

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268

Rate Adjustments Due to Extraordinary
or Exceptional Circumstances

Docket No. R2010-4

**COMMENTS OF HALSTEIN STRALBERG
IN BEHALF OF TIME WARNER INC.
ON REASONS WHY THE LARGE PERIODICALS RATE INCREASE
PROPOSED IN DOCKET R2010-4 SHOULD BE DENIED
(August 17, 2010)**

My name is Halstein Stralberg. For my autobiographical sketch see the Appendix to these comments.

Besides the many legal and economic arguments raised against the “exigent” rate increase proposed by the Postal Service in Docket R2010-4, there are particular reasons to reject the larger-than-average increase proposed for Periodicals. Some of those reasons, discussed in the following, are:

- (1) Many of the costs that the Postal Service attributes to Periodicals are not caused by Periodicals, are not volume variable, and would not go away were Periodicals to disappear from the Postal Service mailstream.
- (2) The Postal Service has done less than it could and should have done to reduce the costs of Periodicals.
- (3) Any increase in Periodicals rates should be structured differently, to encourage the most efficient preparation.

I. MANY OF THE COSTS THAT THE POSTAL SERVICE ATTRIBUTES TO PERIODICALS ARE NOT CAUSED BY PERIODICALS, ARE NOT VOLUME VARIABLE, AND WOULD NOT GO AWAY WERE PERIODICALS TO DISAPPEAR FROM THE POSTAL SERVICE MAILSTREAM

The tendency of Periodicals costs to increase much faster than inflation is not new. It has continued with few interruptions since FY1986, as Chart 1 illustrates. Between 1986 and 2009 the CPI index increased by a little less than 100% while the average USPS wage rate increased by 140%. But the per-piece cost attributed to Periodicals increased by 200% and, as Chart 2 demonstrates, the mail processing costs attributed to Periodicals increased even more, by about 240%.

These charts still do not reveal the full extent of the unexplained and anomalous Periodicals cost increases, because in the period they cover Periodicals mailers did many things to help reduce the costs their mail imposes on the Postal Service, and the Postal Service deployed several generations of new technology that were supposed to automate and sharply reduce the costs of flats mail and Periodicals in particular.¹

Before the PAEA the Postal Service was able, in a succession of rate cases, to recover the ever higher costs it was attributing to Periodicals through rate increases much higher than inflation. The PAEA was expected to put an end to that, and to limit rate increases to inflation, as measured by the CPI. One might have expected that with the incentive provided by the CPI price caps the Postal Service would finally have taken steps to contain the long series of Periodicals cost increases. So far, that has not happened. Instead, the supposed cost

¹ In FY86 less than 30% of Outside County Periodicals were carrier route presorted. Very large mailers had recently switched to the use of pallets, but most mail from smaller and medium-sized mailers was still in sacks. Only about 15% of regular rate and even less of Nonprofit Periodicals were dropshipped. In FY2009, on the other hand, over 55% of Outside County was presorted to carrier route, almost all the volume was on pallets and most was being dropshipped.

Most flats and bundle sorting in FY86 was still being done manually. The Postal Service had begun deployment of 880 type flats sorting machines, which through the 1990's underwent various improvements and became the dominant mode for sorting flats in the processing facilities. In the early 2000's they were replaced by the much faster AFSM 100 machines, which have continued to be improved, adding, for example, automated tray removal and the AI attachments that are supposed to reduce bundle preparation costs. Manual bundle sorting was replaced first with the SPBS and then with today's APPS machines.

coverage for Periodicals has dropped sharply each year under the PAEA.

I have over the years often commented on the reasons for the never ending unexplained increases in Periodicals costs. Some of my comments were filed as testimony in the various omnibus rate cases beginning with Docket No. R90-1, when the abnormality of the Periodicals cost increases first became evident.² A recurrent theme has been that as processing of other mail classes was automated, Periodicals continued to be processed in a more manual fashion. Employees freed up by the automation of other mailstreams were kept busy handling Periodicals, whose costs therefore skyrocketed. Additionally, portions of indirect costs that previously had been borne by other mail classes were shifted to Periodicals by the Postal Service's cost attribution system.

In recent years, the Postal Service has acquired enough automated flats sorting capacity, particularly with the recent loss of volume, to sort practically all flats to carrier route on high speed automated equipment. However, many facilities, unable or unwilling to change their traditional ways, or perhaps simply to keep employees occupied, have continued to process Periodicals manually.

Some of my recent commentary that is most relevant to the present situation is summarized below.

In an addendum filed with Time Warner's initial comments in response to Order 99, I presented various recommendations for the improvement of the Periodicals class, along with results of a detailed analysis of the Periodicals flats mail flow model that the Postal Service had presented in its ACR2007 report.³ I concluded from that analysis that the Postal Service, in FY2007, had spent well over \$100 million more on manual incoming secondary sorting of Outside County Periodicals flats than its flats model indicated to be necessary. I further noted that this discrepancy had two possible interpretations:

- (1) It might indicate that the flats model was inaccurate, in which case the model should be corrected. Such a correction would result in a substantially higher computed cost differential between carrier route

² See Appendix, Autobiographical Sketch of Halstein Stralberg.

