



Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act of 2022

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1 Introduction

Section 206 of the Postal Service Reform Act of 2022¹ (PSRA) required the Postal Regulatory Commission (Commission), in consultation with the Inspector General of the United States Postal Service (OIG), to conduct a Flats Operations Study (“Flats Study”). The Commission was required to submit a report on the findings of the Flats Study (“Flats Report”) no later than one year after enactment of the PSRA. On April 6, 2023, the Commission submitted its Flats Report to Congress and the Postmaster General (PMG).²

The PSRA also requires the Postal Service to: (a) develop and implement a plan to remedy each inefficiency identified in the Flats Study (“Flats Plan”); and (b) if the Postal Service determines that remedying any such inefficiency is not practicable, provide an explanation why remedying such inefficiency is not practicable, including whether it may become practicable to remedy such inefficiency at a later date (“Response”). This document constitutes the Postal Service’s response to the Flats Study in compliance with the PSRA. Consistent with the PSRA, we will submit our Flats Plan to the Commission, after providing adequate opportunity for public comment on the Flats Plan.

2 Delivering For America Plan

In March 2021, we announced the *Delivering For America* (DFA) Plan, through which the Postal Service is pursuing numerous initiatives to overcome over a decade of negative consequences resulting from declining mail volumes, expanding delivery points, and the enactment of the Postal Accountability and Enhancement Act (PAEA), which imposed a defective pricing model and onerous retirement-related costs on the Postal Service. These factors led to financial, operational, and service performance problems that were allowed to develop and fester over this period due to Congressional interference and inaction, opposition by the mailing industry to rational change, Commission decisions that ignored the larger impending emergency by reinforcing the flaws of the PAEA pricing model and then delaying its replacement, and the failure of Postal Service management to confront the situation and adopt the bold organizational, operational, and market strategies that were necessary to change the trajectory of the Postal Service. As a direct result of these historical actions and inactions by all postal stakeholders and the Postal Service itself, we faced a financial and operating crisis.

The problems facing the Postal Service have been particularly pronounced when it comes to flats mail. The specific financial, operating, and service performance conditions concerning flats mail include numerous products that fail to cover their costs, underperforming and imprecise operating practices, and service performance that has been far below the performance goals.

The Postal Service is responsible for meeting our statutory mandate to be financially self-sufficient, while also achieving our universal service mission of delivering mail and packages (including flats) to 165 million addresses

¹ Postal Service Reform Act of 2022, Pub. L. No. 117-108, § 206(a), 136 Stat. 1127 (2022), available at <https://www.congress.gov/117/plaws/publ108/PLAW-117publ108.pdf>.

² See Docket No. SS2022-1, Flats Operations Study Report, Apr. 6, 2023.

at least 6 days per week. To achieve the goals of financial sustainability and service excellence for all of our products, the DFA Plan identifies numerous initiatives to correct our long-standing deficiencies that would:

1. Improve our operating precision.
2. Reduce our cost of performance.
3. Increase our service reliability.
4. Grow our business.
5. Improve the working conditions and career paths of our employees.

Since enactment of the DFA Plan, we have accomplished a great deal in a short period of time. See, e.g. Delivering for America, Second-Year Progress Report (2023), available at <https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-two-year-report.pdf>. However, there is much more to do in order to become into a high-performing, financially sustainable organization. After years of underinvestment and deterioration in our network and operating practices, we are stabilizing operations to improve service reliability, implementing numerous process improvements throughout all functions to increase our operational precision and efficiency, and redesigning our processing, delivery and transportation networks. DFA Plan initiatives that we are pursuing include:

1. Modernizing our national processing network region by region, primarily by investing in our existing facilities that have been starved of such investment for over a decade.
2. Modernizing our national delivery network also by making capital investments in our existing facilities that have been neglected for a decade or more, including through the creation of Sorting & Delivery Centers (S&DCs).
3. Organizing and optimizing our transportation network, by continuing to transition volume from air to surface transportation, while continuing to refine our surface transportation trips by eliminating unnecessary trips and increasing utilization of the trips we do run.
4. Electrifying and deploying our new fleet of delivery vehicles, and more generally positioning the Postal Service as the most environmentally friendly way to ship mail and packages.
5. Elevating the employee experience and career pathways.
6. Continuously refining our organization to become a world class logistics and delivery service, which has the processes and organizational discipline in place to perform all tasks in a precise and efficient manner.
7. Offering new products and services to our customers to meet their evolving needs in a manner that leverages our redesigned network and improved operating model.
8. Investing in modern technology solutions for our customers, facilities, and employees.

Implementation of the self-help initiatives of the DFA Plan are necessary to create a modern and high-performing organization capable of meeting the goals of service excellence and financial sustainability. These initiatives will enable the Postal Service to process, transport, and deliver all of our products (including flats) in a much more efficient, precise, and reliable manner. We are implementing numerous improvements to our operations, including those that affect flats, as detailed below. We are, moreover, transforming our network of processing and delivery facilities, and our inter-related transportation and carrier routes, to ensure a logical sequencing of processing, transportation, and cross-docking functions for all of our products (including flats) from originating plant to destinating plant, and to the delivery unit. All of these efforts are designed to enable us to improve our service performance under our existing service standards, while also enhancing operational precision and efficiency, and reducing costs significantly.

In addition to these cost reduction initiatives, we are, pursuant to the DFA Plan, implementing judicious price increases on market-dominant products to increase revenue, after many years of operating under a defective pricing model that prevented us from using price increases as an effective tool to address our financial condition. As noted above, this was due to the defective pricing model established by the PAEA, and Commission decisions that exacerbated the problem. The flaws of the pricing model were particularly evident with flats products, many of which have been underwater for many years. The Postal Service is currently utilizing the pricing authority available to us to address this situation in a prudent manner.

Therefore, and as discussed further below, implementation of the DFA Plan will enable the Postal Service to increase revenue from flats, while also reducing costs by addressing the inefficiencies that currently exist in the processing, transportation, and delivery of flats.

3 Response to Commission Flats Study Suggestions

The Commission made suggestions in the Flats Report for the Postal Service to consider in developing the Flats Plan. The suggestions provided include:

- Continuing the combination of increasing revenue and reducing costs until unit revenue exceeds unit attributable cost for each non-compensatory flats product.
- Continuing to study the causes, impacts, and ways to reduce bundle breakage; enhancing the reporting and tracking of bundle irregularities; and working with mailers to ensure corrective actions are implemented when data irregularities are shared with mailers.
- Further assessing the quality of its data, particularly as it relates to volume, workhours, and productivity, and exploring cost effective ways to improve that quality.
- Implementing initiatives to reduce mail processing costs.
- Identifying mail processing facilities with extreme (unusually high or low) productivity values and those with quarterly productivity values based on a large number of missing workhours or volume; targeting those sites to improve their reporting or explaining why the provided productivity is accurate for a given facility.
- Developing an accurate method to track flat-shaped mail that is manually processed. Once there is an accurate measurement of such flat-shaped mail, the Postal Service should consider developing a specific plan to: (1) continue to decrease the quantity of flat-shaped mailpieces processed manually, and (2) achieve a proportional reduction in unit mail processing costs for manual operations.
- Including in its plan specific, achievable goals to reduce costs associated with allied operations, transportation, and delivery of flats.
- Quantifying the impact of any initiatives on costs to ensure its efforts are effective.

The following sections will address these suggestions. The Postal Service plans to enhance flats revenue and our operating practices regarding flats through continued implementation of the DFA Plan. The Postal Service

discusses specific initiatives relating to flats that are being pursued below; these initiatives are a part of the DFA Plan and align with the Commission's suggestions.³

3.1 Get It Right

The DFA Plan outlines 12 strategic areas of focus aimed at achieving organizational financial stability and service excellence, and to generate enough revenue to cover our operating costs, enable investments in our people, infrastructure, and technology, and simultaneously provide our customers and the American people with excellent service.

To help achieve these goals, the organization has developed a portfolio of strategic initiatives, called Get it Right (GIR) initiatives, that are implemented and monitored through a robust and rigorous portfolio management process that is led by the Postmaster General (PMG), members of the Executive Leadership Team (ELT), and other senior executives. This Strategic Initiative Governance process has defined procedures that are applied to each life-cycle phase of the DFA Plan initiatives and defines roles, responsibilities, and steps for project implementation.

The success of our initiatives depends on engagement with the American public, Congress, our customers, our employees, and our suppliers. We maintain robust stakeholder engagement activities at the overall enterprise level and within each initiative, with a particular focus on clearly and regularly communicating to all internal and external stakeholders on "why" changes are needed. The Postal Service continuously refines the initiatives within the portfolio based on performance achieved to date, market conditions, feedback from customers and the Commission, and input from employees.

Each strategic initiative has a specific set of measures to track performance against desired DFA Plan outcomes. The PMG and ELT, in consultation with the Board of Governors, establish corporate goals, develop a baseline forecast, and research, select, and assign each initiative to an accountable ELT member, vice president or other executive to develop a detailed charter. The description and scope statement of the charter addresses expected end state outcomes for the life cycle of the project. This scope statement includes any current and future year projected financial outcomes (revenue or savings) for the project, if relevant. The Senior Vice President Finance and Strategy team reviews the charters and validates all initiative financial metrics and targets to ensure they align with the DFA Plan's financial objectives and with the annual targets established in the USPS FY Integrated Financial Plan. The PMG approves all strategic initiatives for inclusion in the plan and the launch dates for all key strategic initiatives.

