

USPS-RT-14

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-1001**

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

**REBUTTAL TESTIMONY
OF
MARC D. McCRERY
ON BEHALF OF THE
UNITED STATES POSTAL SERVICE**

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3 **AUTOBIOGRAPHICAL SKETCH**
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5 My name is Marc McCrery. I have been the Manager, Operational Requirements
6 and Integration within Operations Planning since April 2004. My office serves as the
7 focal point for operations planning related to operational impacts of rate and mail
8 preparation issues. We interface with pricing, finance, mailing standards, and
9 customers to evaluate and implement various internal and external rate and mail
10 preparation changes. Specific responsibilities include assisting in the development of
11 mail preparation standards and rate-related changes to ensure compatibility with
12 operational processing, determining operational impacts resulting from rate and mail
13 classification cases, and preparing the field for the expected changes before
14 implementation.

15 I joined the Postal Service in 1990 as an Industrial Engineer Trainee. My first
16 assignment was to work at the Des Moines, IA Processing and Distribution Facility with
17 the purpose of learning mail processing operations. A large portion of this period was
18 spent supervising automation on Tour 1. This was followed by supervisory
19 responsibilities at a delivery station in Des Moines, IA, followed by project work in the
20 Engineering Technical Unit (ETU). My second year of training was spent in Harrisburg,
21 PA working in the ETU primarily supporting the plant on staffing, scheduling, and quality
22 projects.
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24
25

1 Upon leaving the training program in late 1992, I moved to USPS Headquarters
2 as a member of the Facility Activation group, with responsibilities to activate new, large
3 mail processing facilities throughout the country. From that office, I moved to Bulk Mail
4 Center Operations and then to Processing and Distribution Center Operations. During
5 these assignments, I visited dozens of mail processing plants and every Bulk Mail
6 Center within the network. In 1996, I joined the staff of my current office, Operational
7 Requirements and Integration. My responsibilities included developing enhancements
8 to mail preparation requirements and support work on the proposals, testimony,
9 interrogatories, and implementation activities for the R97-1, R2000-1, and R2001-1 rate
10 cases. In 2003, I was promoted to the Manager, Business Mailer Support within
11 Marketing where I was responsible for the management of major mailer postage
12 payment systems and a mail preparation total quality management program for presort
13 bureaus and letter shops. Then in 2004, I was again promoted to the Manager,
14 Operational Requirements and Integration. Last year, I testified as the Operations
15 witness in Docket No. R2005-1. I also had a temporary assignment lasting 3 ½ months
16 in 2004 as the Plant Manager of the Burlington, VT Processing and Distribution Facility.

17 I have a Bachelor of Science Degree in Industrial Engineering from the University
18 of Wisconsin – Madison.

19 I am the Postal Service Operations witness in the R2006-1 direct case (USPS-T-
20 42).

1 **REBUTTAL TESTIMONY**

2 **OF**

3 **MARC D. McCRERY**

4
5 **PURPOSE AND SCOPE**

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7 My testimony rebuts portions of the testimonies of witnesses Glick (MPA/ANM-T-
8 2), Mitchell (VP-T-1), witness Posch (POSTCOM-T-3), and Knight (POSTCOM-T-7).

9 This testimony will show that:

- 10 • A discount on 5-digit pallets, regardless of their entry location or weight,
11 would be detrimental operationally for the Postal Service.
- 12 • Allowing automation carrier route letters as an unrestricted preparation
13 increases postal costs, while providing no additional value in postal
14 processing.
- 15 • Raising the weight limit for Standard Mail letters from 3.5 ounces to 4.0
16 ounces is impractical given the current configurations of Postal Service mail
17 processing equipment.
- 18 • The Postal Service's proposed Not Flat-Machinable (NFM) category is
19 necessary to correct well-known and long-standing operational problems.

