal or tender mail at alternate locations. While these

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

agreements may offer benefits to the Postal Service, often they are also beneficial to the customer because, for example, they provide improved service or additional time to work the mail in the customer's plant.

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

MMA/USPS-T21-17. Please describe your understanding of Postal One Phase II and explain how this form of worksharing saves the Postal Service money.

RESPONSE:

Please see the response to MMA/USPS-T21-16.

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

MMA/USPS-T21-33. The following questions concern the Postal Service's deployment of Postal One, Phases I and II.

- A. Please describe Postal One Phase I (Phase I) and Postal One Phase II (Phase II) and how each Phase is integrated into the operations of a workshare mailer and the local, regional, and national postal system. Your response should include a description of how the Postal One concept arose, whether, how, and for how long the Postal Service tested Phase I and, separately, Phase II, before they were rolled out to First-Class workshare mailers.
- B. How many First-Class workshare mailers are now using (1) just Phase I, and how many are using (2) both Phase I and II?
- C. Please provide all documents that describe or discuss the Postal Service's standards or guidelines regarding the conditions under which deployment of Phase I and/or Phase I and Phase II could or should be beneficial to the Postal Service.
- D. Please provide all financial cost-benefit analyses produced by or for the Postal Service that are used to determine whether or not a particular mailer is a suitable candidate for (1) Phase I and (2) both Phase I and Phase II.
- E. Please list and describe all factors the Postal Service considers before a recommendation is made that Phase I be implemented by a particular First-Class workshare mailer.
- F. Please list and describe all factors the Postal Service considers before a recommendation is made that Phase II be implemented by a particular First-Class workshare mailer that already uses Phase I.
- G. If mailer volume is one of the factors considered by the Postal Service, what minimum volume standard does the Postal Service consider necessary to justify the use of (1) Phase I and (2) both Phase I and Phase II?
- H. Please provide the lowest volume and the highest volume (per month, per year, or whatever other period the Postal Service considers most relevant) that a particular First-Class workshare mailer had at the time the Postal Service recommended (1) implementation of Postal One Phase I and (2) implementation of Postal One Phase II.
- I. What minimum estimated savings does the Postal Service require in order to justify recommending (1) that Phase I should be deployed by a particular mailer and (2) that Phase I and Phase II should be deployed for such a mailer?
- J. In FY 2004, how many First-Class workshare letters and cards were sent out by mailers who deployed (1) only Phase 1 and (2) both Phase I and Phase II? If

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

data are not available for FY 2004, please provide data for the most recent 12 months available.

- K. What is the total savings that the Postal Service expects for TY 2006 from implementation of (1) Phase I and (2) both Phase I and Phase II?

RESPONSE:

This question appears to assume that there is more than one PostalOne! "phase" currently operating. Such is not the case. As described below, PostalOne! was implemented in a series of steps or "phases." The term "phase" most accurately describes an operational time period rather than different programs under a more general PostalOne! name. The responses to parts A through K, below, describe the PostalOne! Transportation Management system that is integrated into participating customers' facilities. The term "PostalOne!" is also used for the PostalOne! Business Customer Support System which is used by postal clerks to enter postage statement and other information at acceptance manually. This system is described in USPS-LR-K-26.

- A. PostalOne! Transportation Management provides a supply chain management solution to customers by integrating Postal Service transportation and induction processes with external mailer production processes. Under this program automated and desktop shipping systems are deployed into external customer mail production facilities to book air and surface transportation assignments for First-Class Mail letter trays. Large automated systems are usually integrated into customers' automated tray handling systems, while desktop systems are not integrated into tray handling systems and are operated by hand. These shipping systems are used only for First-Class Mail and Priority Mail. The shipping system scans the tray label, captures the weight, and interfaces with the Postal Service's Surface-Air Management System (S-AMS) to assign the least cost routing that still meets Postal Service service commitments. The PostalOne! shipping system records the transaction, capturing key information such as mail type, destination, and time of day. Because mailers assign and separate letter trays in their production facilities, Postal Service savings come from reduced

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

tray processing, reduced tray handlings, and diversion of mail from air transportation to surface transportation. In addition, other quality benefits such as enhanced tray label readability increase external and internal customer ease of use and improve service consistency. See the attached description of PostalOne! for additional information about the program and its operation.

The PostalOne! Transportation Management project began with a proof of concept undertaken by Operations Redesign in the 1996 to 1998. In August 1998, a determination was made to expand this proof of concept to additional sites as a pilot test. This expansion is Phase I.