³ See Time Warner Initial Comments On Order 99, RM2008-2, Appendix B: The Use And Updating Of The Periodicals Flats Mail Flow Model.

presorted and other Periodicals flats, indicating that the carrier route discount should be expanded.

- (2) Or it could be interpreted as indicating that those extra costs were avoidable, in which case operations should be corrected, producing a very significant improvement in the Periodicals cost coverage.

But the Postal Service to date has not corrected the problem of unnecessary manual sorting of Periodicals flats, nor has it as yet acknowledged officially that there is such a problem. On the other hand, it is proposing in the present filing to increase the carrier route rate by a higher percentage than any other piece rate.

Time Warner's comments in response to Order 130 (Docket No. RM 2009-1), Time Warner's ACR2008 Reply Comments and an appendix written by me to Time Warner's initial comments in response to Order 269 (Docket No. RM2009-10) continued to address the problem of excessive manual sorting of Periodicals flats. The latter two documents noted that the problem appeared to have worsened in FY2008, despite lower flats volumes and extended availability of AFSSM 100 machines that would have allowed more flats to be machine sorted.

Time Warner's ACR2008 reply comments also showed that Periodicals flats requiring incoming secondary sorting are far more likely to be sorted manually than similar Standard flats, and that Standard flats are more likely to receive automated sorting on the fast and efficient AFSSM 100 machines.

In the appendix to Time Warner's RM2009-10 comments, I showed that according to the changes the Postal Service had made to its flats mail flow model, almost all flats should have received automated sorting in FY2008, but that in reality:

the wage adjusted per-piece costs of manual incoming secondary sorting attributed to Periodicals in FY2008, when such sorting supposedly had almost been eliminated, were higher than in FY2005, base year in R2006-1, when USPS witness McCrery indicated that as much as 44% of non-carrier route Periodicals flats might be receiving manual incoming secondary sorting.

In FY2009 there was a further precipitous drop in flats volume, particularly in Standard flats. Time Warner's initial comments in ACR2009, which again had shown a still lower Periodicals cost coverage, pointed out that the problem of

manual sorting of Periodicals flats had gotten even worse in FY2009, even though the very sharp drop in flats volume that year should easily have allowed postal facilities to sort all flats on automated equipment.

Even worse, as Time Warner's ACR2009 comments demonstrated, it appeared that the FY2009 manual sorting of Periodicals, as well as of Standard flats, almost all done in the delivery units rather than the processing plants, had used about the same manpower as in the year before, when the volume was substantially larger.

Almost all the manual incoming secondary flats sorting is today performed in the DDU's (associate offices, stations and branches) rather than in the processing plants, as the plants have removed most of their flats cases.

Given the persistence of these manual handling costs as volumes decline and the automated flats sorting capability of the Postal Service remains under-utilized, one must conclude that these costs are essentially fixed. There evidently are postal clerks in those offices whose costs must be attributed to something, and as long as postal managers continue to send them Periodicals flats to be sorted, their costs will be attributed to Periodicals flats. Were the Periodicals class to suddenly disappear, the costs would still be there, though they would have to be attributed to something else.

Conversely, if the volume of Periodicals flats were to increase, the Postal Service's costs would not increase as much as the unit costs the Postal Service's cost attribution indicates. Consequently, the Postal Service's claim that it is losing money on Periodicals, or that Periodicals are "under water," is misleading.

Witnesses for the Postal Service Appear To Realize That Many Of Its Costs Are Fixed.

USPS witnesses appear to agree that many of the costs that the Postal Service attributes to various mail classes in fact are fixed costs, at least under the present circumstances. For example, during his August 10 hearing before the Commission, witness Corbett referred several times to the essentially fixed nature of the Postal Service network. He stated, in response to Vice Chairman Hammond:

We have largely a fixed cost network, before as I said, so that the incremental, whereas the allocated cost of product is determinable if you lose a million pieces of that particular product quickly you will not make more money, you'll lose money, even if that product was underwater in most cases. (Tr. 1/82.)

It is clear from the above that Corbett realizes that the revenues being produced by products that the Postal Service calls “underwater” are not necessarily less than the true marginal costs of those products, because if revenues were less than the true marginal costs, then the Postal Service really would “make money” (or rather save money) by losing some of the volume of that product.

Clearly then, Periodicals and some other products are being classified as “underwater” at least in part because the Postal Service ‘s cost system attributes to them some costs that really are fixed and are not caused by those products.

Kiefer (at 28-29) argues that it is the steep decline in Standard flats volume that has driven its cost coverage down to 82%. But Standard and Periodicals flats have similar characteristics and are handled in the same operations. A decline in overall volume affects both types of flats, or in fact it affects Periodicals flats more because they are the most likely to be diverted to manual processing as the AFSM's stand idle. The steep drop in Standard flats has affected not only the unit attributed costs of Standard flats but of Periodicals flats as well.