20

1 **I. Witness Glick’s Proposed 5-Digit Discounts for Pallets, Regardless of Entry**
2 **Location or Weight, Is Detrimental Operationally**
3

4 Witness Glick’s (MPA/ANM-T-2) proposal of a discount on 5-digit pallets,
5 regardless of their entry location or weight¹, would have a detrimental operational
6 impact on the Postal Service. Any rate incentives associated with 5-digit/scheme pallet
7 preparation should be tied to a requirement to deposit these pallets at the DSCF or
8 DDU to ensure that significant postal costs are not added to the process.

9 Bundles prepared on working pallets (e.g., SCF, ADC) require additional
10 components of distribution in postal plants. When mail is prepared on a presort
11 destination pallet and entered upstream from the ultimate destination, the pallet must
12 be placed on postal or postal contract transportation in order to be moved to the
13 destination facility. Each pallet will occupy space on that truck matching at least the
14 footprint of the pallet². It may be determined that a pallet with minimal contents may
15 not justify the space that it will occupy on the truck, therefore the contents of the pallet
16 will be combined with contents to the same destination within another container. This
17 consolidation can negate much of the benefit of the pallet.

18 Because 5-digit/scheme pallets contain only mail for a single delivery unit, these
19 pallets tend to be smaller; therefore the issues related to truck space utilization and
20 content consolidation are of greater concern. These issues can be mitigated in large
21 part or even entirely when smaller 5-digit/scheme pallets are dropshipped to either the

¹See MPA/ANM-T-2 at 28-30.

² Pallets prepared by customers are seldom stacked with other customer pallets prior to postal transport due to stability concerns and the lack of the necessary equipment.

1 destination SCF (DSCF) or the destination delivery unit (DDU), which is a very
2 common practice³.

3 Since customers can optionally prepare pallets of flat bundles with 250 or more
4 pounds of mail to a destination (required at 500 pounds), witness Glick's proposal
5 would give customers, including customers that do not often dropship and/or prepare
6 sacks, an incentive to prepare small 5-digit/scheme pallets to the greatest extent
7 possible while depositing those pallets at an origin facility. Again, handling and
8 transporting these small pallets can be problematic.

9 Finally, even when 5-digit/scheme pallets are deposited at a DSCF, there are still
10 the same concerns with transportation, though to a lesser extent. See TW/USPS-T42-
11 8/Tr. 11/3038-3040. Therefore, it would not be advisable to provide incentives for the
12 preparation of 5-digit/scheme pallets containing less than 250 pounds even when
13 deposited at DSCFs.

14

15 **II. Enhanced Carrier Route Automation Letter Mail Preparation Should Be**
16 **Eliminated. To Allow Automation Carrier Route Letters as an Unrestricted**
17 **Preparation Increases Postal Costs, While Providing No Additional Value in**
18 **Postal Processing**

19

20 Witness Mitchell proposes (in VP-T-1, page 126, line 12) that the Commission
21 consider creating an unrestricted category Enhanced Carrier Route Automation letters.
22 However, because close to 90 percent of delivery point sequencing of letters is
23 performed on DBCS equipment, unrestrictive carrier-route preparation of automation
24 letters would only result in additional, more finely presorted trays that provide no

³ Mail characteristics reveal that 95.6 percent of Periodicals 5-digit/scheme pallets are entered at destination facilities with 88.6 percent entered at either the DDU or DSCF.

1 additional value in postal processing. In addition, there is a cost associated with
2 preparing these additional trays, as well as costs within postal operations to handle
3 these additional unnecessary trays.

4 Preparation of carrier route letters in First-Class Mail and Enhanced Carrier
5 Route Automation letters in Standard Mail are restricted only to zones for which letter
6 mail is processed to the carrier-route level manually or on Carrier Sequence Barcode
7 Sorters (CSBCSs). This preparation was created in 1996 as a discount option that was
8 intended to encourage letters prepared in a manner that further matches postal
9 operations. When letters are processed on CSBCS equipment, carrier-route sorted
10 volume can be processed in a three-pass operation into delivery point sequence order.
11 See USPS-T-42, page 7. This process is unique to the CSBCSs, with the balance of
12 sequencing performed on Delivery Barcode Sorters (DBCSs), where 5-digit/scheme
13 sorted letters are sequenced in a two-pass operation. Proper handling of this volume
14 requires unique labeling, coordination, and training to ensure that the benefit of
15 automation carrier route sortation is maximized. In addition, the eligible zones are
16 provided to mailers through an Address Management product, a list that must be
17 updated in a timely manner to ensure preparation matches postal processing.