In December 2001, following a determination that additional savings could be realized, the PostalOne! Transportation Management Phase II was approved. This is the PostalOne! Transportation Management system as it is currently operating.

- B. As noted above, Phase I and Phase II are the same program under PostalOne! Transportation Management. Phase 1 was a research and development phase. The two phases do not operate concurrently. As of May 12, 2005 there are thirty-eight First-Class Mail customers participating in the program.
- C. –F. The Postal Service has identified potential PostalOne! customers using a list of the largest First-Class Mail customers. A Postal Service determination to install a PostalOne! system is based on a financial analysis of the potential benefit to the Postal Service of implementing PostalOne! for that specific customer, plus the customer's assent. The financial cost-benefit analyses contain customer-specific data. To protect the commercial and privacy interests of our customers, the Postal Service does not release customer-specific data; however a general description of the factors used in the Postal Service's determination appears below and in the attached Brochure. Generally, a customer will be considered for PostalOne! if sufficient savings can be captured to justify the expense of installation. Savings are site specific and vary depending on customer mail volumes and

RESPONSE OF UNITED STATES POSTAL SERVICE TO INTERROGATORY OF THE
MAJOR MAILERS ASSOCIATION, REDIRECTED FROM WITNESS ABDIRAHMAN

- destinations, dispatch quality, tray label quality, Postal Service processing and transportation processes and other factors. Two checklists used in the process of implementing PostalOne! are also attached. In addition, customers may elect to purchase a PostalOne! system directly from the vendor. In this case, the Postal Service will connect the system but the customer is responsible for maintenance.
- G. There is no minimum volume threshold for participation in PostalOne! and a decision not to install PostalOne! has never been made based solely on the customer's mail volume. Each customer is evaluated on site specific criteria. The decision about the type of system to be deployed (automated or desktop) does depend, in part, on customer volume. Customers with large volumes can produce savings that justify the large investment of an automated system, while customers with lower volumes may produce savings that justify the smaller investment of a desktop system. Customers generally pay for installation, integration, maintenance, the cost of phone lines, power and air, and for replacement parts and labels.
- H. The Postal Service cannot provide customer specific data and believes that identification of the "highest" volume could disclose customer-specific data to entities familiar with PostalOne! participating customers. During FY 2004, PostalOne! Transportation Management customers entered an average of 74,577 trays per month per customer.
- I. Under the current program, the minimum estimated Postal Service return on the cost of installing the system required for PostalOne! deployment is 20.3 percent.
- J. The PostalOne! program counts volume in trays not individual pieces and does not distinguish between letters and cards. In FY 2004, a total of 34,902,250 trays of First-Class Mail were entered by PostalOne! customers.
- K. In FY 2006, the total Postal Service savings from PostalOne! is expected to be \$6,194,735.

PostalOne!®

Integrated Distribution Solutions for the Mailing Community

The Postal Service has initiated a unique program designed to integrate major mailer processes with USPS Acceptance, Verification, Sorting, and Transporting processes. This program, called *PostalOne!*, is the result of extensive planning, coordination and testing by the Postal Service and participating customers. Through *PostalOne!*, significant investments have been made to better understand customer mail preparation and production processes, so that the Postal Service might better align its systems to achieve improved mail collection, induction and delivery.

PostalOne! is an outgrowth of the USPS Transformation Plan. Significant focus within the Transformation Plan is the need for customers (Mailers) and their suppliers (USPS) to more closely manage the processes that link the two business concerns.

PostalOne! is designed to meet this obligation by creating a formal program within which the Postal Service and the mailing community can work in partnership to increase the level of understanding of each others processes and needs while creating an awareness of how these processes impact business concerns. By leveraging the mailing data created as a byproduct within mailer production systems, the Postal



Service can more expeditiously plan and route mail volume in the most efficient means possible and in many cases provide for in-line verification. Such a solution requires the development of alternative collection schemes, quality-based acceptance and verification procedures, and alternative transportation options to meet the needs of the mailer, which cannot be accomplished without the management of the USPS/Mailer interface.

The ultimate goal of *PostalOne!* is to make significant quality improvements to reduce mail-staging time, reduce preparation and production costs, increase mailer production throughput, and improve overall customer service.