The precipitous drop in mail volume, and the Postal Service's inability, due to numerous institutional restrictions, to reduce its workforce fast enough, appears to be the Postal Service's main argument for requesting an exigent rate increase. The Postal Service claims to have done all it can, using attrition and eliminating overtime and non-career personnel, to reduce its workforce, but it still has many more employees (and incidentally many more post offices and processing facilities) than it needs given today's mail volumes and advanced technology. If, as it claims, the Postal Service is restricted from reducing its costs any faster than it has been doing, then the extra costs are essentially fixed.

The Postal Service also appears to have moved some of its fixed costs out of the processing plants and into the delivery units. Walking through a processing plant today, one sees very few manual flats cases. But those cases, and the employees staffing them, must have been transferred to the DDUs, because as

the CRA data from recent ACR reports clearly show, there are large and still growing manual flats costs being attributed from NonMODS offices and from stations and branches (Function 4 facilities), particularly to Periodicals.⁴

But the fact that Periodicals are being attributed a disproportionate share of these fixed costs, due for example to the tendency to divert them from automated to manual sorting, thus keeping DDU personnel occupied, does not justify a higher rate increase for Periodicals than other classes. The sudden drop in mail volume is what has caused today's high costs. Periodicals volumes did not decline as steeply as the volumes of other postal products (e.g., Standard flats) and it is unreasonable to claim that Periodicals caused the high fixed costs more than other products.

II. THE POSTAL SERVICE HAS DONE LESS THAN IT COULD AND SHOULD HAVE DONE TO REDUCE THE COSTS OF PERIODICALS

USPS management clearly could have done more to reduce the costs of Periodicals. A prime example is the longstanding tendency to divert Periodicals flats to manual sorting even when plenty of capacity exists for much less costly automated sorting.

Because of the resistance in many post offices to this type of change, it will probably not occur before USPS management gets fully behind it. But not only has management failed to get behind it, they did not even include it in the long list of loosely formulated cost reduction ideas presented in this docket under the title "Flats Strategies." That document refers to many new pieces of technology as well as various ideas that are not new at all, but it fails to mention the one thing that could lead to an immediate sharp reduction in Periodicals cost coverage and that requires no investment other than the firm support and

⁴ Some may ask why the sharp increase in attributed costs and loss of cost coverage for both Periodicals and Standard flats has not also affected First Class. The latter product is mostly non-presorted and is in fact far more costly than either Periodicals or Standard. It too receives considerable manual incoming secondary sorting (see LR-26, ACR2009), though not to the same extent as Periodicals. But First Class flats also incur many costs that the bulk flats classes mostly avoid, e.g., in cancellation and outgoing sorting operations. Those functions occur in the processing plants and have been extensively automated; whereas the incoming secondary sorting, which for most Periodicals and Standard flats is the only sorting operation they need, continues to be performed manually in many places.

commitment of top USPS management.

The resistance to eliminating the unnecessary manual processing of Periodicals flats is something that I became acutely aware of as a member of the 1998 Periodicals Operations Review Team (PORT), and which evidently still exists.⁵ Many facility managers defend the practice as “necessary for service reasons,” an excuse that has become less and less probable as the Postal Service has continued to expand its automated sorting capability while at the same time increased mailer presorting as well as the recent very sharp volume drops have created a large excess capacity for automated sorting.⁶

As they did in the PORT, Periodicals mailers have continued to complain about excessive manual processing of their mail. They do not expect next day delivery when Periodicals arrive at a destinating postal facility after the critical entry time (CET) and do not wish the Postal Service to incur extra costs to achieve next day delivery. A recent testimony to the effect that unnecessary manual processing of Periodicals continues was provided by James O’Brien of Time Warner before the House Subcommittee on the Federal Workforce, on May 12 2010. Mr. O’Brien testified:

I visited a Postal facility just three weeks ago and observed an operation that the USPS refers to as a “bullpen,” which is an entirely manual operation. The sign at the top said “Hot Publications Staging Area.” After spending billions of dollars on automation, the USPS continues today to manually process Periodicals mail. This manual processing isn’t requested or desired by Periodicals mailers. It is the result of choices made within the Postal Service.

Yet the Postal Service attributes these costs to the Periodicals class. In analyzing costs, the Postal Service assumes that all costs are incurred efficiently, and that all worker time and other resources spent on

⁵ Report of the Periodicals Operations Review Team, a joint review to improve mailer and postal operations affecting Periodicals Class Mail. Sponsored by the American Business Press, the Magazine Publishers of America and the United States Postal Service, March 1999.

⁶ One of the ideas that the Postal Service includes in its “flats strategy” is to sequence flats only every other day. That would mean that flats arriving on the day when their destinating zone is not scheduled for sequencing would automatically be held up an extra 24 hours. How can the Postal Service entertain such farfetched ideas while at the same time its officials claim “service reasons” as justification for manual sorting of Periodicals?

processing a particular class of mail are needed by, and of benefit to, that mail. Charging Periodicals for the extra costs of manual processing that periodical publishers did not request and do not need, is unjust and unreasonable.

The bottom line is while the magazine industry is providing the USPS with more cost effective mail, Periodicals costs have risen 107% above inflation. Something is clearly wrong with the cost attribution process and the manual processing of Periodicals mail. Periodicals mailers should not be asked to shoulder the burden of costs they did not cause.

