

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

---

ANNUAL COMPLIANCE REPORT

---

:  
:  
:  
DOCKET No. ACR2007

INITIAL COMMENTS OF TIME WARNER INC.  
ON FY 2007 ANNUAL COMPLIANCE REPORT  
(January 30, 2008)

Pursuant to § 3653(a) of the Postal Accountability and Enhancement Act ("PAEA") and the Commission's Notice of Filing of Annual Compliance Report by the Postal Service and Solicitation of Public Comment ("Notice of Filing") (issued December 31, 2007), Time Warner Inc. ("Time Warner") hereby submits its initial comments on the Postal Service's FY 2007 Annual Compliance Report ("ACR") (filed December 28, 2007).

**1. The requirements of § 3652**

Section 3652(a) of the PAEA requires the Postal Service to submit a report to the Commission "no later than 90 days after the end of each [fiscal] year" that provides, *inter alia*, an analysis of "costs, revenues, rates, and quality of service . . . in sufficient detail to demonstrate that all products during such year complied with all applicable requirements" of the Act. Subsection (b) of § 3652 requires the Postal Service to

include, in each report under subsection (a), the following information with respect to each market-dominant product for which a workshare discount was in effect during the period covered by such report:

(1) The per-item cost avoided by the Postal Service by virtue of such discount.

(2) The percentage of such per-item cost avoided that the per-item workshare discount represents.

(3) The per-item contribution made to institutional costs.

Subsection (a) further provides that, in preparing its analysis of costs, revenues, rates, and quality of service, the Postal Service shall use "such methodologies as the Commission shall by regulation prescribe." Subsection (e)(1) authorizes the Commission to prescribe by regulation "the content and form" of the Postal Service reports, giving "due consideration," on the one hand, to "providing the public with timely, adequate information to assess the lawfulness of rates charged," and on the other, to "avoiding unnecessary or unwarranted administrative effort and expense on the part of the Postal Service." Subsection (e)(2) authorizes the Commission to

initiate proceedings . . . to improve the quality, accuracy, or completeness of Postal Service data required by the Commission under this subsection whenever it shall appear that—

(A) the attribution of costs or revenues to products has become significantly inaccurate or can be significantly improved; . . .

or

(C) such revisions are, in the judgment of the Commission, otherwise necessitated by the public interest.

## **2. The USPS Annual Compliance Report for FY 2007**

The FY 2007 ACR is singular in two notable respects. First, "during FY 2007 Postal Service rates and fees were governed by the provisions of the PRA rather than the PAEA," so that "the 'applicable requirements of title 39' that are relevant to

the FY 2007 rates and fees are those of the PRA, not the PAEA."<sup>1</sup> Second, "it was prepared without the guidance of Commission rules governing the Postal Service's periodic reporting," a subject that the Commission plans to address in a rulemaking "in the near future."<sup>2</sup> Consequently, as the Commission notes, although "[m]ost of the analytical methods employed in producing the FY 2007 Annual Compliance Report appear to be consistent with established precedent[,] . . . some are new and have not been subjected to critical evaluation by the Commission or the public either in a formal evidentiary hearing or an informal rulemaking." Notice of Filing at 3.

The FY 2007 ACR is thus in some respects exploratory and tentative in nature. The Postal Service, interested members of the public, and the Commission are all feeling their way. The FY 2007 ACR may therefore prove valuable less as a mechanism for reviewing the compliance of FY 2007 rates with the law than as a means for testing the possible uses and limitations of the ACR process and informing the Commission's deliberations in the forthcoming rulemaking(s). An additional potential value of this ACR (and, presumably, of future ACRs) is noted by the Commission:

[T]he possibility that the Postal Service may file notice of a general rate adjustment sometime in February . . . has been discussed informally throughout the postal community. If public comments on the Postal Service's annual report identify potential problem areas several weeks in advance of the Postal Service's rate filing, this may inform or influence the Postal Service's pricing decisions.

Notice of Filing at 2, n. 3.

---

<sup>1</sup> United States Postal Service FY 2007 Annual Compliance Report ("ACR") (filed December 28, 2007), at 1.

<sup>2</sup> Notice of Filing at 3; see also FY 2007 ACR at 2.