As noted above, among the portfolio of strategic initiatives are a number of initiatives that will work to address the inefficiencies in the collection, sorting, transportation, and delivery of flats identified by the Commission. Some of these initiatives are specifically focused on flats, others are focused more broadly on improvements to the efficiency and operational precision of our network generally, which will improve how we process, transport, and deliver all shapes and types of mail (including flats). These include redesigning the processing, transportation, and delivery networks. These initiatives, which are identified in subsequent sections, are being tracked through the GIR process.

³ In this regard, it is important to note that that the DFA Plan is very much a living plan designed to transform the Postal Service over a 10-year period, during which the Postal Service will continually review and assess evolving conditions and events and react to them by making appropriate adjustments to our planned initiatives where warranted.

3.2 Pricing to Increase Revenue of Flats

Prior to the 10-Year Review, the Commission issued certain directives regarding the pricing of flats, which the Postal Service complied with. For instance, in the Annual Compliance Determination Report (ACD Report) for Fiscal Year 2018, the Commission issued the following directive regarding pricing of Marketing Mail Flats product (Marketing Mail Flats):

In the next generally applicable Market Dominant price adjustment, the Postal Service must propose a price increase for USPS Marketing Mail Flats that is at least 2 percentage points above the class average for the USPS Marketing Mail class.⁴

The Postal Service complied in the Docket No. R2020-1 price adjustment cases, increasing Marketing Mail Flats prices by 3.983 percent when the overall all Marketing Mail price increase was 1.860 percent.

The Commission maintained this directive in its ACD Report for Fiscal Year 2019, and offered the following observation:

The Commission accordingly strongly recommends that the Postal Service increase USPS Marketing Mail Carrier Route's prices in the next Market Dominant price adjustment by at least 2 percentage points above the class average.⁵

The Postal Service complied in the Docket Number R2021-1 price adjustment cases increasing Marketing Mail Flats prices by 3.553 percent when the overall Marketing Mail price increase was 1.509 percent. The Postal Service also increased the price of Marketing Mail Carrier Route prices by 3.529 percent.

However, these actions by the Commission and the Postal Service did not address the fundamental problem, which was that the CPI cap imposed by the PAEA gave too little pricing authority to the Postal Service. Indeed, when authority is capped, dedicating too much of that scarce pricing authority to raising the price of more elastic and/or more steeply declining products is not the best way to improve the Postal Service's revenue position.

Four years after initiating the 10-Year Review, on November 30, 2020, the Commission gave the Postal Service additional pricing authority.⁶ The Commission gave the Postal Service 2 percentage points of additional rate authority for non-compensatory classes, the use of which is optional.⁷ The Commission also issued a directive for pricing of non-compensatory products within compensatory mail classes.

- Whenever the Postal Service files a notice of rate adjustment applicable to any class of mail, we are required to propose to increase the rate for any non-compensatory product within that class by a minimum of 2 percentage points above the percentage increase for the class. This proposed rate increase does not create additional rate authority for the entire class and must comply with the other rate-setting criteria proposed by the Commission.⁸

Since Docket No. R2021-2, we have been fully utilizing our existing pricing authority, including by increasing the prices of all non-compensatory products by at least 2 percent above the class average, and the prices of non-

⁴ Docket No. ACR2018, Annual Compliance Determination, April 12, 2019, at 72 (FY 2018 ACD).

⁵ Docket No. ACR2019, Annual Compliance Determination, March 25, 2020, at 47 (FY 2019 ACD).

⁶ Docket No. RM2017-3, Order Adopting Final Rules For The System Of Regulating Rates And Classes For Market Dominant Products, at 182 (Order No. 5763)

⁷ *Id.*, at 191.

⁸ *Id.*, at 182.

compensatory mail classes by an additional 2 percent when applicable. We will continue to use judicious price increases to increase unit revenue from flats products consistent with the authority conferred by the Commission.

3.3 Network Redesign

Pursuant to the DFA Plan, the Postal Service plans to systematically redesign and make capital investments in our core but eroding existing processing network based on standardized facility layouts and processes to ensure a logical sequencing of processing, transportation, and cross-docking functions for mail and packages (including flats) from originating plant to destinating plant. Regarding delivery units, we are also redesigning our delivery system and making capital investments in our underutilized and decaying existing facilities to create larger facilities in certain areas which will support the implementation of more efficient operations. These initiatives will enable the Postal Service to handle letters, flats, and packages in a much more precise and efficient manner. They will also enable us to further organize and optimize the coast-to-coast surface transportation network that we have been developing over the past several years to move all shapes of mail in an integrated fashion, after changing our service standards for various products.

The current processing network consists of a variety of existing facilities (Processing and Distribution Centers (P&DCs) and Network Distribution Centers (NDCs), along with numerous ancillary facilities (such as annexes and contracted facilities) that are haphazardly integrated, often outdated and in poor condition due to years of underinvestment and deferred maintenance, and which do not reflect the operational standardization that is necessary to enable the precise and efficient processing of mail and packages. Facilities often lack adequate space and equipment, are poorly conceived, and have layouts that fail to support the logical sequencing of mail and package flows. The current assignment of processing operations (including originating and destinating flat operations) and equipment sets to facilities is very inconsistent across the network, resulting in operating variability that leads to reduced capacity utilization, unnecessary handling and transportation, higher cost, and lower service performance. Ancillary facilities have also been added to the network in a piecemeal, ad hoc fashion over the course of years in an effort to address discrete network deficiencies, often with little or limited success. These issues have led to the Postal Service having too many facilities: the network is characterized by clusters of facilities in close proximity to one another performing different and inconsistent tasks, reducing processing efficiency and requiring duplicative or excessive transportation trips to move mail and packages between those facilities.

To address these issues, the Postal Service is pursuing a transformation of our network to revitalize our current facilities based on a systematic redesign of our processing infrastructure. The future processing network will consist of standardized facilities, which fall within two categories: Regional Processing and Distribution Centers (RPDCs), and Local Processing Centers (LPCs). These facilities will be designed, staffed, and operated using a common set of standardized design principles, physical layouts and operational processes that support the logical sequence of processing, transportation and cross-docking functions for mail and packages. By implementing standardized designs, layouts and procedures, the Postal Service will be able to improve our operational precision, eliminate unnecessary transportation, and increase utilization, and therefore improve our service performance within the existing service standards, while significantly reducing costs. We will also substantially improve the working environment for our employees.

The redesigned network is predicated on a regional concept, with each RPDC serving a distinct region (which is in turn defined by reference to a set of 3-Digit ZIP Codes). The RPDCs are intended to handle originating

operations (for flats as well as letters and packages) for a designated region, as well as destinating package operations for the region. Within each RDPC region, there will also be a number of LPCs (precisely how many will vary across the regions). The intended function of the LPC is to handle destinating letter and flat sortation operations for designated 3-Digit ZIP Codes within the region, and to also serve as an aggregation point for packages moving to the delivery network. A regional concept, in which origin mail for an entire region can be aggregated for dispatch to the network at one facility, which will also serve as the gateway for destinating mail for the region, will enable more efficient and integrated processing and transportation networks. In addition, standardizing operations across regions will enable the Postal Service to eliminate complexity and increase operational efficiency and precision across the network, and therefore improve service reliability while also reducing costs.

The Postal Service is also transforming our delivery network to, among other things, enable more efficient operations and improve service performance under the existing service standards. The delivery network currently consists of approximately 19,000 Delivery Units, a network that has developed organically over time to meet growing demand as the number of delivery points has grown exponentially over the years; this has created clusters of small facilities close to each other, especially in busy metropolitan areas. The Postal Service is systematically assessing this network to identify locations where it makes sense to take underutilized and eroding existing facilities to create larger delivery units as Sort and Delivery Centers (S&DCs), using repurposed facilities and combining a number of smaller delivery units in the nearby area into an S&DC. The creation of S&DCs will allow the Postal Service to further organize and optimize how we process, transport, and deliver mail and packages.

3.4 Reduce Bundle Breakage

This section discusses data collection methods of bundle breakage, causes of bundle breakage, future network potential impacts on bundle breakage, and revisitation of mailing standards associated with bundles, enforcement, and the feedback loop with mailers.

Bundle breakage that occurs prior to singulation into flat mail pieces for processing has a negative impact on flats processing costs and efficiencies. Such breakage can occur at any of the handling and processing steps before and after bundles are tendered to the Postal Service by mailers.

The two main factors that contribute to poor bundle integrity and consequent bundle breakage are:

- Bundle preparation – specifications, materials and methods, and
- Bundle handling and processing – methods and equipment.

3.4.1 Bundle Breakage Data Collection

The Postal Service is working to expand the training and capability of plant staff to identify broken/damaged bundles as well as those that appear prone to breakage, and to record and capture their images at any location within our processing facilities. This includes plant platform/dock areas when bundles arrive at Postal Service facilities, as well as bundle pallet staging areas prior to induction into bundle sorters.