I recently became aware of another twist in the reasons given for sending Periodicals flats to the DDUs for manual incoming secondary sorting. It was documented in a December 2009 memo describing visits to postal facilities in Northern Virginia.⁷ Apparently, even when Periodicals bundles arrive at a processing plant in the early afternoon, they may sometimes be held up for many hours before they can be sorted because priority is given by management to the sorting of Priority mail parcels on an APPS machine. By the time they finally get around to sorting the Periodicals bundles, it is too late for them to be sorted that night or morning on an AFSM scheme, and therefore they are sent to the DDUs for manual sorting, due to “service reasons.” But this is a scheduling conflict that postal management must take into account when it plans its facilities and equipment. If it insists on using the same machines for Priority mail and flats bundles, but on giving the flats bundles a much lower priority, then it should also find a way to attribute much less of the high APPS costs to flats bundles.

Postal Operations Management Appears Unaware Of The Extent Of The Problem And Leaves The Extent Of Manual Processing To The Discretion Of Individual Local Managers.

At the August 12 hearing in the present docket, Chairman Goldway asked Frank Neri, the Postal Service’s operations witness, about any policies currently in effect to assure that Periodicals flats are handled by automation whenever possible. From the ensuing exchange, it appears that:

⁷ See Dockets No. ARC2009, Initial Comments of Time Warner Inc. on ACR2009 Pursuant to Order No. 380 (filed February 1, 2010), Addendum: A Tour of Post Offices Handling Periodical Mail in Northern Virginia.

- (1) There exists no policy to assure maximum use of automated equipment. Instead, such decisions are left to the discretion of local managers. Tr. 316-18 (where the word “discretion” appears five times).
- (2) Instead of a standard operating procedure, management has “expectations” that local managers will “work the mail in the most efficient manner possible.” Tr. 316-320 (where the word “expectation” appears nine times).
- (3) Neri believes great efficiencies have been achieved in the field. As manager of operations he is not concerned with, and cannot answer any questions related to, the lack of profitability in flats operations. Tr. 320-321.
- (4) Neri is aware of no problem in flats operations. Tr. 330.

In a subsequent discussion with Vice Chairman Hammond, Neri commented on the fact that, according to a Postal Service interrogatory response, 30 percent of mail is still being handled manually. He argued that the 30% includes work done in small offices, not just in the processing centers. Tr. 343. He did not, however, mention that the reason so much manual work is being done in the local post offices (DDU’s) is that managers at processing centers use their “discretion” to send mail for final processing (e.g., incoming secondary flats sorting) at the DDUs, rather than using the available automated equipment in the plants.

These answers from Mr. Neri illustrate how little has changed since the problem of excessive manual processing was raised in the report of the Periodicals Operations Review Team more than 11 years ago, and how difficult it appears to be to effect real change in the ingrained Postal Service culture. The machines they use have become more powerful and sophisticated over time; but the way that operational decisions are made, and the lack of awareness of cost attribution issues among those who make the decisions, has changed very little.

In my opinion, if the Postal Service is let off the hook established by the PAEA, which requires that the rates of each class may grow no faster than inflation, then its costs will continue to grow faster than inflation. If, on the other hand, the PAEA requirement is rigidly enforced, one must assume that sooner or later the need to avoid costs will penetrate to the consciousness of all parts of the organization, so that real change can occur.

There Appears To Be No Coherent Flats Strategy

As flats processing costs have continued to defy logic by growing faster than inflation in spite of ever improved automation and more mailer worksharing, there have been many complaints from mailers and many promises to address the problem. The PORT report in 1999 called for the development and publication of a “Flats Operations Plan.” It also raised many other issues that are just as relevant and just as unresolved today as they were then, including the under-utilization of sorting machines and the need for better focus on costs by local management.

In this docket, the Postal Service has presented a document called “Flats Strategies.” It made Mr. Neri available to answer questions about the document. But as became clear from his answers, this document is not something that has been guiding the Postal Service’s flats policies. In fact, it was assembled only recently by various managers at headquarters “and their collective staff,” for presentation in this docket. Tr. 303-304. And with two exceptions related to new technology, the various ideas listed in that document have no cost analysis and no firm time line and for that matter no in-depth analysis attached to them.⁸

Given that there has been no coherent flats strategy, and no one in charge of the Postal Service’s flats strategy, and the fact that most of the issues raised by the PORT report in 1999 have yet to be addressed in a serious manner, the Postal Service clearly has not done all it could to reduce Periodicals costs. Its request to raise Periodicals rates is therefore not truly exigent and should be denied.

⁸ The document contains some ideas that have come up many times before and that the Postal Service has promised to address many times before. One example is the perennial problem that Periodicals are often placed on airplanes and charged for it, when they are supposed to travel by surface only. Time Warner complained about this in several past rate cases, and both in R2005-1 and R2006-1 the Postal Service promised to fix the problem and included elimination of Periodicals air costs as a cost reduction item in its roll forward process. But in FY2009 air costs being charged to Periodicals are about \$20 million, the same as they have been (with some random year-to-year variations) for many years.

