BEFORE THE
POSTAL RATE COMMISSION
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POSTAL RATE AND FEE CHANGES, 2006 : Docket No. R2006-1

RESPONSES OF TIME WARNER INC.
WITNESS STRALBERG (TW-T-2) TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE (USPS/TW-T2-10-18)
(October 18, 2006)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Halstein Stralberg (TW-T-2) to Postal Service interrogatories USPS/TW-T2-10-18 (filed October 4, 2006).

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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# RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW-T2-10 Please quantify the impact that your FLATPRP cost pool modification, discussed on pages 9 to 11 of your testimony, had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-10. The table below show the flats preparation (MODS 035) unit costs that my model attributes to each rate category. The Postal Service's model treats these costs as if they were "proportional," i.e., not affected by presort level.

**Table T2-10: Flats Preparation (MODS 035) Costs Per Rate Category(cents/piece)**

| Rate Category | PRC Costing | USPS Costing |
|---|---|---|
| Basic Nonauto | 2.459 | 2.298 |
| 3-Digit Nonauto | 2.283 | 2.133 |
| 5-Digit Nonauto | 1.331 | 1.244 |
| Carrier Route Nonauto | 0.048 | 0.045 |
| Basic Auto | 2.446 | 2.285 |
| 3-Digit Auto | 2.428 | 2.269 |
| 5-Digit Auto | 1.797 | 1.679 |

# RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW-T2-11. Please refer to Section III.3 of your testimony, beginning on page 14, where you discuss a cost model modification for the UFSM1000, in which 5-digit nonmachinable flats would not be processed during incoming secondary Automated Flats Feeder (AFF) operations on that machine.

(a) Is it your understanding that nonmachinable flats mail pieces cannot be processed on the UFSM1000 when it is operating in AFF mode?

(b) Are any of the operational conclusions concerning the UFSM1000 that you appear to reach in this Section of your testimony based on any direct field observations or data collection effort in which it was estimated that a specific percentage of nonmachinable mail pieces were, or were not, processed during AFF incoming secondary operations on the UFSM1000? If so, please provide an explanation of your observations or the results from any data collection efforts which you may have conducted.

(c) Please quantify the impact that this specific modification had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-11.

a. No, I understand that the UFSM-1000 has been modified so that it is possible to manually feed and key flats from up to three consoles while also entering flats through the automatic feeder. However, the productivity rate for the manual mode is much slower than the automated feed productivity. The automatically fed and the hand-fed flats go onto the same belt. It is my understanding that this simultaneous use is made possible by slowing the stream of automatically fed flats sufficiently to make room on the belt for the hand-fed flats.

b. I am not aware of any field study of the type you suggest. However, I believe MODS volumes for the two modes of operation constitute the most reliable way to determine their relative use. As explained in my testimony, it was by studying the MODS data provided by witness Bozzo, as well as IOCS tally data for the MODS numbers corresponding to automated and manual feed modes, that I came to conclude that the UFSM-1000 is being used differently for incoming secondary sorting than for other sort schemes.

For outgoing and incoming primary sort schemes, MODS data show roughly equal volumes being sorted in automated and manual feed modes, but with far more workhours being spent in the manual mode. On the other hand, for incoming secondary sorting, the MODS data show far more flats sorted in the automated mode. While there are some flats fed and keyed manually also for incoming secondary sorting, I concluded that this is likely to come mostly from non-machinable flats having been mixed with machinable flats in upstream UFSM sort schemes and requiring manual sorting when put on the machines in the incoming secondary sorting.

Because Miller's model does not use the separate and very different automated and manual productivity rates that are available from MODS data, but averages the two, and because MODS data show mostly automated sorting in the incoming secondary, Miller ends up using an average productivity rate for the incoming secondary that is much higher than the average rates for other sort schemes. At the same time, however, his model feeds mostly non-machinable flats to the UFSM also for incoming secondary sorting, which would lead to a much lower productivity rate than the one he uses.

I concluded therefore that to bring the model of UFSM-1000 sorting in better conformance with operational reality, the model must be modified to flow many fewer non-machinable flats to these machines for incoming secondary sorting.