In the past, processing plant employees were tasked with taking photos of bundle irregularities, which were then transferred to the Mail Irregularity Recording System (eMIRS). This process generated incomplete data; such data as it did produce were not, moreover, linked to mailers preparing substandard bundles, nor were they

accessible to mailers. Two tools have been developed to remedy these deficiencies, enabling processing plants to monitor mail irregularities in general, and bundle breakage and other bundle integrity issues in particular:

- SV Capture involves the use of Surface Visibility (SV) scanners to record images and other documentary evidence of mail irregularities in the dock and workroom floor areas of processing plants. Each facility's results are viewable via the Mailer Irregularity Capture and Summary Report links in SVWeb (Reporting tab). Seamless Acceptance Service Performance (SASP) associates these data to electronic documentation to identify the mail owner and mail preparer. The data are then provisioned to a Postal Service information technology supplier (that has direct access internal to USPS). External users/customers use the Business Customer Gateway to access the mailer scorecard (Mailer Scorecard) housed by the supplier.
- Automated measurements of bundle breakage behavior are made via 3-scan logic on bundle sorter mail processing equipment (MPE) in processing plants. The data are available internally within USPS in the Bundle Breakage visualization of Informed Visibility (IV; Workload Performance tab). If a bundle breaks in a bundle sorter MPE and three of its pieces receive a scan (indicating the bundle is no longer intact), an automated bundle irregularity is triggered and reported to the Mailer Scorecard as well as the Bundle Breakage visualization.

Processing plants are expected to utilize the SV Capture tool to record and document mail irregularities along with the necessary parameters to enable linkage to the relevant mailings and mailers. Plants are also expected to monitor and improve their own performance via the Bundle Breakage visualization tool in IV.

A cross functional team has begun to visit plants that need to be familiarized with, and trained on, the use of these tools. The team includes members from the HQ Commercial Product Preparation & Payment (CPPP) and HQ (Processing) Operations Integration & Support (OIS) teams. The team uses classroom and hands-on instruction as well as Standard Work Instruction (SWI) documents to conduct the training for supervisors, other EAS staff and craft employees.

The Mail Irregularities tab of the Mailer Scorecard displays data gathered via the SV Capture Tool as described above. Plants are expected to record relevant parameters such as 99M barcode (99M)⁹ on the pallet placard, or piece barcode if 99M is not available, an accurate description of irregularity, and comments (options and sub-options to be selected on the SV scanner). Up to three images of the issue should be recorded and, if a barcode is not available, an image of the mail piece indicia is to be recorded.

Bundle breakage can occur for various reasons, including poor bundle preparation by mailers, as well as issues with how the bundles are processed and handled. Postal Service marketing and plant staff members use the data on bundle breakage to identify high opportunity plants and visit them to perform floor observations and conduct hands-on training as mentioned previously. The goal is to develop proficiency at the plants on methods to minimize bundle breakage, identify root causes, and document and record bundle breakage instances. The teams are also working collaboratively on ways to communicate mail preparation issues clearly to mail owners and mail

⁹ The 99M uniquely identifies a mailer pallet with respect to source mailer, pallet type, and mail content, class and depth of sort. Performing scans on the 99M at various points in time and location enable the movement of the pallet to be tracked and permit establishment of important parameters such as the Start-the-Clock date and time. Typically, plant employees use an SV scanner to perform such scans.

service providers to ensure that bundles are properly prepared to minimize breakage (and, as discussed below, we are examining our mail preparation standards to ensure that they impose the appropriate requirements).

Some initiatives that will be discussed further below, including the FSS Processing (FSS Processing) discontinuation, the NDC Unwind reducing the additional mail processing of bundles, and the change in the make-up of mailer preparation, have streamlined mail processing, which further optimizes flat mail flows.

3.4.2 Elimination of Sacks from Flats Processing

As noted in the Commission's Flats Report, bundles transported in sacks are more likely to have bundle integrity issues than bundles transported in containers or on pallets.¹⁰ In order to address this bundle breakage issue, the Postal Service has initiated efforts to eliminate sacks from flats processing as a part of the Network Redesign initiative of the DFA Plan. These efforts include limiting the use of sacks to only Carrier Route presorted mail entered directly at a Destination Delivery Unit (DDU), or as a Delivery Sort Container entered at a NDC or Sectional Center Facility (SCF) for cross dock to a DDU. Any containers with Periodicals Mail or USPS Marketing Mail Flats requiring processing at a NDC or SCF must now be prepared using bundles on pallets or flat trays; in other words, flats requiring bundle sortation or individual piece level sortation can hereafter only be prepared as bundles on a pallet or in flat trays—but not in sacks. This change went into effect January 22, 2023.

3.4.3 Domestic Mail Manual Review – Physical Standards & Bundle Requirements

A cross-functional initiative is underway within the Postal Service to review the mailing standards for flats products specifically related to bundle preparation. Note that while co-mail is often considered especially susceptible to breakage, the term “non-identical mailpiece bundle” seems more broadly applicable and apt than “co-mail bundle.”

This initiative includes discussions with the mailing industry to better understand their bundle preparation processes and capabilities and to improve bundle integrity. We will reference other points of contact with industry later in this document. Other strategies to reduce bundle breakage that are being examined via mailing standards improvements include:

- Limiting the use of string and rubber bands only to small business customers mailing lower volumes and less frequently, utilizing tubs as the alternative.
 - The Postal Service is seeking industry input on an acceptable definition of “small business customer mailing lower volumes” considering factors such as size/volume of mailings, frequency of mailings, drop ship mailings vs. BME mailings, or volumes under minimum pallet weight requirements.
- Requiring some combination of shrink wrap and plastic bundle strapping material usage for mailers preparing bundles on pallets.
- Reducing maximum bundle size and weight.
- Eliminating bundling of bundles.
- Requiring crossed banding on bundles in polywrap/shrink wrap vs one band around the width.

¹⁰ Flats Report at 68.

- Requiring shrink wrap on co-mail/“Non-identical mailpiece” bundles.

3.4.4 Bundle Integrity Verification at Product Acceptance

The Postal Service plans to develop verification standards to test bundle integrity for commercial flat mailings. The Postal Service is working internally with our engineering team to determine specifications needed to build the verification methodology. We will pilot these processes at select detached mail unit sites for mailers identified as having a higher percentage of broken bundles from our internal reporting system. This will consist of additional manual verification processes to accompany our current Seamless Acceptance sampling processes. We will use benchmarking standards to measure the effectiveness of the manual verification processes. The pilot site data will be evaluated to assess the effectiveness of the verifications and determine a strategy to implement a sustainable verification process. At the appropriate time, an official notice will be published announcing the date bundle integrity will be included in the Postal Service verification process. The notice will include information regarding reporting, compliance parameters, and any financial impacts that could result from non-compliance.

3.4.5 Mailer Compliance – USPS Interface with Mailing Industry

The Postal Service is investigating certain discrepancies between automated bundle breakage reports displayed internally in SV and automated bundle irregularities detected by MPE and made available via the Mailer Scorecard. The Postal Service will work to validate the data that are currently reported on the Mail Irregularities tab of the Mailer Scorecard as the metric “# of bundle irregularities detected with MPE”. This will involve enhancing the reporting of bundle irregularities detected by MPE and those irregularities reported by an SV scanner, both of which appear on the Mailer Scorecard. Suggested enhancements to date include:

- Display Bundle Irregularities detected by MPE on the Seamless/Automated Verifications tab of the Mailer Scorecard.
- Allow this error metric to be visible to the Mail Owner/Mail Preparer views of the Mailer Scorecard in addition to the eDoc Submitter view.
- Establish an error threshold for Bundle Irregularities detected by MPE so the error metric can be highlighted in yellow when the mailer exceeds 50 percent of the threshold or highlighted in red when the mailer exceeds the established threshold.
- Update the detail drills for these errors to include eDoc information regarding the Container ID and Package ID from the mailing being reported with errors.
- Allow images captured by SV scanner error logging to be available to external users drilling to error details. The link to images is currently only available to internal Mailer Scorecard users.
- Enhance IV-Mail Quality Data (MQD) reporting to allow mailers to request the Mail Irregularity errors to be available in their MQD feeds.

The Postal Service can, moreover, raise awareness of reporting errors through a variety of efforts:

- USPS Major Mailer Support team can communicate directly to their assigned mailers via Mailer Scorecard review meetings.
- The Business Mail Entry Unit (BMEU) channel can discuss reporting during their Mail Quality Reviews conducted with mailers that present volumes in the BMEU.

- The Training team can include mail irregularities as a topic for their bi-weekly industry facing training sessions.
- The topic of irregularities and reporting can be discussed at Mailers' Technical Advisory Committee (MTAC) or during User Group 11 meetings.

If the above efforts do not reduce the amount of bundle breakage, making Bundle Irregularities detected by MPE an assessable error will be considered. The error could be assessable for Seamless mailers as well as mailers that are validated under Automated Verifications. The Postal Service would need to notify the industry of this change and provide a grace period before the errors would be assessed. A possible sequence of steps:

- Define an error threshold as noted above for Bundle Irregularities detected by MPE.
- Review with industry as part of MTAC.
- Publish a Federal Register Notice if needed to establish a new assessable metric.
- Allow a grace period to mailers prior to making the error assessable.