### 3. Adequacy of the FY 2007 ACR

Since the rates in effect in FY 2007 were established under the ratesetting criteria of the PRA, Time Warner agrees with the Postal Service that the relevant criteria for determining the compliance of those rates with the law are those of the PRA rather than of the PAEA. However, one aspect of this issue merits further comment. The structure created by §§ 3652 and 3553 of the Act--filing of an Annual Compliance Report of the Postal Service, followed by an opportunity for public comment, followed by issuance of an Annual Determination of Compliance by the Commission--is not intended exclusively as a mechanism for redressing instances of noncompliance in the previous fiscal year. To some extent, the Postal Service's preparation of an ACR and the comments thereon by "users of the mails, affected parties, and an officer of the Commission" (§ 3653(a)) are meant to have a salutary *prospective* effect by, in the Commission's words, "inform[ing] and influenc[ing] the Postal Service's pricing decisions." The ACR's influence on prospective rate adjustments may be especially important with respect to workshare discounts, because: (1) the Act's restrictions on workshare discounts are exceptionally explicit in character (see § 3622(e)); (2) the parts of § 3652 that specify what information on workshare discounts must be provided in an ACR are closely keyed to those restrictions; and (3) the Commission's Rules of Practice (§ 3010.14(5)) require that Postal Service notices of rate adjustments include a "schedule of the workshare discounts included in the proposed rates, and a companion schedule listing the avoided costs that underlie each such discount" and that "[t]he avoided cost figures must be developed from the most recent PRC Annual Compliance Report."

The Commission's Notice of Filing observes, "the Postal Service does not offer conclusions regarding the extent workshare discounts in effect in FY 2007 comply with the criteria of either the PRA or the PAEA" (at 2-3). For the following reasons, Time Warner believes that the Postal Service's decision not to offer such conclusions in the ACR for FY 2007 was proper. (1) Subsection (b) of § 3652, which sets out the ACR requirements for "information relating to workshare discounts," is keyed to the limitations on workshare discounts provided in § 3622(e) of the PAEA. Those limitations have no application to the rates in effect in FY 2007, which were adopted under the standards of the PRA. No similar limitations on workshare discounts can be found in either the PRA itself or Commission precedents under it. (2) Since the rates in effect in FY 2007 were adopted under the standards of the PRA, pursuant to recommended decisions of the Commission after a full hearing on the record, they carry a far stronger presumption of compliance with the law than do workshare discounts under the PAEA, which are not subject to pre-implementation review. It seems unlikely that the Commission will find that rates adopted in the previous year under the PRA in conformance with its recommended decision are not compliant with the law. (3) To the extent that preparation of the ACR and the comments of interested parties are intended to help guide the Postal Service in the preparation of subsequent rate adjustments, that purpose is served by the calculation of avoided costs and passthrough levels for workshare discounts that the Postal Service has provided in the FY 2007 ACR.

Pointing to "the transitional nature of FY 2007" and the fact that the Commission has not yet "conduct[ed] a rulemaking addressing the Annual

Compliance Report," the Postal Service declares that it "has attempted to be responsive to the mandates of § 3652 based on its existing data systems, and in the compressed timeframe available," but that "the contents of this Report are primarily based on what has been filed in the past, under the PRA regime." USPS ACR at 1-2. In view of the challenges posed by the transitional nature of the 2007 fiscal year and "the Postal Service's first attempt to comply with the tight production schedule that section 3652 imposes" (PRC Notice of Filing at 3), Time Warner believes that any failure of the Postal Service's initial Annual Compliance Report to follow the exact terms of § 3652 is excusable. We commend the Postal Service for its efforts to be as responsive as possible to the requirements of § 3652.

**4. Commission and Postal Service actions subsequent to filing of the FY 2007 ACR**

In agreement with the Postal Service's characterization of the FY 2007 ACR, the Commission states in its Notice of Filing (at 3):

Most of the analytical methods employed in producing the FY 2007 Annual Compliance Report appear to be consistent with established precedent. However, some are new and have not been subjected to critical evaluation by the Commission or the public either in a formal evidentiary hearing or an informal rulemaking.

The Commission acknowledged the reasons for the Postal Service's use of new analyses. For example, with respect to the most prominent instance in which the Postal Service employed new analyses, "revisions to the cost model that the Commission used in Docket No. R2006-1 to design rates for Periodicals," it observed:

In adopting that model, the Commission described it as more comprehensive than the Postal Service's alternative but still dependent on a number of assumptions whose accuracy could be improved if they were based on more direct and/or more recent observation. See PRC Op. R2006-1, ¶¶ 5730-44.

The Postal Service, too, views the Periodicals cost model as a work in progress. It has revised the model "in order to resolve internal inconsistencies and permit transparent updates of the inputs."