18 As the Postal Service takes additional steps to automate a greater percentage of
19 the letter mail base, along with a further centralization of delivery point sequencing on
20 DBCSs in postal plants, the limited additional value of automation carrier route
21 sortation is further eroding. In addition, the Postal Service is in the early stages of an
22 additional phase of DBCS purchases that will completely phase out the CSBCS fleet.
23 See response to POIR No. 8, Question 15(a)-(c)/Tr. 11/3021. Even prior to the

See TW/USPS-T28-7-8/Tr. 7/1515-1516.

1 retirement of CSBCS equipment, there are many instances where the value of the
2 carrier-route sortation is not fully realized. If the trays are not labeled properly or
3 identified such that they can be directed in an appropriate manner, or it is determined
4 that it would be more efficient to consolidate these letters to the appropriate CSBCS
5 schemes on DBCS equipment, the carrier-route sort provides no value. Since CSBCS
6 equipment can process up to six routes on a single sort plan, processing the
7 automation carrier route volume labeled to these multi-carrier schemes first on a DBCS
8 is more likely to occur, since pure carrier-route sorting is suboptimal. Smaller volumes
9 of letters from multiple mailings will then be combined in significantly fewer trays for
10 more efficient dispatch, transport, and CSBCS induction.

11 Once automation carrier route preparation is eliminated and automation letters
12 shift from carrier route to 5-digit automation trays, the fewer resulting trays will be
13 directed to the proper destination plant where the trays will then be processed on the
14 appropriate incoming secondary sort plans. Letter volume that is further sequenced on
15 CSBCS equipment will be grouped on the DBCSs to the CSBCS sort plans and then
16 directed to this equipment.

17 Continuing the preparation of automation letters in pure carrier-route trays no
18 longer comports with current operational realities, and the additional trays that are
19 created under this preparation are costly. An expansion of this category makes even
20 less sense. Furthermore, Witness Mitchell's rate design proposal would result in
21 automation letters migrating to the nonautomation Enhanced Carrier Route Basic
22 category. See Tr. 25/8998-8999. This would be an undesirable result, since letters in
23 this category are neither required to be automation compatible nor barcoded.

1 Furthermore, ten or more letters *must* be prepared to the appropriate carrier route
2 under this category, a sort that provides no value for a vast majority of delivery zones
3 that are sequenced on DBCS equipment.

4

5 **III. Witness Posch’s Proposal to Raise the Weight Limit For Enhanced Carrier**
6 **Route Standard Mail Automation Letters From 3.5 to 4.0 Ounces Is**
7 **Impractical Given the Current Configurations of Postal Service Mail**
8 **Processing Equipment**
9

10 On page 3 of his testimony, Witness Posch asserts that “there is, plainly, no
11 operational rationale for the current maximum weight limits for automation letters.”
12 POSTCOM-T-3 at 3. This is indeed surprising, given that in response to MMA/USPS-
13 T42-5/Tr. 11/2843-2847, I attached the “3.5 ounce Heavy Letter Field Evaluation
14 Report”, which specifically states:

15 Test decks of 100% 3.7 ounce mail caused excessive amounts of damage
16 to the equipment. Because of this, processing of the 3.7 ounce test decks
17 was discontinued. Because of this, it is recommended that any future
18 request to raise the weight limit above 3.5 ounces should be rejected as
19 impractical given the current configurations of USPS mail processing
20 equipment. Tr. 11/2846.
21

22 Since this test was conducted, there have been no changes to the base DBCS
23 equipment fleet to invalidate these conclusions..