3.5 Data Quality Improvement: Efficiency Index Modeling

As part of the DFA Plan, the Postal Service is transforming Mail Processing efficiency modeling from a Labor Distribution Code (LDC) productivity model to a shape-based Efficiency Index. This initiative will improve and optimize mail and package processing operations based on a simplified operational efficiency yield comparing each site to its own established goal. More specifically, the new shape-based Efficiency Index will enable users to measure actual workhours and volume against planned work hours and volume; compare efficiency and productivity against the same period last year (SPLY), including work hour ratio, volume, work hours, and efficiency by quarter and Year; and access trends over time.

This initiative has resulted in a redesigned suite of mail processing efficiency productivity models. By implementing this model, the previous methodology of calculating productivity using LDCs has been sunset. Because of the capabilities and flexibilities built into the new Efficiency Index model, the Postal Service can focus on achieving efficiency through implementing some or all the following initiatives, depending on the needs of the site:

- Right size letter and flat sorting machine sets, to include consolidation of sort plans to maximize run time based on capacity, reduce equipment used/ increase equipment set where applicable
- Refinement of staffing, work hours; as stated above, consolidation of sort plans and equipment sets will refine staffing needs and hours utilized
- Appropriately extending and/or modifying machines; and
- Minimizing unnecessary sort plans and handling.

Enhancements to the Efficiency Index tool have enabled monitoring workhours and overtime in support of achieving our budget and reducing costs. The tool now helps Postal Service management monitor and manage efficiency and fiscal responsibility at all levels of the function. As processing sites work to achieve efficiency, manual processing is expected to decrease through proper training and staffing. (See Section 3.5.3, "Perfect the Process," below). This shape-based efficiency modeling methodology consists of manual processing, preparation, and automation combined.

Because the Efficiency Index model is shape-based rather than based on LDCs, it enables local management to work more efficiently on the overall flow of mail shapes, including, of course, flat-shaped mail. Due to this enhanced visibility and functionality, flats processing productivity is improving.

By utilizing the Efficiency Index tool, sites have identified areas of opportunity to reduce the amount of sort plans or equipment to better utilize the hours and staffing required for the actual volume trends. By focusing on shape-based operations, all aspects of the flows are considered. This includes manual processing, preparation, and automation. Understanding how the hours are affected by shape tells the whole story of the process. The tool provides visuals and data for each week, including a weekly trend for the year, quarterly snapshots as well as FY to SPLY.

3.6 Reduce Mail Processing Costs

This section discusses initiatives to improve efficiencies, reduce work hours, and reduce costs in mail processing.

3.6.1 Decommission of FSS Processing

The Commission, in its Flats Report, noted numerous inefficiencies linked to the use of FSS processing machines.¹¹ As part of the DFA Plan, the Postal Service has focused on the FSS, first by optimizing FSS operations and eventually by decommissioning FSS processing entirely.

In FY 21, the Postal Service focused on stabilizing the processing plants. In doing so, we identified inefficiencies in the processing of flats on FSS. Data showed that the volume processed, and equipment used, was not balanced. We focused on compression capabilities in the FSS software to reduce the amount of equipment necessary to process the same amount of volume. In most cases, this compression allowed sites to reduce their sort plans, which resulted in fewer employees needed to perform the work, and reduced work hours and equipment use. The compression was performed using a tiered approach and resulted in the removal of 12 FSS machines by the end of FY 21.

The tiered approach consisted of identifying opportunity sites and on-site assistance with compression training and analysis for each individual zone per sort plan. In FY 22, compression activities continued in the remaining sites. Organizational strategy and teamwork then provided an opportunity to eliminate zones from FSS processing. Nine sites were decommissioned and ceased FSS processing. In FY 22, 19 FSS machines were removed. In FY 23, the remaining FSS machines were decommissioned in two phases: on December 31, 2022, and on May 27, 2023. In FY 23, 57 FSS machines have been removed to date. In total, over 2000 zones were discontinued and 45 processing sites were affected.

With the decommissioning of FSS processing, mailer preparation has also changed. The FSS labeling list was discontinued in anticipation of the remaining FSS fleet being phased out. The removal of FSS machines and the elimination of the L006 labeling list have synchronized mail preparation with the level of price claimed and

¹¹ Among other issues, the Commission observed that standard operating procedures dictated that FSS rejects destined to the zones with multiple ZIP Codes had to be re-run on AFSM before being dispatched to DDUs; that optimal FSS operations and high productivity require difficult-to-sustain continuous staff support and training; and DDUs serving FSS zones reported more severe increases in workload related to inadequately processed flats received from the upstream mail processing facilities than the DDU that did not serve FSS zones. Flats Report, at 52-53, 133.

decreased the total flat mail pieces handled in mail processing. In October of FY 23, Delivery Sort Containers increased by 36 percent from same period last year. The evolution of the L007 labeling list included ability to include single scheme zones. These pallets of carrier routed bundles would bypass mail processing and be cross-docked to the delivery units, thereby reducing the cost of mail processing. Because these bundles are in carrier route, single piece sortation in a F4 operation is not incurred. The Postal Service did see an increase in carrier route bundles on SCF pallets. These bundles received bundle processing on package equipment, but they bypass Automated Flats Sorting Machine (AFSM) processing and go directly out to the delivery units, thereby minimizing volumes processed on AFSMs.

As volume declined and the necessary processing of flats to the next depth of sort decreased, sites were also able to consolidate sort programs and process more efficiently on the remaining AFSMs. This more efficient processing assisted in improvement in service performance and may contribute to a reduction in the cost of processing flats. The Postal Service continues to evaluate the opportunity for sort plan consolidation. Flats processing volume overall has gone down 35 percent compared to last quarter. The consolidation of sort programs directly improves allied operations. With fewer sort plans, there is less set up and tear down of sort programs.

Another benefit derives from the potential cost savings achieved by the repurposing of FSS annexes, and by the liberation of the square footage previously occupied by the FSS footprint to allow for modernization efforts. Because of the removal of FSS machines in some P&DCs, Rochester, Raleigh and Denver PSA leases were not renewed. Removal of FSS machines from facilities also leads to the ability to use that space for other purposes. All else being equal, space savings from decommissioned FSS machines will cause a reduction in attributable costs for flat-shaped products because space costs from decommissioned FSS equipment will no longer be attributed to flat-shaped products.

3.6.2 Standardization of Periodicals Mail Critical Entry Time

The Periodicals Mail Critical Entry Time (CET) change is also part of the DFA Plan. In FY 23, the Postal Service changed the Periodicals Mail CET from five different start times to two. Periodicals Mail (which is primarily flats) previously has had as many as five different CETs, depending on how the mail is prepared, which means that Periodicals Mail can be entered into an origin facility at numerous different times during the day. Having to accommodate so many different CETs was overly complicated and resulted in ineffective mail processing operations and inconsistent, unreliable service. The implementation of a uniform CET applicable to all Periodicals Mail in a delivery sort container promotes simplification of mail processing operations, more effective allocation and utilization of processing personnel and equipment, and improved service performance, and should thereby result in potential cost savings. Consolidating the numerous CETs for Periodicals Mail is also consistent with the requirement of the PSRA that the Postal Service maintain an integrated network for the delivery of market-dominant and competitive products, since it enables more effective use of processing equipment and resources for both mail and package processing.

By changing the CET to 8:00 a.m. for Periodicals Mail pieces and bundles that need mail processing, the processing equipment have all committed mail feed by 8:00 a.m. and managers now have a clear picture of the volume for each given day. This allows the Postal Service to generate reliable processing plans and to staff operations accordingly. In addition, as a result of having all committed mail, machines no longer need to idle while waiting for mail from the additional CETs to come in. This directly improves utilization of the bundle sorting and

AFSM equipment. This results in fewer work hours and run time dedicated to bundles and flats and more efficient processing, aiding the effort to improve service and contribute to reducing overall flat costs.

3.6.3 Development of standard work instructions: “Perfect the Process”

The Postal Service is working to revise and standardize, across processing facilities, numerous standard work instructions (SWIs), which are intended to be instrumental in optimizing the flats operations and to lead to improved productivity and service performance. In addition, a certification process for implementing specific SWIs is in review. The SWIs will be placed in a single accessible web-based location that will contain written documents, “how-to” videos, and a process to certify achievement in flats expertise. This focus on standardized work will improve processing in automation and reduce the manual handling that resulted from inefficient processing.

3.6.4 NDC Unwind

Another DFA Plan initiative is the NDC Unwind. Declines in volume of end-to-end Marketing Mail, Periodicals, and Package Services pieces resulted in an underutilized inter-NDC logistical network. Implementation of shape-based processing (letter/flat/package), merging identical class-based mail flows, will improve end-to-end service, minimize redundant allied time and reduce logistical expense. The NDC Unwind initiative merged originating NDC marketing flats into a single flat mail stream at the origin plant, i.e., a P&DC, thus better utilizing the existing Surface Network. As part of the initiative, therefore, flats will no longer travel through the NDC transportation network. This change eliminates multiple handlings and redundant transportation, while expediting the processing of all classes and shapes.