Notice of Filing at 3-4 (quoting USPS FY 2007 ACR, USPS-FY07 11, at 1).

However, the Commission also expressed the view that the "methodological changes employed in the FY 2007 Annual Compliance Report should be subjected to independent critical evaluation to the maximum extent possible in the narrow window afforded by sections 3652 and 3653." Notice of Filing at 4.

To achieve that end, the Commission scheduled two informal technical conferences in order to have "Postal Service analysts . . . describe the changes made to the Commission's Periodicals cost model, explain the reasons for making them, and answer related questions from the Commission's technical staff and the interested public [and] to give interested parties an opportunity to discuss other possible refinements of the Periodicals cost model with Postal Service analysts." Notice of Filing at 3, 4.

For its part, the Postal Service has been cooperative with the Commission's efforts to subject new analyses to independent critical evaluation to the extent possible. Prior to filing its first ACR, "[t]he Postal Service . . . notified the Commission informally that its Cost and Revenue Analysis Report for FY 2007 will employ a cost model for Periodicals that corrects and refines the model that the

Commission used in Docket No. R2006-1 to design rates for Periodicals."<sup>3</sup> Since filing the ACR, the Postal Service has generously made its analysts available for informal discussions with interested parties outside as well as within the technical conferences. And it has been responsive to criticisms and suggestions made at the technical conferences, filing three notices of revisions to the ACR and committing itself to further inquiry into a number of issues.

The Commission deserves enormous credit for its response to the Postal Service's limited employment of new methodologies. It has displayed a willingness to act flexibly according to the circumstances at hand, combined with a realistic appreciation of the necessity of independent review in the development of sound Postal Service cost analysis. The Postal Service deserves credit as well--for its progress in making the difficult transition from a culture of litigation to one in which litigation is a last resort, as evidenced by the openness and cooperativeness of its participation in the process thus far, and for the exceptionally hard work being done by its analysts and managers in implementing the new regime.

#### **5. Fruits of the technical conferences sponsored by the Commission**

This section focuses on two specific aspects of the Postal Service's very comprehensive ACR, namely: (1) the proposed revision to the Periodicals mail flow model in FY07 LR-11; and (2) the use of the cost results produced by that model in the FY07 LR-3 worksharing discount table.

---

<sup>3</sup> PRC, Notice Of Technical Conferences Supplementing Postal Service Annual Compliance Report (issued December 27, 2007), at 1.

The ACR Periodicals model is a modified version of the model relied on by the Commission in its R2006-1 Opinion. That model had been proposed in the testimony of Time Warner witness Halstein Stralberg (TW-T-2). The Commission used the model in a modified version of Time Warner witness Robert W. Mitchell's proposed rate design (TW-T-1) to set the Periodicals rates that are currently in effect.

Stralberg's model consisted of several linked Excel spreadsheets and was designed for the dual purpose of providing workshare-related cost and volume data that would allow the Commission to set Periodicals rates under either the traditional rate design methodology or the new approach proposed by Mitchell.

In adapting the model to FY07 data for its ACR, the Postal Service made quite extensive changes, including elimination of calculations relevant only to pre-R2006-1 rate design and an extensive reorganization to fit the remaining model within a single spreadsheet. The Postal Service also made changes that it says are necessary for the model to correspond to current operating realities, and it raised questions regarding certain other aspects of the R2006-1 model, including certain unverified assumptions.

Time Warner participated actively in both technical conferences. Both Stralberg and Mitchell provided written comments that were shared with all participants. Still, given the complexity of the model and of the changes made to it, and the short time frame, we are able to comment only on certain issues regarding the model and its application in USPS-FY07 3, while other issues may have to be addressed in a longer time frame.

Subsection A below discusses the “CRA adjustment” and our finding that, unlike Stralberg’s R2006-1 model, the present model reveals a very large gap between the piece-sorting costs indicated by the model and the (much larger) piece-sorting costs attributed to Outside County flats by the CRA. Such a large gap is generally a sign that a model does not fully represent the operational reality that it was designed to analyze.

Subsection B explains that the FY07 use of the AFSM 100 cost pool was quite different from that assumed in the ACR model and proposes a productivity adjustment that reflects the extensive occurrence of mail preparation work within that cost pool. That adjustment would reduce, but not eliminate, the large gap relative to CRA piece sorting costs.

A revised model spreadsheet, incorporating the changes proposed in subsections A and B, is being filed in electronic form simultaneously with these comments. Exhibit A, which is appended to these comments, shows the effect of using the revised model to determine the Outside County worksharing related passthrough factors in FY07 LR-3.