III. ANY INCREASE IN PERIODICALS RATES SHOULD BE STRUCTURED DIFFERENTLY, TO ENCOURAGE THE MOST EFFICIENT PREPARATION

To really reduce Periodicals costs and thereby raise the cost coverage of the Periodicals Class, the Postal Service needs to effect meaningful improvements in the Periodicals rate design, so as to encourage more efficient preparation. But the rates it has proposed contain little improvement and seem designed to punish the most efficient mailers.

In Raising The Carrier Route Rate More Than The Average, The Postal Service Sends The Wrong Signal And Appears To Have Ignored The Limits On The FSS Program.

The rate differential between the carrier route and 5-digit rate for Periodicals flats is only 71% of the cost differential between the two presort levels. Yet the Postal Service is unwilling to let it grow any larger and proposes a nine percent increase for carrier route but only a 5.8 percent increase for 5-digit automation flats.

In attempting to justify the higher carrier route increase, witness Kiefer argues that:

While a carrier route sortation will continue to have value in non-FSS zones, expanding this discount would tend to encourage customers to undertake work that may not be necessary in an FSS-environment. Kiefer at 40.

In fact, carrier route mailers understand quite well that carrier route presortation will no longer have value in FSS zones. They also understand that as FSS gets deployed in various locations and FSS type preparation to those zones becomes mandatory, they will have the extra burden of preparing mail in two different ways and continuously keeping track of which zones require FSS preparation. But the FSS will only cover some destinations. Kiefer estimates that "approximately one quarter to one third of flats would be processed on the FSS after the first 100 machines are deployed. Tr. 3/422. Using the Postal Service's published list of zones to be served by those machines, I have estimated that less than 30% of the carrier route presorted flats produced by Time magazine goes to those zones.

For the approximately 70% of flats going to non-FSS zones, carrier route presorting will have the same value to the Postal Service as before. Yet the

Postal Service insists on limiting the reward for carrier route presorting to non-FSS zones to only about 70% of the costs it avoids.⁹

Perhaps the Postal Service did not notice that one effect of its proposed changes is a 1.8 cents rate differential between 5-digit machinable pre-barcoded flats and 5-digit machinable flats without barcoding, whereas the cost differential between the two in FY2009 was only 1.04 cents, leading to a 173% passthrough factor.¹⁰

Raising The Passthrough On Pallets Entered At Origin Facilities Is In Itself Not A Bad Idea. But Why Not Also Raise The Passthrough Factors On Sacks, Which Presently Are Much Lower?

Witness Kiefer proposes to raise the rates for pallets entered at origin by 21 percent, stating that:

We are continuing to encourage mailers to enter mail closer to the destination and avoid postal transportation costs thus encouraging a more efficient Periodicals mail stream. Kiefer at 40.

There is indeed a need for much stronger dropship incentives in the Periodicals mailstream.¹¹ The effect of the change proposed by Kiefer would be, for example, to raise the passthrough factors for pallets entered at the originating SCF to 50% and for those entered at the originating NDC to between 63% and 65%.

But most pallets already are entered at destinating facilities while sacks mostly

⁹ The Postal Service may perhaps argue that at some future time it might deploy more FSS machines and thus cover a larger percentage of the flats volume. But that, frankly, is looking less and less likely. The FSS were planned for a much larger volume of flats than that which now exists or is expected to exist in the future. Instead of being deployed at 32 facilities, as originally planned, the 100 FSS are now being deployed at 42, since the original 32 simply no longer had enough flats. The Postal Service will find it increasingly difficult to find additional locations with sufficient flats density to make FSS installation worthwhile. And the OIG recently has raised serious doubts about whether the Postal Service will realize any net savings at all from the FSS program.

¹⁰ For some reason, the worksharing passthrough percentages for Periodicals that are shown in LR-3 of the ACR reports, do include the factor for machinable auto versus machinable non-auto MADC flats, but not the corresponding measures for ADC, 3-digit or 5-digit flats.

¹¹ See Time Warner Initial Comments On Order 99, RM2008-2, Appendix A: The Need To Strengthen Periodicals Incentives To Dropship.

are entered at origin. Why not then also strengthen the passthrough factors for sacks at origin? In fact, the current passthrough factors for sacks of all types are much lower than for pallets, in the 30% range or even lower, and would remain so after the proposed increase.¹²

By setting the passthrough percentages of costs for pallets entered at origin almost twice as high as for sacks entered at origin, the Postal Service appears to be sending a strong signal to mailers who do not dropship to continue to put their mail in sacks, even though it would be far better for the Postal Service if they used pallets. If it is serious about helping Periodicals to reduce costs and achieve a higher cost coverage, the Postal Service should make a much overdue correction in the passthrough factors for sacks, especially sacks entered far from their destination.¹³

It also does not seem logical to use a 50% passthrough for pallets entered at an originating SCF, but 65% for pallets that are entered at the originating NDC (BMC), thereby helping the Postal Service avoid the costs of bringing them to the ONDC.