3.7 Identifying Mail Processing Facilities with Outlier Productivities

Part 3.5 discusses the Efficiency Index model and the conversion from LDCs to shape-based modeling. The model offers facility, divisional, regional, and senior management a clear line of sight to every processing facility in the country with just a few mouse clicks. The data are presented in numerous formats including multiple visualizations, charts, trends, and heatmaps. Outliers are easily identified which lead to interactions between managers to understand or resolve. Management is utilizing a more robust and comprehensive display of products by shape including flat-shaped mail to identify and drive productivities and efficiencies.

3.8 Accurate Method to Track Manually Processed Flat-Shaped Mail

This section discusses measurement of manually processed mail and machinability standards.

3.8.1 Measuring Manually Processed Flat-Shaped Mail

The Postal Service does not intend to develop additional tracking for manually processed flats. The cost of such a measurement does not provide a positive return on investment and would only serve to further increase the per piece overall cost of flats processing and delivery.

Previously, the Postal Service employed data collection technicians to manually count mail volumes in processing facilities. As technology has improved and the ability to passively quantify workload has been refined, these positions have been eliminated, allocating resources to other responsibilities. To create a system to once again capture volumes flowing to a manual operation would entail staffing each processing facility with a full-time employee per operational window. In most facilities, that would entail the addition of three full-time employees to cover the full 24-hour clock. Through Accounting Period 9 (May 19, 2023) of fiscal year 2023, the straight time

rate of a full-time bargaining unit employee in Operations Support is \$52.53 per hour. For a three-tour, 24-hour day, the cost per facility would equate to \$1,260.72 per day. Extrapolated over the entire mail processing network for an entire fiscal year, the cost of counting would be in the millions of dollars. While it is not fiscally responsible to attempt to count every piece of manually processed flat mail on a daily basis, the Postal Service does not foreclose the possibility that we may find it appropriate in the future to conduct a special study concerning the costs of manually processed flats.

3.8.2 Machinability Standards

The elimination of FSS machines has removed many of the challenges with machinability of flat mail pieces. Generally, the AFSM sorters provide a less demanding (more tolerant) environment for machine-processing of flat mail than the FSS machines (now removed from service).

The Postal Service will review current DMM requirements with respect to “physical standards for automation flats,” review and update as appropriate Publication 178 Recommendations for Designing Flat-Size Mail (July 2004), and review USPS-T-3204 (Test Procedures for Automatable Polywrap Film). The goal of the proposed review is to review and revise, as necessary, the DMM requirements regarding flat mail piece specifications to better align them with AFSM machinability capability.

3.9 Allied Operations, Transportation, and Delivery Opportunities

The Commission cites a number of examples of potential opportunities to reduce costs within allied operations, transportation, and delivery, including but not limited to:

- Uncertainty associated with volumes included in scheduled drop shipments.
 - Documentation of 120 pallets of bundles at the time of scheduling, but actually shipped only 60 pallets.¹²
 - Instances where Periodicals bundles were indicated by mailers in shipments but only parcels were included on arriving trucks. Because of separate sort plans for parcels and bundles, such deviations disrupted planned operations and necessitated decisions that increased time spent in allied operations either for flats bundles or for parcels.¹³
- Plastic containers would reduce material costs because plastic is a more durable material than cardboard and would allow better cubic space utilization on surface trucks because they are always stackable.¹⁴
- Postal Vehicle Service and/or contracted transportation may not include sufficient drive times for scheduled routes since fewer trips arrive on time at destination than are dispatched on time from origin.¹⁵
- Assessment of penalties for Highway Contract Route (HCR) contractors because significant proportions of delayed trips were attributed to performance by contractors, and the Postal Service is extending its surface transportation network to reach coast-to-coast, as it diverts mail volumes from the air to the surface transportation network.¹⁶

¹² Flats Report at 71.

¹³ *Id.*

¹⁴ *Id.* at 73.

¹⁵ *Id.* at 111.

¹⁶ *Id.* at 114-15.

The Postal Service generally agrees with the Commission's assessment and has either taken action to address, or expects future changes to address, the opportunities for cost reduction. For example, as previously stated in part 3.3.1, the Periodicals Mail Critical Entry Time (CET) change is also part of the DFA Plan. In FY 23, the Postal Service changed the Periodicals Mail CET options from five to two. As stated, reducing the number of CET options permits the Postal Service to generate reliable processing plans, staff operations accordingly, eliminate idle run time, and utilize fewer run hours. Additionally, this eliminates allied time around the former CET times and decreases allied time moving the product around the facilities.

While the Postal Service does see promise in the use of plastic containers, a viable long-term solution has not yet been identified. The Postal Service ran limited pilot testing of some commercially available plastic products that had some advantages, but also had drawbacks or defects that would require retooling or redesign efforts to make them viable.

While the Commission is correct that fewer trips arrive on time at destination than are dispatched on time from their origin, the assertion that contracted transportation may not include sufficient drive time is narrow in focus and scope. Numerous factors can cause trips to arrive late even with on-time departures, such as medical emergencies, motor vehicle accidents, equipment failure, road construction, and weather. The Postal Service acknowledges that surface transportation routing is dynamic and changes over time, so the drive times of some routes under contract may need to be reevaluated. Indeed, Logistics operations is transitioning to a modern transportation management system, and as contracts are moved from legacy systems to the new platform, routes are being optimized and drive time calculations performed using industry leading PC Miler—a mileage, mapping and routing software program. Through this process, the departure and arrival times written into supplier contracts are being reevaluated and optimized.

Logistics Operations are the subject of numerous active GIR initiatives, including:

- An initiative to monitor the cost reduction of transportation as it relates to the elimination of FSS machines in P&DCs. Adjustments and removals were made to local surface routes due to the elimination of FSS Carrier Automated Street Tray Racks (CASTRs), which were transported between the P&DCs and delivery units.
- An initiative to monitor the reduction of trips and costs associated with the NDC Unwind initiative. Surface network transportation has been adjusted to adapt to the new mail flow that will support the new Ground Advantage product.
- An initiative to monitor the reduction of extra contracted trips used in the Surface Network.

These GIR Initiatives have resulted in significant cost savings.

As part of the holistic modernization process, Logistics is implementing a state-of-the-art transportation management system designed to provide better visibility into operations, contract management, supplier performance, and cost management. This will provide a platform for optimal HCR contractor management. While the Postal Service does not currently assess penalties to suppliers, under the new management systems, the ability to track, monitor, and remediate performance issues such as delayed trips will be greatly enhanced. Under current transportation management systems, when trying to recover funds based on supplier performance, the Postal Service works through an arbitration process where Postal Service data often differ from the supplier's data. Under the new system, the Postal Service will share data with suppliers, ingesting suppliers' GPS data and affording visibility into its own data on supplier arrival times. Thus, moving forward, our enhanced tracking and

data capacities will eliminate many of the discrepancies between Postal Service and supplier data, allowing us to better assess and deal appropriately with our suppliers.

3.10 Quantification of Initiative Impacts for Validation of Effectiveness

The Postal Service plans to continue implementing the GIR initiatives through a robust and rigorous portfolio management process that has defined procedures and defined roles, responsibilities, and steps for project implementation. Starting in FY21 with the DFA Plan, each initiative team works to identify the potential net financial benefits of initiatives that have expense reductions or net new revenue. The Postal Service validates values through the processes defined in our strategic initiative governance control document and maintains a supplemental financial methodology summary sheet for all strategic initiatives that describes the approach and key assumptions to calculating and tracking the initiative net financial benefit.

Every GIR initiative charter that has been validated to deliver a net financial benefit (revenue growth or expense reductions) displays the targeted net financial impact of planned expense reductions or revenue growth netting out the planned investments (e.g., cost estimates for all capital, labor, supplies) within the project charter.

As discussed earlier in this Response, the Postal Service has initiatives related to flats, including initiatives to ramp down the use of FSS machines and eliminate transportation as a result of the FSS ramp down. In addition, the Postal Service is pursuing numerous initiatives as part of the DFA Plan to improve the efficiency and operational precision of our network generally, which will improve how we process, transport, and deliver all shapes and types of mail (including flats). These include redesigning the processing, transportation, and delivery networks which are tracked through the GIR process.

Impacts of GIR initiatives on financial impacts and benefits are tracked and stored in the system of record, called the Management and Planning Tool (MAPT).

For those initiatives that result in net financial benefit, we determine the methodology and track results on a monthly or quarterly basis based on the planned results to determine if additional programmatic adjustments are needed to achieve the targeted financial outcomes.

4 Mail Volume and Productivity

4.1 Discussion and Analysis

The section focuses on the Flats Report's discussion and analysis of productivity as it relates to mail volume. The Commission states in its Report that there is "no evidence to support the Postal Service's theory that productivity decline is due to volume declines."¹⁷ The following sections will address the relationship of mail volume and productivity and provide data and analysis evidence to support the Postal Service's view that productivity decline, and therefore increased cost, is due in part to volume declines.

4.2 Flats Sequencing System

This section discusses FSS volume and productivity and includes throughput curve and examples highlighting machine performance with respect to volume and productivity. While, as noted above, the FSS is being

¹⁷ *Id.* at 25.

decommissioned, consideration of these data is relevant to assessing the relationship between volume and productivity.