These objectives can be accomplished by aligning customer production processes and Postal Service accepting, collecting and inducing processes thereby creating an integrated distribution solution at the origin. When large volume mailers place unscheduled demands on the Postal Service distribution network, delays and the occurrence of mail misrouting increase. This creates additional cost and rework for the mailer and the Postal Service. *PostalOne!*® focuses on planning, implementing and controlling the efficient and cost effective flow of mailer volume from their production facilities through the Postal Service system.

Given the early success of *PostalOne!*®, the Postal Service is expanding the program to other major mailers whose mailing volume, production systems and mailing profile are consistent with program objectives. To be considered for this program, mailers must maintain quality systems and processes that can be aligned with those of the Postal Service. The mailer must also be willing to provide the Postal Service access to production facilities for review and process mapping, process and systems documentation, and details of mailer quality control programs and corresponding performance data. In exchange, mailers can expect reduced operating costs and improved service.

Areas of Mailer/Postal Service Integration

There are four critical areas that have to be aligned between the Postal Service and participating mailers to achieve the benefits of *PostalOne!*®. The critical areas and elements that must be considered when developing a Mailer/Postal Service solutions are depicted in Figure 1 and further explained in the following text.

1. Production Systems - Mailer information systems, automation levels, shop floor control, and production scheduling must be considered. Unique tray identifiers that are machine-readable and can correspond to the production system data is a strong enabler. Electronic Data Interchange capabilities and limitations will determine level of integration possible to support electronic

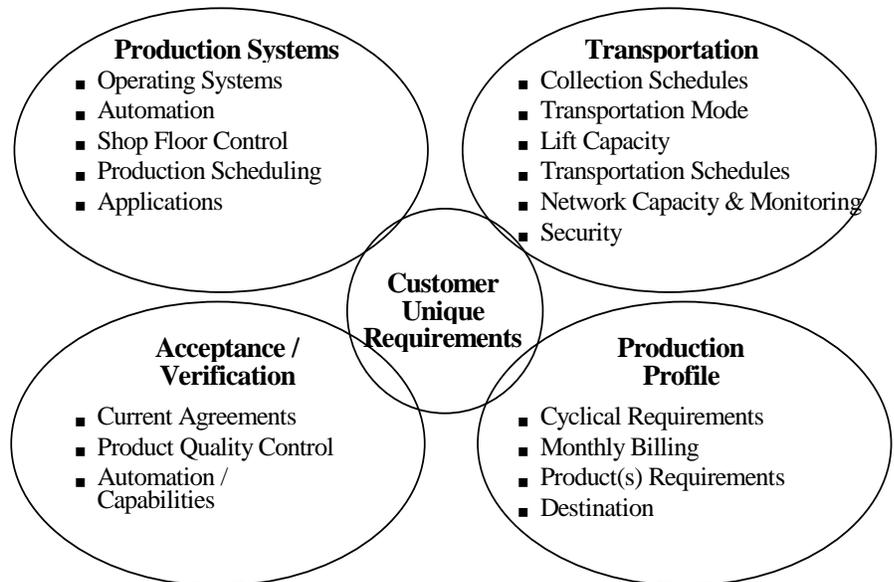


Figure 1

manifest systems, verification, payment and accounting systems. A demonstrable commitment to quality production as evidenced by adherence to production processes, tracking of quality defects, and resulting in clean mail volumes is an area of focus and lead to recommendations in *Acceptance/Verification*;

2. Acceptance/Verification - Mailer quality control systems and procedures coupled with the level of automation/mechanization capabilities are of special interest. Existing agreements and arrangements between the mailer and the Postal Service combined with historical mailing defect types and frequencies provide the basis for supporting quality control changes and areas needing special attention. Acceptance/Verification procedures will be structured to meet the needs of the mailer's *Production Profile*;

3. Production Profiling - Mailer cyclical requirements, monthly billing cycles, product requirements and destination densities need to be understood. Understanding the distribution requirements of mailer volumes allows for proper scheduling and route design for mailer volumes. With notification, *Transportation* and other resource demands to accommodate new mailing requirements and new destinations (e.g., international) can be designed and scheduled;

4. Transportation - Based on the preceding three considerations, a more effective level of integration can be achieved between mailer and Postal Service transportation and information networks.

How *PostalOne!*® Works

A Postal Service team including personnel from the mailer's servicing mail activity and USPS Headquarters will be assembled to work with each mailer. This

team, in cooperation with mailer representatives, will work in a collaborative fashion to customize a *PostalOne!* solution based on the unique needs of the mailer and the capacity of the Postal Service. This team will fully explore the four key elements, which drive the integrated solution and develop options and alternatives that balance the current customer needs with emerging mailing requirements. This process is accomplished in six simple steps.