24 In my direct testimony, I did say that a portion of the DBCS fleet is equipped with
25 expanded capabilities, which allow for the processing of letters with physical
26 characteristics outside of the limits of base DBCS equipment, including the processing
27 of pieces up to 6.0 ounces. See USPS-T-42, pages 6 and 7. However, I also indicated
28 that, even after all new EC machines are deployed and existing machines are modified,

1 only 617 out of approximately 5,200 DBCS machines are expected to have expanded
2 capabilities by the middle of 2007. See USPS-T-42, pages 6 and 7/Tr. 11/3223. This
3 means that less than 12 percent of the fleet will have the ability to process letters that
4 weigh more than 3.5 ounces. It would be wrong to conclude that, because the Postal
5 Service has a limited number of modified and new machines that can process pieces
6 over 3.5 ounces, the maximum weight for all automation letters should be increased.
7 This would be analogous to raising the maximum truck weight limit on all roads simply
8 because certain highways can accommodate the higher weights.

9 The EC machines primary function is to process thicker and heavier outgoing
10 single-piece letters that are culled from the collection mail stream. The expanded
11 capabilities provide the opportunity to sort these originating letters to the destination in
12 an automated operation, though with a significantly lower throughput⁴, thereby
13 minimizing the dependency on manual operations. These thicker/heavier letters are
14 labeled such that when they do arrive at the destination plant, the volume may again be
15 processed to the zone level, assuming the plant has EC equipment machines.

16 The ultimate goal of automated letter processing is to place the pieces in delivery
17 point sequence. Since the size of the DBCS fleet is driven by the delivery point
18 sequencing windows, and only a significant minority of the DBCS equipment is EC
19 equipped, very few thicker/heavier letters are processed into sequence order. In fact,
20 the 5-digit output trays from EC machines must remain segregated and directed to
21 manual operations for distribution to the carrier-route level, since the pieces can no

⁴ DBCS normal mode target throughput is approximately 37,000 pieces per hour while the EC mode target is approximately 16,000 pieces per hour.

1 longer remain in automation. If the trays were directed to downstream automation for
2 delivery point sequencing, the thicker/heavier letters would first need to be extracted.

3

4 **IV. The Postal Service's Proposed Not Flat-Machinable (NFM) Category is**
5 **Necessary to Correct Well-Known and Long-Standing Operational**
6 **Problems**

7

8 In his testimony, witness Knight (POSTCOM-T-7) rejects the Postal Service's
9 proposal of a Not Flat-Machinable (NFM) classification (and its accompanying rates).
10 He states "A wiser choice for the Postal Service would be adapt its operations to fit the
11 existing and traditional specifications of its customers' products, or, at the very least, to
12 give some consideration to what has worked up until the present time." See
13 POSTCOM-T-7 at 2.

14 The Postal Service has indeed given some consideration to what has worked up
15 until the present time, and can safely say that rigid, boxed mailpieces currently
16 classified as automation flats do *not* work. These mailpieces have not "worked" as
17 automation flats within postal operations since 1998, when they started appearing within
18 the system under this processing category. And, the Postal Service has communicated
19 this problem to the public as well as to individual mailers.

20 In R97-1, a residual shape surcharge (RSS) was added for any non-letter in
21 Standard Mail that did not meet either the definition of a presorted or automation flat.
22 This pricing change resulted in some customers reconfiguring their mail pieces or
23 changing their marketing strategy (e.g., mailing coupons instead of samples). Around
24 this same time period, the Postal Service was deploying Flat Sorting Machines 1000
25 (FSMs 1000) in order to move more flat mail out of manual processing and into a

1 mechanized operation. In 1998, the Postal Service expanded the definition of an
2 automation flat to include pieces that could be processed on FSMs 1000. Since the
3 FSM 1000 equipment at the time utilized only a manual induction process and a belt
4 channel for transport, the machines could physically process thicker, more rigid pieces.