4.2.1 FSS Theoretical Throughput Curve

The FSS is a complex flat sorting machine that includes the following major modules: two infeed lines (feeders (4), OCR technology), sorting carousel, tray staging, integrated tray converter (ITC), dolly induct, and carrier automated street tray rack (CASTR) dispatch. The system utilizes three trays for mail sortation - an Automated Compatible Tray (ACT), Rigid Captive Tray (RCT), and Street Tray. The ACT and RCT tray always remain with the system while the street tray cycles between the processing facility and carrier at the delivery unit.

The FSS operates in two different modes - Virtual Machine 4 (VM4) and Virtual Machine 2 (VM2). Each Virtual Machine (VM) is constrained in the number of delivery points that can be included in the sort plan (or scheme). A VM4 can accommodate a theoretical maximum number of 32,400 delivery points and a VM2 can accommodate a theoretical maximum number of 64,800 delivery points. Because scheme design includes bins for rejects and the need for a bin location available for tray pass though for empty tray conveying optimization, the maximum delivery points for each VM is approximately 28,000 and 54,000 respectively.

Because the FSS can operate in two different modes, VM4 and VM2, this gives the processing facility flexibility in creating and optimizing schemes. A scheme may contain one or more 5-digit ZIP Codes if the allowable number of delivery points for each VM is not exceeded.

An important factor regarding VM4 or VM2 schemes is the FSS throughput difference. The VM4 mode utilizes all four feeders (two feeders per infeed-line) on both first pass and second pass. The VM2 mode utilizes all four feeders on pass one and only two feeders (one feeder per infeed-line) during second pass. Additionally, because the FSS is an automated 2-pass sequencing operation, there is a fixed time constraint, regardless of VM, between first and second pass that is factored in the overall 2-pass throughput calculation.

The theoretical 2-Pass throughput curve for both VMs is shown in Figure 1 and is the throughput that can be achieved, based on volume if conditions are optimal, such as, little to no stoppages due a mail piece jam or machine component issue.

This throughput curve details the effect of mail volume on machine 2-pass throughput. A lower scheme volume will have a lower throughput.

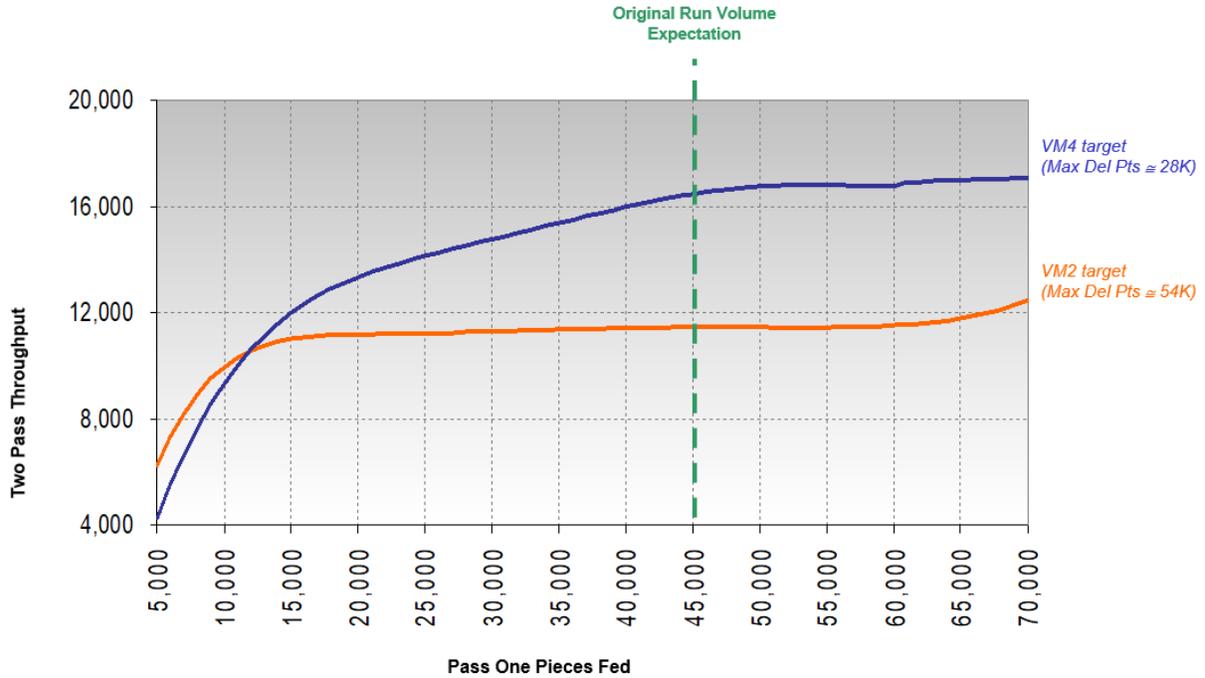


Figure 1: FSS Throughput Curve

4.2.2 FSS Volume vs. Productivity All Machines

The following illustrates FY2021 machine end-of-run data for all FSS sites –

Total scheme runs for all FSS = 160,104

For both Figures 2 and 3, each dot represents a scheme data point (volume vs 2-pass throughput). Also included is the theoretical VM throughput curve.

For VM4 –

Total scheme runs for all FSS = 71,421

VM4 Theoretical TP Curve



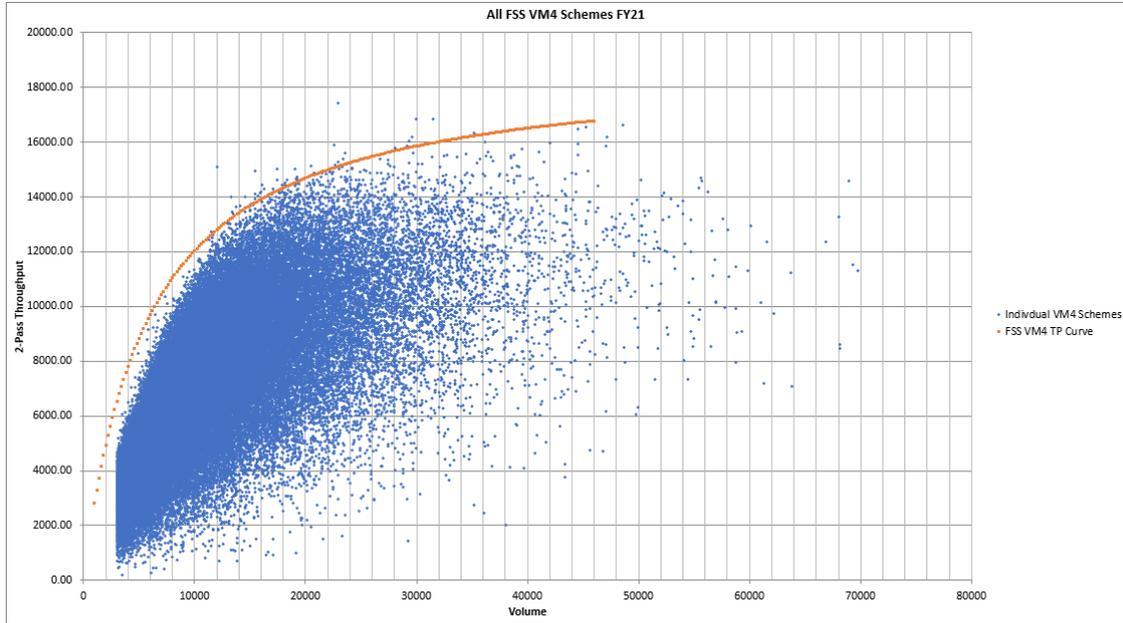


Figure 2: All FSS VM4 Schemes

For VM2 -

Total scheme runs for all FSS = 88,683

VM2 Theoretical TP Curve

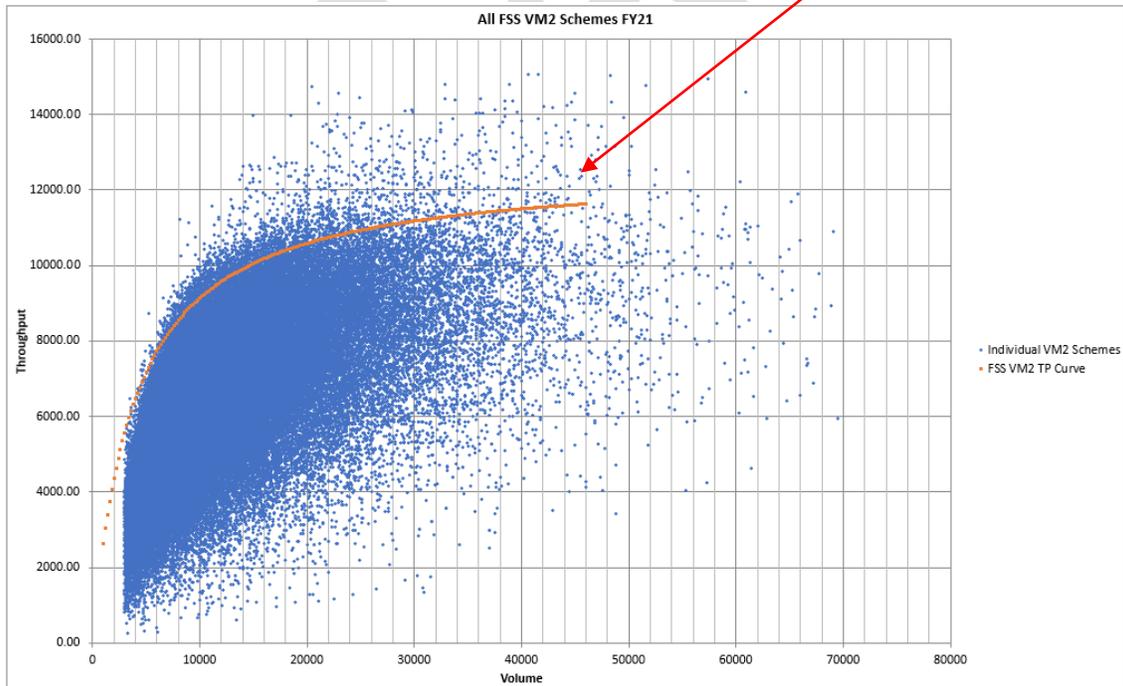


Figure 3: All FSS VM2 Schemes

4.2.3 Summary of FSS Volume and Productivity

As illustrated from the FSS Throughput Curve, the charts for all FSS during FY2021, FSS productivity follows machine throughput capability based on scheme volume.