The Postal Service Should Make Palletization Easier For Periodicals Mailers By Accepting NDC (BMC) Presorted Pallets, As It Does For Standard Flats.

In addition to discouraging use of sacks by passing through more of the costs incurred by sacks in the rate structure, the Postal Service should make it easier for small and medium sized mailers to get out of sacks altogether, by allowing Periodicals mailers, like Standard mailers, to make up pallets for an NDC (BMC).

Many Periodicals mailers do not have enough volume to make up pallets for every ADC. The flats going to those ADCs therefore end up in sacks, But in many cases there is enough volume to make up a pallet presorted to the NDC

¹² Passthrough factors in FY2009 as reported in LR-3 of ACR2009 are relative to FY2009 costs. But those costs may be substantially higher in FY 2011 when the proposed rates would take effect.

¹³ It must be remembered that the sack unit costs that are the basis for the passthrough factors reported in the ACR do not include the tendency of sacks to destroy the flats bundles that are carried in them, especially sacks that undergo many handling steps such as those entered at origin. If one were to factor in the cost of broken bundles, the costs of sacks would be even higher and the true passthrough factors therefore even lower.

which serves the ADC. As long as there are DNDC (DBMC) rates in the Periodicals rate structure, and as long as there are NDC pallets of Standard mail—and Periodicals and Standard flats often end up being processed together anyway—it would make perfect sense to allow Periodicals NDC pallets as well.

The Postal Service could eliminate almost all Periodicals sacks by going one step further, allowing mixed ADC pallets. The same could be done for Standard flats, eliminating many Standard sacks as well. This might of course require some changes in postal bundle-sorting operations. But the more conservative step suggested above, i.e., allowing NDC pallets for Periodicals, would require little change, since the Postal Service already processes such pallets of Standard flats. It is inexplicable that the Postal Service has not even included such an obvious step in its so-called “flats strategy” list.

Respectfully submitted,

s/_____
Halstein Stralberg

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Chart 1: Total Periodicals Costs