5 Soon after these requirements were effective, customers impacted by the RSS
6 started to prepare rigid mail pieces as automation flats under the new FSM 1000
7 definition. Almost immediately thereafter, it became obvious that it was a mistake to
8 base the FSM 1000 flats definition on the strict capabilities of the equipment, rather than
9 also factoring in the entire system and the appropriate mail to be inducted into a flat mail
10 stream. Our Bulk Mail Centers quickly began to complain that small parcels (e.g.,
11 optical disks in rigid cases) that were formerly prepared loose in pallet boxes for efficient
12 parcel sorter induction were now arriving bundled. These bundles were often poorly
13 secured, and, even when they remained intact, the bands were often cut to enable
14 parcel processing of the loose pieces, negating any value of the bundle presort,

15 Flexible flat-shaped mail pieces (e.g. magazines and catalogs) are typically
16 prepared in bundles to a presort destination, then either palletized or sacked. Parcels,
17 however, are likely prepared loose on pallets, in pallet boxes, or in sacks. Furthermore,
18 parcels tend not to lend themselves well to secure bundling, and bundles in parcel
19 distribution operations often hinder the sorting processes.

20 The new FSM 1000 automation flat definition resulted in mail pieces being
21 categorized and prepared in a manner that is inconsistent with how they were being
22 processed. Within the last five years, this problem has become even worse, as FSM
23 1000 equipment has been modified with automated feeders and the machines are being

1 redeployed to smaller plants⁵. Most rigid pieces are now unable to be processed on
2 Upgraded FSM (UFSM 1000) equipment in an automated environment. Automated
3 feed technology, in most cases, requires some mail piece flexibility to enable the suction
4 device to grip the mail piece. Furthermore, rigid pieces do not discharge well into output
5 chutes, often standing up on end or not stacking neatly within the tubs⁶. Rigid mail
6 pieces lacking the necessary flexibility must therefore be processed manually or in a
7 mechanized or automated operation as a parcel.

8 Due to the significant impact that these conversions were having on postal
9 operations, customers were notified of the problems, specifically customers mailing
10 large quantities of optical disks and rigid merchandise samples prepared as flats. The
11 concerns were also spelled out by Witness Kingsley in R2000-1, and again in R2001-1.
12 The Postal Service has repeatedly stated its intention to fix this problem by modifying
13 the definition of a flat to be more consistent with how pieces are both processed and
14 delivered. Starting in 2002, customers were consulted in a formal “Product Redesign”
15 effort tasked with realigning our products and preparation to be more compatible with
16 changing processes. Within a subgroup on parcels and Bound Printed Matter, the topic
17 of rigid pieces with parcel characteristics prepared as flats was discussed at length with
18 major customers in this market in attendance. Customers were notified of the Postal
19 Service preference for flexible flat mail pieces meeting the new Automated Flats Sorting

⁵ See USPS-T-42 at 19.

⁶ Small, rigid, boxed mailpieces not only cause problems on our mail processing equipment, they also cause problems in our delivery operations. The delivery function prefers that parcels not be mixed in with flats due to the different methods required for delivery, forcing a manual extraction of parcels out of the flats before distribution if commingled. See USPS-T-44 at 14.

1 Machine 100 (AFSM 100) standards published in 2002, and customers were informed
2 that the Postal Service intended to correct this problem as soon as possible.⁷

3 A modified definition of flat-shaped mail more in line with processing operations
4 and delivery is vitally important. In my opinion, the NFM category is the appropriate
5 categorization of small, rigid mail pieces. It is very important to move these pieces to a
6 distinct category with appropriate mail preparation rules and unique markings, so this
7 volume can be processed with appropriately distinct operating procedures, and actual
8 volumes of these pieces can more easily be tracked in our data systems. There
9 appears to be little disagreement in regards to whether these pieces have higher costs
10 in comparison to other flat-shaped mail. Proper accounting of the new NFM category
11 will enable the collection of data for use in future pricing and classification decisions.⁸