FSS machines run multiple schemes per day. As flats volumes have declined, a high-volume machine has more low volume scheme runs per day, and hence lower productivity driven by the associated lower throughput. The data trends thus illustrate the link between lower flat mail volumes and lower productivity. Scheme run sizes are constrained by the number of bins and delivery points allowed per VM scheme, and the FSS does not allow for combined runs to keep the run sizes up and increase 2-pass throughput.

4.3 Automated Flats Sorting Machine

This section discusses AFSM volume and productivity and includes productivity goals (Excel file “NONPUBLIC MP Variance FY17_21.xlsx”), throughput curve, and examples highlighting machine performance with respect to productivity goals and the theoretical throughput curve. While the FSS has been discontinued, the AFSM will continue to be used to process flats.

4.3.1 AFSM Productivity Goals

The Postal Service has set target productivity goals for each AFSM configuration, excluding mail preparation activity, and only focuses on machine throughput. These productivity goals are set by HQ Processing Operations as a method to measure AFSM productivity performance.

Machine Configuration	No. of Operators	Productivity Target (pcs/hr/operator)	Target Productivity Throughput
AFSM100	5	2335	11675
AFSM-ai	3	3682	11046
AFSM-ATHS	4	2647	10588
AFSM-ATHS/ai	2	7054	14108

Note: Productivity Target is highlighted in excel file “NONPUBLIC MP Variance FY17_21.xlsx”

Figure 4: AFSM Productivity Goals

4.3.2 AFSM Theoretical Throughput Curve

The AFSM has four different configurations and, with everything being equal with respect to mail condition and machine maintenance, the Automatic Tray Handling System (ATHS) modification is the driving factor with respect to overall AFSM throughput performance. This is due to machine setup (inserting and labeling empty trays), pull down (removal of trays) when an “end of run” command is initiated, and dispatch.

For non-ATHS systems, there are two operators, one on each side of the machine to perform setup / pull down and dispatch activities. These activities can add approximately 18 minutes to the overall scheme runtime. For a system with ATHS, the system automatically inserts and labels trays prior to a run and automatically dispatches trays throughout the run and when an “end of run” command is initiated, therefore, there is only one operator at the opposite end of the machine from the feeders supporting dispatch activities. The ATHS setup and dispatch activity can add approximately 11 minutes to the overall scheme runtime.

As with the FSS throughput curve, the AFSM has fixed time included (setup/pull down, dispatch) in the overall operating time for each scheme regardless of scheme volume.

The theoretical AFSM throughput curve, for both ATHS and non-ATHS systems, is shown in Figure 8 and is the throughput that can be achieved, based on volume, if conditions are optimal, such as, little to no stoppages due a mail piece jam or machine component issue. Like the FSS, as volume per scheme declines, achievable throughput performance also declines.

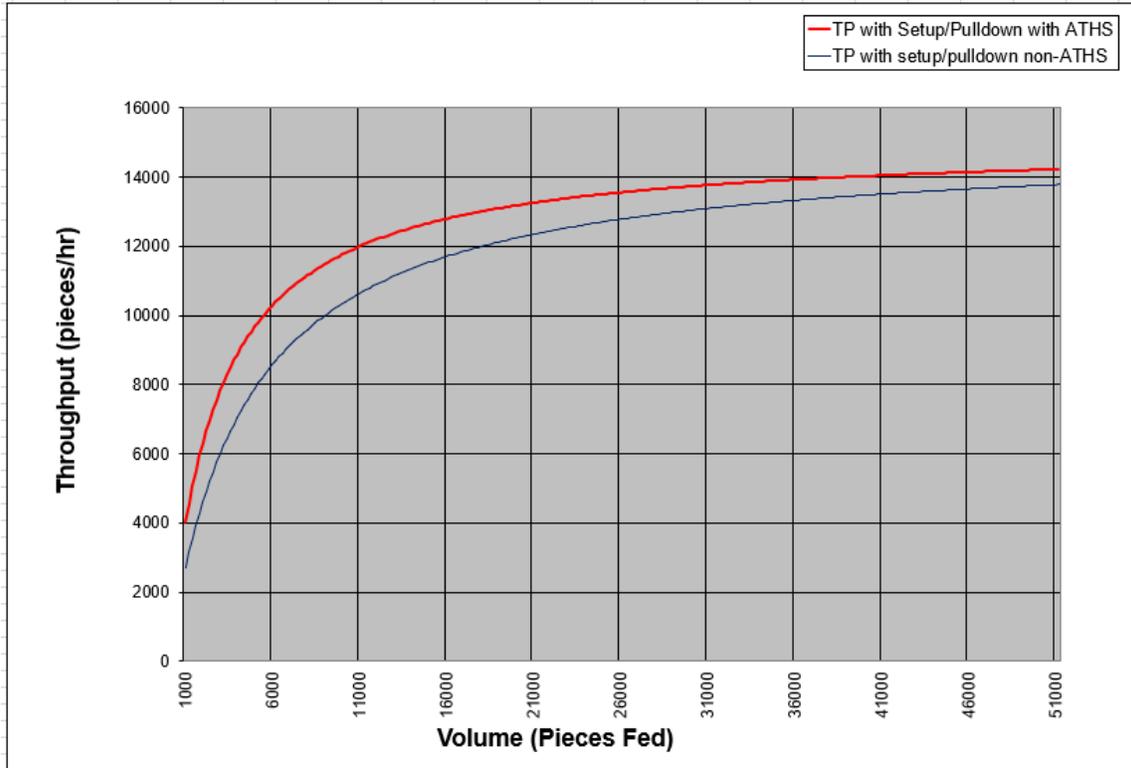


Figure 5: AFSM Throughput Curve

4.3.3 AFSM 100 (no modifications) Volume vs. Productivity All Machines

The following highlights FY2021 machine end-of-run data for all AFSM 100's without modifications –

Total scheme runs for all = 217,424

Total Volume Processed = 1,331,620,608

For Figure 9, each dot represents a scheme data point (volume vs throughput). Also included is the theoretical throughput curve and productivity line.

Additionally –

Those examples shown for achieving and not achieving productivity targets were identified in excel file “NONPUBLIC MP Variance FY17_21.xlsx”

For the end-of-run data used in the examples, data that were deemed to be outliers were removed and MODS data related to “managed mail” (143, 333, 403, 463) were also removed.

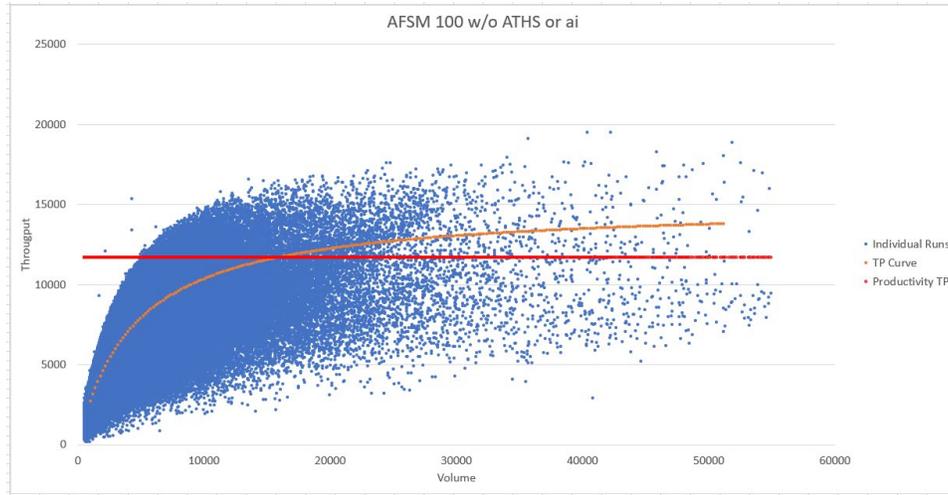


Figure 6: All AFSM 100 Scheme Runs (w/o ATHS & ai)

4.3.4 AFSM-ATHS/ai Volume vs. Productivity All Machines

The following highlights FY2021 machine end-of-run data for all AFSM 100s with both ATHS and ai modifications

Total scheme runs for all = 665,654

Total Volume Processed = 5,165,090,314

For Figure 12, each dot represents a scheme data point (volume vs throughput). Also included is the theoretical throughput curve and productivity line.

