

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Modification of Analytical Principles in Periodic :
Reporting (Proposal Twenty-nine) : Docket No. RM2010-6
:

INITIAL COMMENTS OF TIME WARNER INC.
IN RESPONSE TO ORDER NO. 363
(January 11, 2010)

Time Warner Inc. (Time Warner) respectfully submits these initial comments in response to Commission Order No. 363, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Twenty-nine) (issued December 16, 2009).

Background

On December 11, 2009, the United States Postal Service filed a petition for an informal rulemaking to consider a change in the analytical methods approved for use in periodic reporting. Order No. 363 granted the Postal Service's petition and established the above-captioned docket for consideration of the proposed change. A Notice of Change in Comment Date (issued December 23, 2009) established January 11, 2010 as the date for submission of initial comments by interested persons.

As it has in several previous rulemaking dockets concerning modifications of analytical principles used in periodic reporting, Time Warner adopts as its comments

an analysis prepared by its longtime postal consultant, Halstein Stralberg. Mr. Stralberg's analysis is appended hereto.

Discussion

As stated in Order No. 363 (at 1):

Proposal Twenty-Nine is part of a developing methodology for estimating the ratio of machine-sorted flats (automated or mechanical) to total sorted flats in the Incoming Secondary operation. The Postal Service refers to this as the "In-Plant IS Coverage Factor." It is a key element in the Postal Service's Periodicals cost model.

In addition to a concise summary of the Postal Service's proposal in the instant docket, Order No. 363 provides a thorough historical overview of the development of this methodology. Time Warner has closely followed and extensively commented on that development from its inception, most notably in Mr. Stralberg's testimony in Docket No. R2006-1 and his comments in Docket No. RM2009-10 (which are touched on in his comments in this docket).

Although Mr. Stralberg points to a serious deficiency in the "auto/mech" coverage factor used in the Periodicals flats model under Proposal 29, he nevertheless concludes:

Since not adopting the change proposed in this docket would lead to an obviously nonsensical value for the "auto/mech" factor, and since no other alternative appears to exist at this point, the Commission should adopt the change put forward in Proposal 29.

Appendix at 3.

For the reasons Stralberg sets out, Time Warner respectfully requests that the Commission approve Postal Service Proposal 29 for use in the Postal Service's FY 2009 Annual Compliance Report to the Commission (filed December 29, 2009).

Additionally, Time Warner respectfully presses upon the attention of the Commission and the other parties mentioned therein the urgency of Stralberg's observation:

The tendency of Periodicals flats to be sorted manually, whether for "service related" or other reasons, even in today's environment when there would appear to be a great surplus of machine capacity available to sort them, is a major contributor to the high Periodicals costs and the inability of the class to meet its attributed costs. The importance of this problem extends far beyond the question of how to calculate the value of the "auto/mech" factor in the model. It is an issue that needs to be addressed by the Postal Service, the mailing community, and the Commission in the coming year.

Respectfully submitted,

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APPENDIX

COMMENTS ON COSTING PROPOSAL NO. 29

by
Halstein Stralberg

January 11, 2010

COMMENTS ON COSTING PROPOSAL 29

The Postal Service's 29th costing change proposal once again addresses the estimation of the "auto/mech" factor in the Periodicals mail flow model. More precisely, Proposal 29 recognizes that the mail pieces which receive incoming secondary (IS) distribution on flats sorting machines (AFSM 100 or UFSM 1000) are not all flats, and furthermore that some of the flats sorted on those machines come from broken carrier-route bundles.

In the Postal Service's previous methodology, it was implicitly assumed that all pieces given IS sortation on AFSM/UFSM machines are non-carrier route flats. By recognizing that other pieces also receive IS sorting on these machines, Proposal 29 leads to a lower estimate of the proportion of IS sorting that is mechanized. Using FY2008 numbers, that percentage becomes 77.78%, versus 86.5% under the previous methodology.¹

Because some flats destinate to facilities that have no flats sorting machines, the percentage receiving mechanized/automated IS sorting for facilities that do have such machines is higher than the average for all facilities. In the Periodicals mail flow model, the AFSM/UFSM "coverage" for IS sorting is 87.88%, meaning that 87.88% of Periodicals flats destinate to facilities where they can receive mechanized/automated IS. *Id.* at 4. In dividing the overall mechanized factor of 77.78% by the coverage factor, the Postal Service derives an estimate of 88.51% for the "auto/mech" factor used in the Periodicals model. In my Docket No. R2006-1 testimony, I estimated this factor at 85%.

Without the change introduced in Proposal 29, the "auto/mech" factor, estimated with the previous USPS methodology applied to FY2008 data, would be 98.46%. As I pointed out in an earlier memo, appended to Time Warner's comments in

¹ Docket No. RM2010-6, Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider a Proposed Change in Analytic Principles (Proposal Twenty-nine) (filed December 11, 2009), Attachment (unpaginated) at 3-4.