12 Currently, customers mailing these rigid, parcel-like mail pieces have few
13 incentives to modify their mail pieces to be more compatible with postal processing and
14 delivery, even though these changes would surely remove costs from the system to the
15 benefit of all mailers. Automation compatible mail pieces that can be efficiently
16 delivered will be even more important as we progress towards a fully automated

⁷ Witness Knight (POSTCOM-T-7) repeatedly stated that BMG Columbia House Inc. invested considerable amounts of money in 2002 to produce flats that meet the definition of an AFSM 100 compatible flat. See Tr. 21/7454-7455, 7468. The AFSM 100 flats definition requires pieces to have a minimum height and length of 5" x 6". The single-CD BMG mail piece, a large portion of their mail volume, has height and length dimensions of 5 1/8" x 5 7/8", smaller than the minimum dimensions for AFSM 100 compatibility. Therefore, these single, as well as multiple, CD mail pieces are not compatible with the AFSM 100, and are considered automation flats only by virtue of the UFSM 1000 definition.

⁸ If the NFM category is not an option when the definition is ultimately modified, the only other options within Standard Mail would be machinable or nonmachinable parcel preparation – which would result in a harsher and more costly transition for mailers.

1 processing environment for letters *and* flats, where volume falling outside of these mail
2 streams could shoulder much of the remaining “in-office” costs.

3 It is the preference of Postal Service Operations that customers have strong
4 incentives to seek out mailing options that are significantly less costly within the postal
5 mail stream, for example, flexible, automation-compatible flats. We believe that most
6 customers impacted by these proposed changes would have lower price options within
7 the mail if they were to determine that the NFM rates were too high. The Postal Service
8 has been working with customers for years to convert their mail pieces; and has
9 received numerous additional requests for assistance since our proposals were made
10 public. The appropriate Postal Service resources in Marketing, Operations, and
11 Engineering will continue to be made available to assist customers through this
12 transition.

13 The R2006 mailing standards published in the Federal Register on September 27
14 provide the proposed specifications for automation flats. Though additional clarifying
15 language could be added within the final rule, we do not expect the final standards to be
16 more restrictive; therefore, customers should have the necessary information to convert
17 their mail pieces.

18 For example, customers mailing flexible content (e.g., greeting cards) are finding
19 it simply a matter of removing the contents from a box and placing them in an envelope
20 or within poly-wrap. For customers mailing rigid contents (e.g., optical disks in rigid
21 cases), there are some very encouraging prototype samples where the rigid product is
22 affixed within a uniformly thick, flexible envelope. As long as the rigid contents are not
23 too large (e.g. pens, medallions), there are other options where the contents are affixed

1 on or within a flexible backing (e.g., cardboard or foam), then placed in a flexible
2 envelope or wrap. Evaluation and automation testing of any mail piece designs can be
3 performed, not only to ensure that the pieces meet the proposed standards, but also
4 process well and can be delivered in an efficient manner. If the rigid contents are too
5 large to pass the necessary mailing standards for flats (e.g., larger, rigid books), it is
6 important that customers explore all options, including Bound Printed Matter and Media
7 Mail machinable parcels, for other reasonably priced alternatives.

8 In this regard, the Postal Service's proposals in this proceeding provide realistic
9 incentives to help establish a more efficient and effective mailstream. In particular, the
10 Postal Service believes strongly that the refined definition of flat-shaped mail, the
11 proposed NFM category, and the pricing incentives to convert rigid parcels to flexible
12 flats, together, will result in a more efficient postal system for all users.

13

CONCLUSIONS

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In conclusion, 5-digit/scheme pallets can provide consistent benefits under appropriate restrictions, automation carrier route letter mail preparation should be eliminated based on the future of mail processing and the desire to streamline our offerings and operations, DBCS equipment with expanded capabilities cannot be relied on to process heavy letters, and finally rigid mail pieces that have parcel characteristics must be moved out of flat mail preparation and into a distinct category (NFMs) in order to promote efficient mail processing and mail piece design and facilitate accurate volume and improved cost recording.