Additionally –

Those examples shown for achieving and not achieving productivity targets were identified in excel file “NONPUBLIC MP Variance FY17_21.xlsx”

For the end-of-run data used in the examples, data that were deemed to be outliers were removed and MODS data related to “managed mail” (143, 333, 403, 463) were also removed.

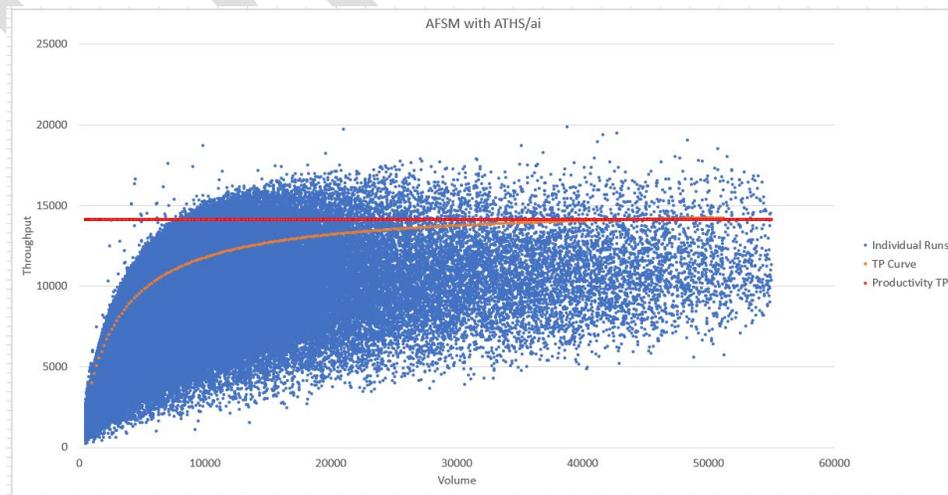


Figure 7: All AFSM 100 Scheme Runs (w ATHS & ai)

4.3.5 Summary of AFSM Volume and Productivity

As illustrated from the AFSM Throughput Curve, and similar to the FSS, the charts for all AFSMs during FY2021, AFSM performance follows machine throughput capability based on scheme volume. The data show a significant portion of processed schemes met performance throughput.

Additionally, the productivity targets (excel file “NONPUBLIC MP Variance FY17_21.xlsx”) are shown to have been met by many individual scheme runs, for facilities identified as achieving and not achieving productivity targets.

4.4 Mail Volume and Productivity Summary

The Commission study concludes that the relationship between volume processed on the AFSM and FSS and productivity is not strong. The data cited in the study (excel file “NONPUBLIC MP Variance FY17_21.xlsx”) are a sum of all schemes processed for each system at each facility for the entire FY21 time period.

Aggregation over scheme runs likely masks the true relationship between volume and throughput. The illustrations in sections 4.2 and 4.3 provide a more detailed view of system performance for all scheme runs throughout the fiscal year and, for much of the year, showed that the AFSM and FSS systems functioned as expected given declining volumes. As such, from the perspective of FSS and AFSM throughput, it is important to look at individual scheme runs rather than the total volume for a machine or facility (by day, week, month, or even year). All else being equal, increased throughput should result in higher productivity that will tend to put downward pressure on costs.

5 Summary

The Postal Service has initiated the DFA Plan to systematically address our financial, operational, and service performance challenges and create a high-performing, financially sustainable organization. As discussed above, the DFA Plan includes initiatives that will address the inefficiencies that exist in flats operations, as well as initiatives that are expected to increase revenue from flats products. The DFA Plan also directly aligns with many of the Commission’s suggestions. Specifically, the Postal Service is addressing the Commission’s recommendations in the following ways:

- Working to improve cost coverage for non-compensatory flats products by leveraging our pricing authority to increase revenue and deploying a portfolio of DFA initiatives to reduce costs.
- Redesigning our network to enable a logical sequencing of processing, transportation, and cross-docking functions for flats (along with letters and packages) from originating plant to destinating plant, and then to the delivery unit, which will improve efficiency and reduce costs for all products, including Flats.
- Working to reduce bundle breakage by adopting a battery of new technologies and associated training protocols; eliminating sacks from flats processing; reviewing physical standards and bundle requirements in the DMM; developing verification standards to test bundle integrity for commercial flat mailings; validating bundle breakage data; and interfacing with mailers to ensure compliance with bundle preparation standards.

- Assessing—and enhancing—the quality of data by transitioning to a new shape-based Efficiency Index model that enables the Postal Service to measure actual workhours and volume against planned work hours and volume, compare efficiency and productivity against SPLY, and access trends over time.
- Reducing mail processing and transportation costs by decommissioning FSS machines, standardizing work instructions across processing plants, and unwinding NDCs.
- Using the shape-based Efficiency Index model to identify and address site-specific aberrations in productivity values.
- Adopting a unified Periodicals Mail CET, transitioning to a modern transportation management system with an enhanced capacity to track, monitor, and remediate performance issues such as delayed trips; using industry leading software PC Miler to optimize routes and perform drive time calculations; and monitoring the cost reduction of transportation as it relates to the elimination of FSS machines in P&DCs, the reduction of trips and costs associated with the NDC Unwind initiative, and the reduction of extra contracted trips used in the Surface Network.
- Implementing the GIR initiatives through a robust and rigorous portfolio management process that has defined procedures and defined roles, responsibilities, and steps for project implementation.

At the same time, we have identified some areas of disagreement. Specifically, we do not believe it is prudent to track manually processed flat-shaped mail on a daily basis since, as explained above, the costs of such an endeavor would far outweigh its benefits.

While the Postal Service has discussed components of the DFA Plan and several GIR initiatives throughout the response as individual specific examples or points of discussion, it is important to recognize and understand that the various initiatives are coordinated and integrated. The GIR strategies work in concert in support of the goals and targets outlined in the DFA Plan. No decisions are made in a vacuum without rigorous discussion and analysis of potential downstream impacts. While Mail Processing is making network changes to support end to end processing on a 2-5 day ground network, Logistics is doing its part to plan, organize, and optimize that network. Delivery is making changes by standing up S&DCs, thereby taking advantage of large-scale delivery operations where transportation can be consolidated, saving both transportation costs and allied work hours. Simply put, fewer trips to fewer destinations with fuller containers means less transportation and less allied time to load and unload those vehicles.

As discussed at length herein, the Postal Service acknowledges that bundle breakage is a pinch point driving additional costs within flat-shaped processing. Multiple factors are involved at the preparation, handling, and processing stages. Bundles are diverted from bundle sorters into unplanned piece-wise processing (AFSM) because of their makeup and the likelihood they will break, or because their breakage prevents completion of the bundle sortation process. Flats are diverted to manual processing because they are too thick, too rigid, too flimsy, or are otherwise non-machinable. At the same time, a number of changes have been implemented that will significantly improve the situation. The use of sacks has been eliminated. FSS Processing has been sunset. This has enabled the elimination of the L006 labeling list, which has in turn synchronized mail preparation with the level of price claimed. The inception of the L007 labeling list affords the ability to include single scheme zones, which is increasing the proportion of carrier route bundles and Delivery Sort Containers that will bypass mail processing and instead be cross docked to the delivery units. This not only eliminates mail processing costs but

also eliminates most clerk piece handling at the delivery unit, thereby reducing flat-shaped processing costs in the customer service function.

The Postal Service is also committed to a multi-faceted approach that encompasses a DMM review of mailing standards and bundle requirements, bundle integrity verification at acceptance, evaluation of mailer compliance options, and our interface with the mailing industry. While we have made, and are making, changes that will substantially reduce potential breakage within mail processing facilities, we are working to eliminate unstable bundles from being entered into the mail system in the first place.

While the Postal Service has outlined a number of activities and strategies to reduce or eliminate bundle breakage and flat-shaped mail processing, transportation, and delivery costs, certain realities must be taken into account. Flats volume is decreasing; that is a multi-year trend that shows no signs of receding. Therefore, establishing workstreams or methods to quantify volumes that are handled manually is not fiscally responsible, particularly when we are already working to reduce such volumes where appropriate.

Finally, the DFA plan is a 10-year plan, and the Postal Service is just in its third year of implementation. While tremendous accomplishments have already been realized, significant work lies ahead. The optimization of mail processing operations is just beginning. Service standards have been changed, enabling a 2–5-day ground network. Processing changes are coming which will make use of that network. That will produce fewer but better-utilized containers of letters, flats, and packages that will make better use of surface transportation. Direct, full trucks will achieve better service performance at lower costs, thereby reducing work hours, allied costs, and contract expenditures. Mail and packages will not travel through multiple stops but instead will travel via more direct point to point routings. Fewer stops mean less handling, less allied costs, less breakage and more cost-effective service. By aligning delivery operations via larger S&DCs, the Postal Service will realize transportation savings while capturing efficiencies of scale. Instead of multiple trucks going to multiple locations with numerous personnel tasked to load them, a single truck will go to a single location, and will be loaded with fewer personnel. Sorting machines can be installed because there will be sufficient volume to support the use of the machines that improve efficiencies. The Postal Service will pursue these inter-related efforts in a structured, systematic fashion over the coming years.