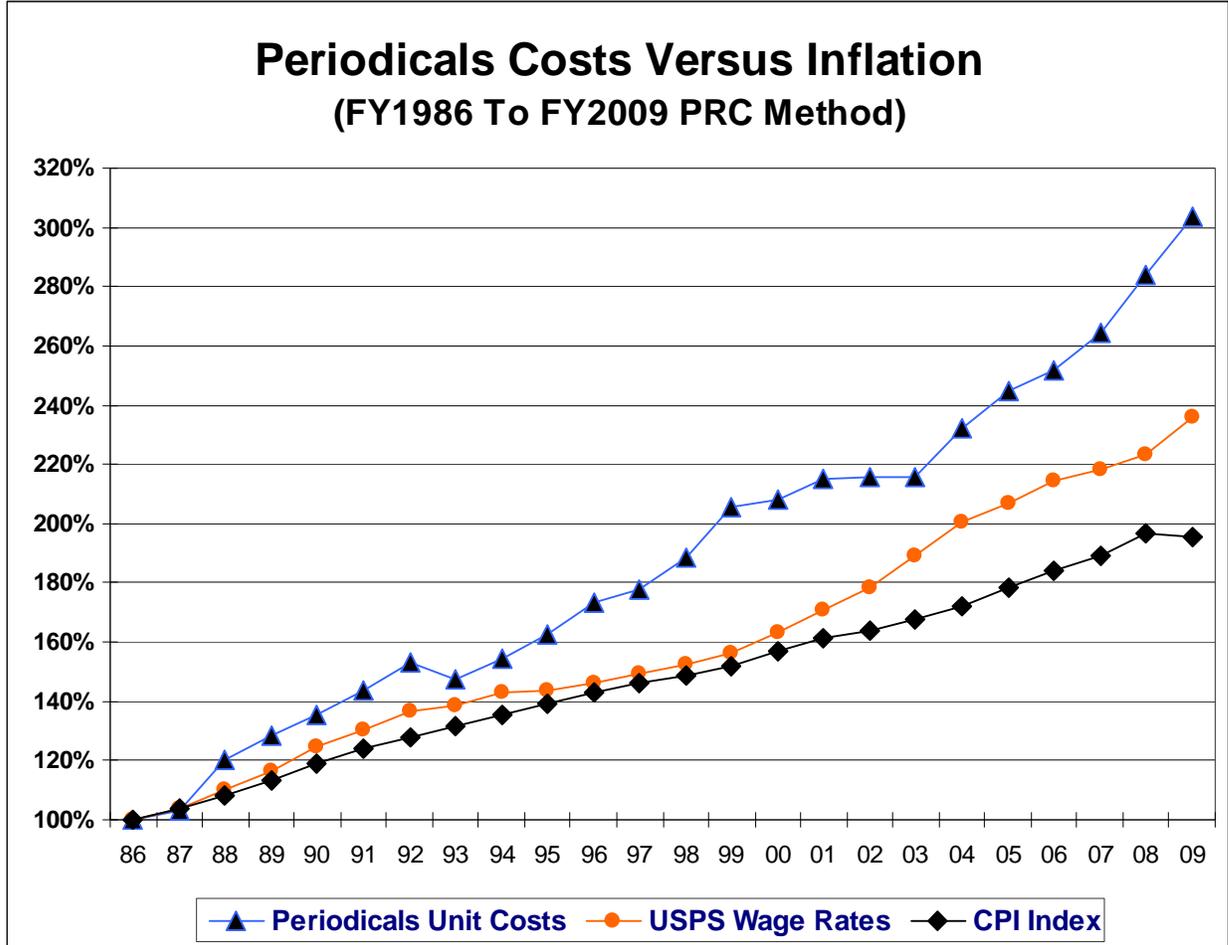
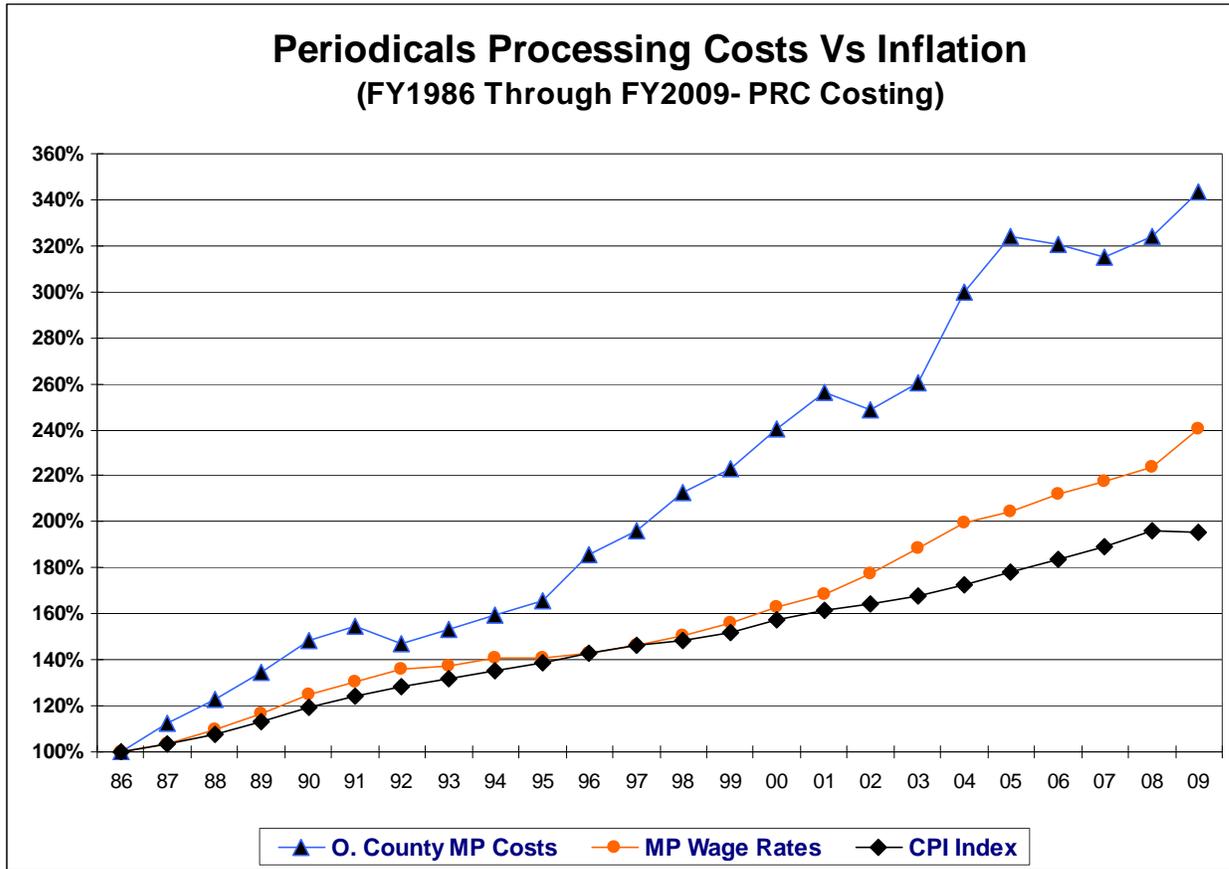


Chart 2: Mail Processing Costs



APPENDIX

AUTOBIOGRAPHICAL SKETCH OF HALSTEIN STRALBERG

My name is Halstein Stralberg. I am a consultant to Time Warner on issues related to distribution of magazines through the postal system. Until June 1999 I was a principal at Universal Analytics, Inc. (UAI), a management consulting firm in Torrance, California. and manager of its Operations Research Division.

My academic background is in mathematics, with a master's degree from the University of Oslo, Norway in 1963. I received a bachelor's degree in mathematics, physics and astronomy at the University of Oslo in 1961. Most of my professional experience is in the area of management science and operations research. I have directed and performed 30 years of postal related studies as well as management studies for other clients in government and private industry, including production scheduling and control, corporate planning and finance, investment analysis, design and optimization of transportation systems, health care and computer system design.