I tend to believe that, if sufficiently comprehensive, a field study of the type suggested would lead to a conclusion similar to that outlined above and in my testimony. However, it would be difficult to make such a study as comprehensive as the totality of national MODS data, which show the total volume being sorted in each mode and for each sort scheme, on all UFSM-1000 machines in use in MODS offices.

c. I will interpret this question to mean how would my estimates of the unit costs for the seven presort/auto rate categories change if my model: (1) were to flow as many non-machinable flats to incoming secondary sorting on UFSM-1000 machines as does Miller's model; and (2) if, like Miller, I assumed that all these non-machinable flats can be sorted at a productivity rate much higher than would normally be realized for non-machinable flats. The table below shows the changes I estimate would occur in my

results, under USPS and PRC costing respectively, if the model were modified as described above. As can be seen, the effect would be to lower the estimated costs of flats with 5-digit presort, while raising the estimates for all other rate categories.

**Impact Of Restoring Miller's Assumptions Regarding Use Of UFSM-1000 For Incoming Secondary Sorting (cents/piece)**

| Rate Category | PRC Costing | USPS Costing |
|---|---|---|
| Basic Nonauto Presort | 0.530 | 0.558 |
| 3-Digit Nonauto Presort | 0.311 | 0.327 |
| 5-Digit Nonauto Presort | -0.182 | -0.296 |
| Carrier Route Nonauto Presort | 0.080 | 0.079 |
| Basic Auto Presort | 0.401 | 0.436 |
| 3-Digit Auto Presort | 0.264 | 0.299 |
| 5-Digit Auto Presort | -0.300 | -0.308 |

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

USPS/TW-T2-12. In your testimony on page 22, lines 16 to 19, you state, "Finally, Miller assumes that in each subsequent bundle sorting operation ten percent of the remaining bundles break. I have not changed that assumption, except as noted above in the case of manual sorting operations. However, there is no empirical basis for it and I tend to think it is excessive." Please provide an empirical basis for your conclusion that a ten percent subsequent bundle breakage rate is excessive. If there is no empirical basis for your conclusion, please explain qualitatively why you believe it is excessive.

USPS/TW-T2-12. Please observe that while expressing the belief that Miller's 10% estimate is excessive, I did use it in my model.

As my testimony points out, there appears to exist no empirical basis on which to determine the percent of bundles that break in subsequent bundle sorts, having survived the initial sort. It follows that just as there is no empirical basis for fixing it at 10%, there also is no empirical basis for concluding that 10% is too high or too low.

There are, however, some other good reasons to believe that the 10% estimate is too high. The fact is that the Postal Service has done many things to reduce bundle breakage in recent years. For example:

Postal management has placed great emphasis on bundle recovery in recent years. Bundles that are damaged but still intact are supposed to be reinforced (e.g., by extra bundle wrapping) by employees at SPBS and other bundle sorting operations.

New bundle preparation regulations have been put into effect that were specifically intended to reduce bundle breakage. And the Postal Service has been actively trying to identify mailers that produce "problem" bundles and to work with those mailers.

Lacking empirical evidence one way or the other, it seems reasonable that the Postal Service's flats mail flow models ought to assume that these measures have produced progress in reducing bundle breakage.

# RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW-T2-13 In Section III.4 of your testimony you discuss issues pertaining to broken bundles.

(a) Please confirm that you were a member of the MTAC Package Integrity Work Group that conducted the study upon which USPS-LR-I-297 from Docket No. R2000-1 was based.

(b) If you were a member of the MTAC Work Group discussed in part (a), please explain how you defined a "broken bundle" in that study and indicate where that determination was made (e.g., the bundles were manually removed from their containers and examined, the bundles were dumped onto conveyors feeding the SPBS and examined, etc.). Please be specific.

(c) Regardless of how you responded to part (a), please provide your current understanding as to what constitutes a broken bundle.

i) Would a bundle that is completely removed from its packaging constitute a broken bundle?

ii) Would a bundle that is partially removed from its packaging constitute a broken bundle?

iii) Would a bundle in which the integrity of the packaging appears to be giving way, yet the bundle is still intact, constitute a broken bundle?

USPS/TW-T2-13.

a. Yes, but only in the sense that I participated as an industry representative on two of the sites visited by the MTAC team.

b. The team members did not dump bundles. They watched bundles being dumped from sacks or pallets and being transported on the initial feeder belt. The team counted the total number of bundles and recorded key characteristics such as the type of bundling material and bundling method. Bundles could be recorded as broken any time during the period that they were visible to the team. At the SPBS machines, this meant until shortly before the belt carried bundles to the manual keying stations. Bundles were recorded as broken if they were coming apart or already apart. The team also used another category called “suspect” for bundles which the USPS team members thought were in danger of breaking at a later operation. For example, if a bundle had no shrink wrap and was strapped only one way, it would be recorded as

"suspect" even if there were no immediate signs of it coming apart. Another "suspect" category was bundles with shrink wrap only, where one side was at least half open.

c.

i. Yes

ii. Yes

iii. As I recall, such bundles could be recorded as either "broken" or "suspect" depending on the severity of the damage.

# RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW-T2-14. On page 24 of your testimony you describe a modification that you have made to the NonMODS "allied" cost pool. The basis for your adjustment is an IOCS tally analysis indicating that 37% of the costs attributed to that cost pool were for bundle sorting tasks.

(a) Please confirm that there are some cost pools that are classified as "proportional" in your cost model which also contain costs for activities that are not contained in the mail flow model. For example, the "OPBULK" and "OPPREF" cost pools, which represent the opening units, reflect costs for bundle sorting tasks (which are actually modeled) and container sorting tasks (which are not actually modeled). If you do not confirm, please explain.

(b) For the cost pools such as those described in part (a), did you make any attempt to modify those cost pools to remove activities that are not actually included in the mail flow model? If not, why not?

(c) Please quantify the impact that the NonMODS allied cost pool modification had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-14.

a. A bundle sorting operation includes a great deal of container handling, i.e., containers with bundles to be sorted are staged, then brought to the induction area, dumped and disposed of for further use. Containers with sorted output are removed when full, replaced with other containers, staged for dispatch or transportation to the next operation, etc. The SPBS productivity rates, for example, include many such activities that really are part of the bundle sorting operation and would be avoided if the bundles already had a higher level of presort (e.g., if they came on a 5-digit pallet instead of a 3-digit pallet).

It may be true in general that almost any processing task is sometimes performed by employees logged into a different MODS operation. However, if the “container sorting tasks” that you refer to include tasks completely unrelated to bundle sorting, then I think those tasks are more likely to be performed either at the platform or at operations dedicated to container sorting, e.g., one of the sack sorting pools.

With regard to the NonMODS allied operation, bundle sorting is a big part of it. There is not a great deal of “container sorting” at a NonMODS office, since such an office is

almost always a DDU where all containers are to be opened and just need to be brought to the opening area. For example, the stations and branches part of the NonMODS allied pool is mainly from what is still the LD43 pool under the PRC costing methodology and is considered 100% proportional under the PRC version of Miller's model.

b. No, and I think it would be quite inappropriate to do so. One would then have to also examine the platform and all other cost pools to identify activities that the "model" does include. I included part of the NonMODS allied pool because bundle sorting and container movement directly related to bundle sorting is a predominant activity in that pool. In fact, I tend to think that the 37% figure is too low if it is based on a narrow definition of bundle sorting as including only tasks that directly handle bundles.

c. Under PRC costing methodology the impact of including 37% of the NonMODS allied pool in the CRA adjustment is to expand the cost differentials between rate categories, except the cost differentials that are based on distribution of the flats preparation pool, by a factor of 1.0344.

Under USPS costing, the similarly defined factor is 1.0538.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

USPS/TW-T2-15. On page 24 of your testimony you describe your model's reliance on a cost by shape estimate for Outside County Periodicals nonletters (flats and parcels) rather than Outside County flats.

(a) Please quantify the impact that this specific modification had on the CRA adjustment factor.

(b) Please quantify the impact that this specific modification had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-15.

a. Assuming no other changes, basing the CRA adjustment on non-letters rather than just flats changes the CRA proportional adjustment factor in my model from 1.076 to 1.115 under USPS costing and from 1.139 to 1.179 under PRC costing.

b. Under USPS costing, the effect is to multiply the cost differentials between rate categories, minus the portion that comes from attribution of flats preparation costs (see my response to USPS/TW-T2-10) by a factor of 1.036. Under PRC costing, the corresponding factor is 1.035.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

USPS/TW-T2-16. In your testimony from page 24, line 26, to page 25, line 1, you state, "I have therefore, unlike Miller, included in the CRA adjustment non-letter Outside County costs recorded at all piece sorting operations, including letter operations."

(a) Please list all the cost pools which were classified as "fixed" in USPS-LR-L-43 but which you have now classified as "proportional."

(b) Please quantify the impact that this specific modification had on your cost estimates by rate category. In other words, what would the results have been had you not made this modification?