1. Data Collection
2. Requirements Definition
3. Concept Development and Selection
4. Solution Design
5. Implementation
6. Support.

Data Collection: Mailers and USPS personnel from the servicing Postal facility will be asked to answer a survey focused on each of the four critical areas outlined above. This data will be used as the basis for requirements definition.

Requirements Definition: Using the information generated through analysis of step one data, the current and emerging business needs of the mailer are documented.

Concept Development and Selection: Mailing systems options with varying degrees of automation, mechanization, logistics, and systems integration are proposed. A cost/technical trade off analysis is conducted for each option with corresponding acceptance/verification procedures outlined.

Production System Capability Model

	GROUP A	GROUP B	GROUP C
Production (Shifts/Days per week)	3/6+	3/5	2/5
PreSort Capabilities	Electronic	Electronic	Mechanical (BCS/MLOCR)
Capable of presorting to custom dispatch routing and scheduling?	YES	NO	NO
Mechanization of Production	HIGH	MEDIUM	LOW
Acceptance/Verification	Optional Procedures and/or Manifest	Manifests	Multiple Manifests
Collections/Drops per day	Multiple	Mid-Day to Late Night	Late Afternoon/Night only
Level of Dispatch Sort	High	Medium	Low
Frequency of Mail Defects Needing Correction Prior to Induction	Rare	Seldom	Often
Number of FCM Products	Single	Few	Multiple

Solution Design: Depending on the complexity of the chosen option, solution design can be as simple as a modification to an existing mailing agreement or as complex as the development of production system requirements and selection hardware and software vendors.

Implementation: The *PostalOne!* team works in collaboration with the mailer and the mailer's support contractors in ensuring that the needs of the mailer outlined in the requirements definition step is fully incorporated in the design solution. This is a key component to *PostalOne!* success as new agreements between the mailer and Postal Service will critically detail the actions and activities of both parties beyond the implementation.

Support: Postal Service support of the newly deployed solution will be provided by local Postal

Service personnel as outlined in the new agreement. The original manufacturer or vendor under contract will generally provide hardware and software support services with the mailer. Details of these matters will be outlined in the mailing agreement.

The Postal Service has developed a production system capability model (Figure I) that generally identifies the level of sophistication and complexity of major mailer production environments. This model supports rapid feasibility assessment of joint USPS/Mailer collaboration and the level of commitment that may be required to achieve new levels of integration.

Benefits to Mailers

There are many direct benefits to the Mailer as a result of this program. These benefits generally revolve around supplier management and customer care.

Proper alignment of customer production and Postal Service distribution may allow mailer production capacity to increase within existing facilities. This eliminates the need for capital expansion beyond the existing footprint by increasing throughput and collection. As the Postal Service develops future tracking and electronic information capabilities, the level of mailer integration with Postal Service systems and processes may also enable such value added features as: track and trace of FCM trays to the destinating facility; electronic payment of postage versus trust account management; production planning based on transportation availability or origin/destination density analyses; and custom logistics planning based on unique mailer needs and route requirements. Finally, improved reliability of mailer volume delivery to the mutual customer increases the ability of the mailer's customer care personnel to more effectively resolve lost

notifications and delinquent remittances while simultaneously improving the relationship with the customer.

By gaining a greater understanding of its customer's business and mailing requirements, the Postal Service will be able to offer more responsive, consistent service with greater ease of access. Additionally, the Postal Service can better handle the fluctuations in volume demands at the origin area if they are linked to the mailer's planning and control processes. Responding in such a fashion allows the Postal Service to provide better, more cost effective service to this large volume customer base. *PostalOne!* focuses on planning, implementing and controlling the efficient and cost effective flow of customer volumes from their production facilities and through the USPS system to the mutual customer—the mail recipient.

In this, each member brings to the table the resources and capabilities needed to align our equipment, information technologies, operations and cultures to make significant quality cost and operational improvements. While initial investments may be substantial, the benefits accrue from Day 0.

How Do Customers Get Started?

This package has been sent to a select large volume First Class Mailers during the initial phase of the *PostalOne!* deployment. Working with this select group, solutions for each mailer based on the mailer's production environment and commitment to mail quality can be rapidly developed and deployed.