Since the passage of the Postal Accountability and Enhancement Act of 2006, I have prepared a number of studies for Time Warner Inc. addressing issues related to Periodicals costs and rate design. See Dockets No. ARC2009, Initial Comments of Time Warner Inc. on ACR2009 Pursuant to Order No. 380 (filed February 1, 2010), Addendum: A Tour of Post Offices Handling Periodical Mail in Northern Virginia; RM2010-6, Initial Comments of Time Warner Inc. in Response to Order No. 363 (filed January 11, 2010), Appendix: Comments On Costing Proposal No. 29; RM2010-4, Initial Comments of Time Warner Inc. in Response to Order No. 327 (filed November 16, 2009); RM2009-10, Initial Comments of Time Warner Inc. in Response to Order No.269 (filed August 20, 2009), Appendix: The High Costs of Manual Flats Sorting; ACR2008, Reply Comments of Time Warner Inc. on ACR2008 in Response to Order No. 161 (filed February 13, 2009); ARC2008, Initial Comments of Time Warner Inc. in Response to Order No. 161 (filed January 30, 2009), Addendum: Estimates Of Worksharing Related Cost Avoidances For Periodicals Flats In Acr2008; RM2009-1, Reply Comments of Time Warner Inc. in Response to Order No. 130 (filed December 10, 2008); RM2009-1, Initial Comments of Time Warner Inc. in Response to Order No. 130 (filed December 1, 2008); RM2008-2, Initial Comments of Time Warner Inc. in Response to Order No. 99 (filed September 8, 2008), Addendum: Recommendations for Improving the Periodicals Class.

I was a presenter at the 2003 and 2007 Flats Summits. Both presentations addressed issues regarding the likely cost impact of the FSS deployment.

I previously presented 22 pieces of testimony before the Postal Rate Commission on a variety of postal costing and rate design issues: two rebuttal testimonies on behalf of the Postal Service in Docket R80-1; four testimonies on behalf of Time Inc. in R87-1; four on behalf of Time Warner Inc. in R90-1; one in MC91-3; two in R94-1; two in MC95-1; two in R97-1; two in R2000-1; two in C2004-1; and one in R2006-1.

Since 1987 most of my work has been in support of Time Warner's participation in postal rate cases. Besides presentation of testimony, I have advised Time Warner on a variety of postal issues and directed the development of computer models for analysis of postal costs and rate design. I participated actively as a member of the joint industry/USPS Periodicals Operations Review Team whose report and recommendations are included in LR-I-193 of Docket No. R2000-1, as an industry representative in an MTAC data collection on bundle breakage (LR-I-297) and in a USPS/Time Warner task force to evaluate the feasibility of tailoring the preparation of Periodicals mailings to the processing methods and sort schemes used in each postal facility. In late 2009 and early 2010 I joined, as the only industry representative, a task force of USPS and Postal Regulatory Commission personnel touring postal and mailer facilities to review the preparation and processing of Periodicals.

From 1973 until 1987, I directed UAI's efforts under several contracts with the U.S. Postal Service. My activities under these contracts included:

- Design and development of the Mail Processing Cost Model (MPCM), a weekly staffing and scheduling computer program for postal facilities, with an annualized extension (AMPCM), using linear programming for long term staffing planning in a postal facility.
- An extensive data collection in 18 postal facilities designed to (1) establish a Postal Service data base on mail arrival rates and mail attributes affecting costs (subclass, shape, indicia, presort, container method, etc.), and (2) develop the model input data needed to apply MPCM for each facility.
- The "Study of Commercial Mailing Programs" under the Long Range Classification Study Program. This study involved a detailed cost and market evaluation of several rate and classification concepts, including various presort concepts, destinating SCF discounts for second class, plant loading and barcoding of preprinted envelopes.
- A BMC cost analysis which resulted in the establishment of the Inter/Intra-BMC parcel post rate differential in R80-1.

- Numerous simulation studies requested by USPS management.

My two testimonies on behalf of the Postal Service in R80-1 addressed the Intra/Inter BMC cost analysis and Dr. Merewitz's use of MPCM to analyze peak load costs.

I conducted a number of classes and seminars on the use of MPCM for Postal Service employees and interested outside parties. I have made extensive visits, including many multiple repeat visits, to over 40 USPS mail processing facilities and have observed all aspects of mail processing operations on all tours, as well as methods of mail collection, acceptance and transportation, and various ongoing postal data collection systems. I estimate that in total I have spent more than 2000 hours on site in postal facilities.

Besides my postal activities, I directed a study for the department of Health and Human Services of the impact of alternative regulatory policies used by state Medicaid agencies, which included an extensive data gathering effort and multiple regression analysis to determine factors influencing utilization and cost in the Medicaid program.

Before joining UAI I was an Operations Research Analyst at the Service Bureau Corporation (IBM), where I performed several large-scale simulation studies, including a design analysis of the Dallas/Fort Worth Airport's people mover system and simulations to improve design and response time in large interactive computer systems.

As Operations Research Analyst at Norsk Hydro, a Norwegian petrochemical company, my work included design, development and implementation of factory production scheduling systems, studies of transportation and distribution systems and risk analysis of investment decisions.

For three years I was assistant Professor of Mathematics at the University of Oslo.