USPS/TW-T2-16. Please note that my testimony describes two different CRA adjustments. The second of those is for my extended model which produces all the unit costs used in witness Mitchell's rate design. I will assume, however, that your question refers to the earlier adjustment described at pages 23-25 in my testimony, which is intended as a replacement for the adjustment used by witness Miller.

a. I have added as "proportional" pools MANL, MANP, NonMODS MANL and NonMODS MANP. In addition, I have classified NonMODS Allied as 37% "proportional," and I distribute directly the CRA costs in the flats preparation cost pool.

b. I already quantified the impact of distributing the flats preparation costs in my response to USPS/TW-T2-10, and the impact of assuming 37% proportionality at the NonMODS allied pool in my response to USPS/TW-T2-14. I will therefore focus here on the impact of adding the four manual letters and parcel pools referred to above.

Under USPS costing, the impact of adding those four pools to the CRA adjustment, assuming all other changes described in my testimony, would be to expand the cost differences among rate categories (apart from the component from the flats preparation pool) by a factor of 1.038. Under PRC costing, the corresponding factor is 1.033.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

USPS/TW-T2-17. In your testimony from page 24, line 26, to page 25, line 1, you state, "I have therefore, unlike Miller, included in the CRA adjustment non-letter Outside County costs recorded at all piece sorting operations, including letter operations."

(a) Please confirm that the issue you describe would affect the costs studies for all classes and shapes of mail. For example, the flats cost pools are not classified as proportional in the letters cost models. If you do not confirm, please explain.

(b) Please indicate whether you think the modifications should be made to the cost studies depicting other classes and shapes of mail. If you do not think these changes should be made to the cost studies depicting the other classes and shapes of mail, please explain why this change should be made to the Periodicals Outside County cost study only.

USPS/TW-T2-17.

a-b. To simplify the following discussion, let us assume that there only are two shape categories, namely letters and flats. There are some operations (cost pools) that are intended only for letter processing and some that are intended only for flats processing. However, it is a well known fact that the totality of IOCS tallies taken in a given year includes each of the following combinations:

(1) letters being processed at letter operations;

(2) letters being processed at flats operations;

(3) flats being processed at flats operations; and

(4) flats being processed at letter operations.

As is also well known, the cost pool associated with a given IOCS tally is based on the MODS number that the sampled employee was logged into, which is not necessarily where he was actually working.

Since it is not really possible for flats to be processed at letter operations, the existence of category 4 above must therefore mean that at the time an employee was sampled he was processing flats, but logged into a MODS operation code used for letter operations. The costs associated with that tally will be included in the cost of a letter processing

pool. However, in witness Smith's cost analysis it will be shown as the cost of processing flats at a letter operation. Since those costs in fact must have been incurred at a flats operation, even though the employee was logged into a letter operation, it is in my opinion quite appropriate to include them as part of the total CRA costs of flats processing. In fact, it is a mistake not to do so.

The case of letters appearing in the IOCS based costing system to have been sorted at a flats operation (category 2 above) is not completely symmetric to the case discussed above, because it really is physically possible for letters to be processed at flats operations, at least in manual flats sorting cases.

I have not studied in detail the CRA adjustments being applied to letter or parcel mail flow models in this docket. But apart from the small reservation that there may not be complete symmetry between different shapes, I believe that an appropriate CRA adjustment must recognize the imperfections in IOCS/MODS based costing, namely that some costs associated with one shape will always appear as if they were incurred in a cost pool meant for other shapes.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE**

USPS/TW-T2-18. Please refer to page 31, lines 15 to 21, of your testimony. Please also refer to witness Tang's testimony (USPS-T-35) at page 5, lines 15 to 18, to the worksheet "Container" in R2006-1 Outside County.xls in USPS-LR-L-126, to the response of witness Tang to NNA/USPS-T35-18 (Tr. 7/1734), and to the oral cross examination of witness Tang by NNA found at Tr. 7/1863-1865. Please confirm that rather than making an assumption "that as the 32 million skin sacks disappear they will be replaced by 35% of 32 million larger and generally less presorted sacks," as you state in your testimony, witness Tang in fact assumed that 35% of 32 million "skin sacks" will remain in the mailstream. If you do not confirm, please explain.

USPS/TW-T2-18. I obviously cannot testify about what might have been on witness Tang's mind. However, I would rather believe that what she assumed was something that is at least possible, rather than something that is impossible. Since May this year, the Postal Service no longer allows skin sacks. It therefore seems quite impossible that in the test year there would still remain 35% of 32 million, or about 11.2 million skin sacks in the system.

On the other hand, as mailers stop using skin sacks, assuming they are not able to move the pieces and bundles that were in the skin sacks onto pallets, those pieces and bundles will have to go to other sacks, which could either be sacks that already have more than 24 pieces in them, or sacks that are created from consolidating skin sacks. This is a scenario that must have occurred as mailers stopped using skin sacks.