Subsection C explains why we believe the ACR model's logic regarding the probability of bundle breakage when mail reaches the destinating delivery unit (DDU) is incorrect and proposes a modification that is more in accordance with the R2006-1 model. It also suggests some new data collection that may be necessary to determine what these probabilities really are.

Subsection D describes the “allied” piece and bundle related costs that the model calculates but that are not considered in current Periodicals rate design. It

raises the question of whether these costs, recognized in the current model but not in the pre-R2006-1 mail flow models used by the Commission, should also be included as part of the estimated cost avoidances in the LR-3 worksharing discount table.

Finally, subsection E addresses various model issues that need further analysis and points to the need for additional data that only the Postal Service can provide.

**A. The CRA adjustment and the large gap between modeled and actual piece sorting costs**

The Postal Service's traditional mail-flow models typically use a single CRA adjustment factor, defined as the ratio between: (1) CRA costs of the modeled mail category (i.e., Outside County flats) at the cost pools the model is believed to represent; and (2) the "model" costs, obtained by applying billing determinant volumes to the modeled unit costs.

But a significant difference between model costs and the actual costs as measured by the CRA indicates that the model is not fully aligned with operational reality. A "CRA adjustment" that raises or lowers all modeled costs by the same ratio is never an ideal solution, since it may be only one particular type of cost that the model has failed to represent accurately.

For this reason, and because the model he was proposing included many more cost pools and types of operations than traditional worksharing mail flow models, Time Warner witness Halstein Stralberg developed, in Dockets No. C2004-1 and R2006-1, a method for splitting the CRA adjustment into two parts, with separate factors for piece-sorting operations and for all other modeled operations.

This was possible because the cost pools that perform piece sorting in Postal Service facilities are well defined and generally perform nothing else except piece sorting and activities that are directly related to piece sorting (e.g., “prepping” or “sweeping”).

In the documentation that accompanied its filing of the FY07 Periodicals flats model in the FY 2007 ACR, the Postal Service expressed concern that the CRA adjustment factor for piece-sorting costs was hardcoded to 1.0 in R2006-1, with the entire adjustment therefore being applied to other modeled processing costs, e.g. the costs of handling bundles and containers.

Time Warner shares this concern. As explained below, the model that the Postal Service has filed with its FY 2007 ACR (as revised) shows a very large gap between the modeled piece-sorting costs and the piece-sorting costs indicated by the CRA. Such a large discrepancy did not exist in the R2006-1 model; however, the discrepancy clearly requires a different type of adjustment than that which Stralberg proposed, and the Commission adopted, in R2006-1.

Table A-1 shows the FY07 model and CRA costs, for piece sorting and all other operations, according to the Postal Service’s revised ACR filing, and the CRA adjustment factors that are implied by the differences between the model and CRA costs. As the table shows, the CRA costs for piece sorting are 47% higher than the model piece-sorting costs, a strong indication that some piece-sorting costs are not being reflected in the model. By comparison, in R2006-1, Stralberg’s model showed only an 8% difference between CRA and modeled piece-sorting costs.

On the other hand, the sum of all other modeled costs, including container and bundle handling as well as “allied” piece costs, is somewhat higher than the CRA costs. This suggests a CRA factor for those costs of 0.9447, which would make bundle, sacks and pallet costs somewhat smaller than the model indicates. Instead, the Postal Service’s model, which leaves piece costs unadjusted, adds 20.65% to the modeled bundle, sack, and pallet costs. Assuming that the CRA cost for “all other model costs” (\$677.406 million) is correct, the bundle and container costs in the LR-3 worksharing discount table are thus too high by a factor of 1.277 ( $1.2065/0.9447$ ). The “passthrough” factors shown in LR-3 for bundles and containers are correspondingly too low.

The subsection below explains one reason for the large discrepancy between CRA and model piece-sorting costs: namely, the model’s failure to account for a large number of workhours associated with mail prep functions performed within the AFSM 100 cost pool, at machines equipped with automated induction (AI) capabilities. When the model is modified to account for these workhours, the “model” piece-sorting costs for Outside County flats increase by about \$40 million. This increase reduces the gap relative to CRA costs from 47.3% to 34%, as can be seen by comparing Tables A-1 and A-2.