Docket No. RM2009-10 (filed August 20, 2009), that result essentially makes no sense, because it implies that flats are hardly ever diverted to manual sorting except in facilities with no flats sorting machines. The reality, especially for Periodicals, is very different. They frequently are diverted to manual sorting, often for “service related” reasons. The Postal Service has acknowledged that Periodicals flats frequently are diverted to manual sorting.²

Since the ACR2009 has now been filed, it can be concluded that without the change proposed in this docket, the “auto-mech” factor in the FY2009 Periodicals model would exceed 100% (i.e., 103.99%, an obvious impossibility).³ This can be seen from Table 1 below, which presents the key numbers affected by Proposal 29, based on both FY2008 and FY2009 data.⁴

As Table 1 also shows, the number of flats in the system continued to decline in FY2009. The percent of pieces sorted on flats sorting machines that are actually flats also continued to decline, from an estimated 90.3% to 88.3%. The Postal Service estimates that the percent of flats requiring IS sort that was machine sorted increased from 77.78% to 83.51% between FY2008 and FY2009. Yet, despite the sharply reduced flats volume, which should have further increased the available capacity on flat sorting machines, many flats continued to be diverted to manual sorting, as reflected by an “auto/mech” factor calculated at 91.36%

Since not adopting the change proposed in this docket would lead to an obviously nonsensical value for the “auto/mech” factor, and since no other

² See Slide 10 in the “webinar” presented by Ashley Lyons, Manager, Regulatory Reporting and Cost Analysis, USPS, on October 28, 2009.

³ The Commission in fact anticipated just such an eventuality in its FY 2008 Annual Compliance Determination (issued March 30, 2009), at 55-56.

⁴ The first ten numbers in each column of Table 1 can be found in cells o97:o114 on page ‘ACR 2008 MODIFICATIONS’ of spreadsheet ‘Prop.29.Per.Model.xls’ for FY2008, and the same location in spreadsheet ‘PER OC flts.xls’ for FY2009. The value of the “Auto/Mech” factor with Proposition 29 can be found in cell ‘COVERAGE FACTORS’!D71 of each spreadsheet. The value of the “auto/mech” factor without Proposal 29 can be obtained in each spreadsheet by typing ‘off’ in cell ‘ACR 2008 MODIFICATIONS’!H93.

alternative appears to exist at this point, the Commission should adopt the change put forward in Proposal 29.

It should be noted, however, that the application of the “auto/mech” factor, as calculated under the proposed methodology, is based on one implicit assumption that is almost certain to be wrong: namely, that the average factor, calculated for all flats, also applies to Periodicals. In reality, the likelihood of a Periodicals flat being diverted to manual sorting, even when there is a machine that it could have been sorted on, is considerably greater than for a Standard flat.

| TABLE 1: PROPOSAL 29 CALCULATIONS WITH FY2008-9 Data | | |
|---|----------------|----------------|
| | FY2008 | FY2009 |
| CR Bundle Breakage Rate | 0.61% | 0.61% |
| CR Volume in non-Destination Containers | | |
| Standard | 10,538,622,726 | 8,586,436,942 |
| Periodicals | 3,216,154,969 | 3,262,558,589 |
| Total | 13,754,777,696 | 11,848,995,531 |
| CR Pieces from Broken Bundles | 84,227,302 | 72,557,256 |
| | | |
| Total Potential IS Flats | 17,806,724,928 | 14,396,941,738 |
| | | |
| MODS Mechanized Flats TPH | 15,336,081,480 | 13,615,713,860 |
| IOCS Mail Processing Costs by Shape | | |
| Flats Share Of Mechanized Flats Costs | 90.3% | 88.3016% |
| | | |
| Estimated Mechanized Flats IS | 13,850,800,656 | 12,022,889,684 |
| | | |
| Proportion of IS Flats on Mechanized equipment | 77.78% | 83.51% |
| | | |
| "Auto/Mech Factor" | | |
| With Proposal 29 | 88.51% | 91.36% |
| Without Proposal 29 | 98.46% | 103.99% |

The “auto/mech” factor is currently used only in the Periodicals flats model. Since the factor the Postal Service now has estimated is an average for all flats, the question of what this factor is for Periodicals flats remains unresolved. That question cannot be addressed simply by comparison with MODS numbers, since MODS does not produce class-specific data.

The key to the specific methodology used in Proposal 29 is to estimate the percent of “non-flats” processed on flats sorting machines, based on comparisons of costs attributed to flats and non-flats in the AFSM and UFSM cost pools. This approach appears to me rather coarse, especially because those cost pools include costs incurred in both outgoing and incoming, primary and secondary sort schemes, whereas the specific question addressed concerns the flats receiving incoming secondary sorting only. The approach also appears to assume that all pieces sorted on AFSM/UFSM incur the same cost.⁵

The tendency of Periodicals flats to be sorted manually, whether for “service related” or other reasons, even in today’s environment when there would appear to be a great surplus of machine capacity available to sort them, is a major contributor to the excessively high Periodicals costs and the inability of the class to meet its attributed costs. The importance of this problem extends far beyond the question of how to calculate the value of the “auto/mech” factor in the model. It is an issue that needs to be addressed by the Postal Service, the mailing community, and the Commission in the coming year.

CONCLUSION

The Proposal 29 methodology is likely to yield a reasonably accurate value of the *average* “auto/mech” factor for *all* flats. The true value for *Periodicals* flats is likely to be considerably lower, and this is not addressed by Proposal 29.

⁵ Since the Postal Service documents its costs in a non-public library reference, I have not at this time been able to examine the details of this approach.