

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

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

RESPONSES OF TIME WARNER INC. ET AL.
WITNESS HALSTEIN STRALBERG TO MH/TW ET AL.-T2-12-13
(June 28, 2004)

Time Warner Inc., Condé Nast Publications, a Division of Advance Magazine Publishers Inc., Newsweek, Inc., The Reader's Digest Association, Inc., and TV Guide Magazine Group, Inc. (collectively, Time Warner Inc. et al.) hereby provide the responses of witness Stralberg (TW et al.-T-2) to McGraw-Hill interrogatories MH/TW et al.-T2-12-13, filed June 14, 2004.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/ _____
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**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
MCGRAW-HILL COMPANIES**

MH/TW et al.-T2-12. Under the proposed rates, the pallet charges for entering a 3-digit/SCF or 5-digit/CR pallet at a destination ADC are higher than the pallet charge for entering an ADC pallet at the destination ADC. Could this give mailers incentives to convert 3-digit/SCF or 5-digit/CR pallets to ADC pallets? If so, how would such practice affect Postal Service costs, assuming an average number of pieces per pallet?

MH/TW et al.-T2-12. An ADC pallet that is entered at the DADC will undergo little handling, because it will be opened and its bundles distributed at the facility where it is entered. A 3-digit pallet, on the other hand, will first require a transfer to the DSCF. A 5-digit pallet requires cross-docking to the DDU and may first require cross-docking to the DSCF. Note, however, that the bundles on the ADC pallet will undergo substantially more bundle handling than if they were on a 3-digit or 5-digit pallet. So the mailer who uses the ADC pallet will pay more bundle charges but lower pallet charges. If the estimated unit costs for pallets and bundles are accurate, then under the proposed rates the mailer will most likely choose the alternative that minimizes overall combined costs to the Postal Service and the mailer.

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MH/TW et al.-T2-13. Referring to your answer to ABM/TW et al. – T2-8 that the “difference in productivity between the FSM-1000 and manual sorting is relatively small:” (a) Please specify the productivities in question. (b) Please quantify the capital and operating costs per piece of the FSM 1000. (c) Please specify the costs per piece of manual sorting. (d) Please explain how the capital and operating costs of the FSM-1000 are recovered through the current rates, and whether they are recovered from automation mail charges, non-automation mail charges or both. [e] Please explain how the capital and operating costs of the FSM-1000 would be recovered under the proposed rates, and whether they would be recovered from machinable mail charges, non-machinable mail charges or both.

MH/TW et al.-T2-13. I should start by pointing out that the machine formerly known as the FSM-1000 is now known as the UFSM or UFSM 1000 and has undergone some major changes as the Postal Service continues to seek a distinct and useful role for these machines in the AFSM-100 environment.

Originally, FSM-1000 had four keying stations. They were later equipped with OCR/BCR units that could read flats entered at the first three stations, so that operators could simply hand feed the flats without needing to key them. In a reconfiguration performed in 2002, the first station was replaced by an automatic feeder, creating what is known as the UFSM, which can be used either in an automated feed mode, with the other three stations idle, or in a manual feed/key mode, using the last three stations but with the automated feed station idle.

When I visited the New York Morgan facility in February of this year, I was made aware that yet another configuration of the UFSM/FSM 1000 was in the process of being installed. The new mode, as I understood it, would allow all four stations to be used at the same time. The automated feeder, when used simultaneously with the keying stations, would automatically slow down as much as necessary not to overwhelm the machine’s belt. That is, the feeder would look for a belt position that is not being filled from a manual station, then send the next flat to that position. The reduced speed on the automated feeder would also, as I understood it, resolve the problem with high error rates in sorting the more difficult flats. I don’t know whether this new configuration is something that the Postal Service plans to install on all UFSM machines. Only the Postal Service can tell the full story regarding the current status of the UFSM/FSM-

1000. I can only report the part of the story that I have observed. I would add, however, that it appeared the newest configuration described above might be able to provide reliable sorting of flats that are not AFSM-100 machinable, but at a much slower productivity – 520 flats per workhour was mentioned as an initial target that is not much different from manual productivity rates.

a. I cannot provide data on what productivities the various configurations of the UFSM/FSM-1000 are achieving in practice today. However, the productivity rates assumed in R2001-1 and in my mail flow model are summarized in the table below, both for FSM-1000 and manual sorting schemes. It is my understanding that these rates were based on MODS data. I should perhaps also add that, although the table includes rates for incoming secondary flats sorting on the FSM-1000, the R2001-1 mail flow model presented by USPS witness Miller (USPS-T-24) assumed that the machines would not be used for incoming secondary sorting.¹

FSM-1000 And Manual Flats Sorting Productivity Rates (From R2001-1)	
Sorting Scheme	Pieces/ Workhour
FSM1000 BCR/OCR Outgoing Primary	402
FSM1000 BCR/OCR Outgoing Secondary	1000
FSM1000 BCR/OCR Incoming MMP	1176
FSM1000 BCR/OCR Incoming SCF	1171
FSM1000 BCR/OCR Incoming Primary	898
FSM1000 BCR/OCR Incoming Secondary	1221
FSM1000 Key Outgoing Primary	585
FSM1000 Key Outgoing Secondary	726
FSM1000 Key Incoming MMP	507
FSM1000 Key Incoming SCF	581
FSM1000 Key Incoming Primary	552
FSM1000 Key Incoming Secondary	650
Manual Outgoing Primary	436
Manual Outgoing Secondary	426
Manual Incoming MMP	399
Manual Incoming SCF	545
Manual Incoming Primary	390
Manual Incoming Secondary	422

¹ Under the Postal Service's costing methodology, the FSM-1000 productivity rates would be assumed to be higher than those in the table by a factor of 1/0.74, and the manual rates would be assumed to be higher by a factor of 1/0.71.

b. I have not performed any study of the capital and operating costs of the FSM-1000, or UFSM as it now is called. However, the FSM-1000 has a (R2001-1) piggyback factor of 1.594 (PRC costing methodology) or 1.587 (USPS costing methodology). The piggyback factor is the factor by which direct labor costs must be multiplied to include all other costs, including maintenance and capital costs. The TY03 wage rate (including benefits) for mail processing employees was \$30.84 per workhour. To that must be applied a Periodicals premium pay factor of 1.019. With that information, one can compute the total cost of one FSM-1000 sort of one piece for each of the sort schemes shown in the above table. Take for example the first one, whose MODS based productivity rate is shown as 402 pieces/workhour. The per piece cost for this FSM-1000 sorting scheme then becomes, using PRC costing:

$$\$30.84 * 1.019 * 1.594 / 402 = 12.46 \text{ cents.}$$

Note that the cost of most other sorting schemes, which can be computed in the same way, is less.

c. The piggyback factor for manual sorting of flats in R2001-1 was 1.41 (PRC costing) and 1.398 (USPS costing). Taking the first manual operation in the above table (outgoing primary) as an example, the cost of sorting one piece manually would be:

$$\$30.84 * 1.019 * 1.41 / 436 = 10.16 \text{ cents.}$$

d-e. I am not sure if I have fully understood the question, but the assumption in my cost model, as well as in the Postal Service's R2001-1 flats mail flow model, is that the FSM-1000 machines will be used by flats that are not machinable on the AFSM-100.