PostalOne! Automated Shipping System Deployment Checklist

Event	Lead	Complete
<i>Site Preparation</i>		
<i>Local Support</i>		
Conduct initial USPS local visit / review, including Site Deployment Toolkit overview	PO! Manager / PO! Coordinator	
Collect data before deployment	PO! Manager / PO! Coordinator	
Review mailer QC procedures	PO! Coordinator	
Provide S-AMS LAN / PRN drop	AMC	
Obtain IP Address	AMC	
Obtain DNS Name	AMC	
Provide analog phone line at AMC	AMC	
Coordinate number of breakdowns / separations with mailer	Local/PO!	
Develop S-AMS Distribution Table	S-AMS Coordinator	
<i>Transportation Table Development (as necessary)</i>		
Develop surface table	PO! Coordinator	
Develop schedule table	PO! Coordinator	
Test surface table	PO! Coordinator	
<i>Mailer Support</i>		
Conduct initial mailer site visit / review	PO! Manager / PO! Coordinator	
Provide a suitably protected and environmentally safe area for the PostalOne! system	Mailer	
Provide area which is integrated with Conveyance System	Mailer	
Provide Reject Line and Take Away Conveyers	Mailer	
Provide 220v power supply	Mailer	
Provide analog phone lines (2 per system – 1 for S-AMS, 1 for data logger)	Mailer	
<i>System Deployment</i>		
<i>Install PostalOne! system</i>		
Install hardware with Automated Shipping System software (v4.1), DAT, PCAnywhere, and other required software	PO! Coordinator/ Carter Controls	
Install TC	Lockheed Martin	
<i>Software Setup and Integration</i>		
Install surface table and schedule table (as necessary)	PO! Coordinator	
Program STARSHIP ground delays and distribution table in the TC	AMC / S-AMS Coordinator	
<i>Process Changes (as necessary)</i>		
Change MVS collection schedule	Local	
Revise DMU acceptance process	Local	
Revise mailer tray handling procedures	Local	
<i>Certification Testing</i>		
Perform Mailer Certification Testing	NCSC	
<i>Closeout</i>		
Review performance metrics with mailer and local office	PO! Coordinator	
Out brief mailer and local office	PO! Coordinator	
<i>Training</i>		
Maintenance Training	Carter Controls	
Operator Training	Carter Controls	

PostalOne! Desktop Shipping System Deployment Checklist

Event	Lead	Complete
<i>Site Preparation</i>		
<i>Local Support</i>		
Conduct initial USPS local visit / review, including Site Deployment Toolkit overview	PO! Manager / PO! Coordinator	
Collect data before deployment	Local / PO! Coordinator	
Review mailer QC procedures	Local / PO! Coordinator	
Provide S-AMS LAN / PRN drop	AMC	
Obtain IP Address	AMC	
Obtain DNS Name	AMC	
Provide analog phone line at AMC	AMC	
Coordinate number of breakdowns / separations with mailer	Local / PO! Coordinator	
Develop S-AMS Distribution Table	S-AMS Coordinator	
<i>Transportation Table Development (as necessary)</i>		
Develop surface table	PO! Coordinator	
Develop schedule table	PO! Coordinator	
Test surface table	PO! Coordinator	
<i>Mailer Support</i>		
Conduct initial mailer site visit / review	PO! Manager / PO! Coordinator	
Provide a suitably protected and environmentally safe area for the PostalOne! system	Mailer	
Provide an office table on which to mount the system. The table should be a minimum of 4' X 2½' or 10 ft ²	Mailer	
Provide 110 volt power supply	Mailer	
Provide analog phone lines (2 per system – 1 for S-AMS, 1 for data logger)	Mailer	
<i>System Deployment</i>		
<i>Install PostalOne system</i>		
Install hardware with Desktop Shipping System software (v4.1), DAT, PCAnywhere, and other required software	Lockheed Martin	
Install TC	AMC / Vendor	
<i>Software Setup and Integration</i>		
Install surface table and schedule table (as necessary)	PO! Coordinator	
Program STARSHIP ground delays and distribution table in the TC	AMC	
<i>Process Changes (as necessary)</i>		
Change MVS collection schedule	Local	
Revise DMU acceptance process	Local	
Revise mailer tray handling procedures	Local	
<i>Certification Testing</i>		
Perform Mailer Certification Testing	NCSC	
<i>Closeout</i>		
Review performance metrics with mailer and local office	PO! Coordinator	
Out brief mailer and local office	PO! Coordinator	
<i>Training</i>		
Maintenance Training	PO! Coordinator	
Operator Training	PO! Coordinator	