Time Warner recommends use of the corrected cost figures in Table A-2 rather than the figures in Table A-1. Ideally, as Table A-2 indicates, a CRA adjustment factor of 1.34 should be applied to the model’s pure piece-sorting costs, and a factor equal to 0.9447 applied to all other model costs. The effect of applying these adjustments is shown in Exhibit A, which shows the revised LR-3 Outside

County unit costs, and the corresponding “passthrough” factors, for pieces, as well as bundle, sack, and pallet costs.

A more conservative, though probably less accurate, approach would be to apply the overall CRA factor, which in table A-2 is equal to 1.0943.<sup>4</sup>

<b>Table A-1: Comparison of Model Costs and FY07 CRA Costs with CRA adjustment factors</b>			
Based On The USPS Revised FY07 Periodicals Flats Model			
	Model Costs	CRA Costs	CRA Factor
Direct Piece Costs	\$396,947,457	\$584,730,319	1.4731
All other model costs	\$717,082,206	\$677,405,690	0.9447
All modeled costs	\$1,114,029,663	\$1,262,136,009	1.1329
Adjustment to other costs if direct piece costs kept unchanged (Applied in USPS model)			1.2065

<b>Table A-2: Comparison of Model Costs and FY07 CRA Costs with CRA adjustment factors</b>			
Based On Correcting The Model Of AFSM 100 operations, to include automated induction (AI) workhours			
	Model Costs	CRA Costs	CRA Factor
Direct Piece Costs	\$436,292,889	\$584,730,319	1.3402
All other costs	\$717,082,206	\$677,405,690	0.9447
All modeled costs	\$1,153,375,095	\$1,262,136,009	1.0943
Adjustment to other costs if direct piece costs kept unchanged			1.1517

**B. The AFSM 100 operation has changed since FY2005, and the mail flow model must be modified accordingly in order to represent FY07 operational reality**

One reason the Postal Service’s FY07 Periodicals flats model shows much lower piece-sorting costs than were in fact attributed to Periodicals by the CRA is

---

<sup>4</sup> In the modified spreadsheet that accompanies these comments, cell ‘CRA FLATS’!I2 has a modified switch that works as follows: If the switch is equal to zero, separate CRA adjustments are applied for piece-sorting costs and all other costs. If it is equal to 1, no adjustment is applied to piece-sorting costs. If equal to 2, an average CRA adjustment is applied to all model costs.

that it does not model the AFSM 100 flats operations as those operations actually were performed in FY07. In particular, MODS data indicate that a very substantial number of workhours were spent at operation 140, which is part of the AFSM 100 cost pool and is used by employees that prep bundles and feed flats to machines via the AI attachments that have been installed on many AFSM 100 machines in the past couple of years. The associated costs are not represented anywhere in the model, causing the model to understate the piece-sorting costs that the CRA charges to Periodicals flats.

The discussion below uses information extracted from several library references filed with the ACR, USPSFY07 LR-7 (cost pools), LR-11 (flats models), LR-23 (MODS data), LR-27 (IOCS tallies), as well as information provided in the testimony and interrogatory responses of witness McCrery in Docket No. R2006-1.

AFSM 100 machines had four different configurations in FY07:

- (1) the traditional AFSM 100;
- (2) AFSM 100 with automated tray handling systems (ATHS);
- (3) AFSM 100 with AI installed; and
- (4) AFSM 100 with both ATHS and AI.

Table B-1 shows the MODS numbers associated with each machine configuration and each flats-sorting scheme. MODS number 140 is used by employees who feed flats to the AFSM 100 via the AI attachment. They break bundles, thereby replacing bundle preparation previously performed in MODS operation 035. Flats already in trays are also entered via the AI unit on machines so equipped.

Table B-1: MODS Numbers For AFSM 100 Flats Operations				
Type of Operation	AFSM100	AFSM100/ ATHS	AFSM100/ AI	AFSM100/ ATHS/AI
Outgoing Primary	331	401	461	141
Outgoing Secondary	332	402	462	142
Incoming MMP	333	403	463	143
Incoming SCF	334	404	464	144
Incoming Primary	335	405	465	145
Incoming Secondary	336	406	466	146
Box Section	337	407	467	147
AI (Automatic Induction) Mail Prep			140	140

Table B-2: FY07 Pieces Fed Per AFSM 100 Operation (1,000's)					
	AFSM100	AFSM100/ ATHS	AFSM100/ AI	AFSM100/ ATHS/AI	AFSM 100 Total
Outgoing Primary	832,645	764,822	426,653	1,652,576	3,676,696
Outgoing Secondary	79,604	123,283	17,540	199,319	419,746
Incoming MMP	756,493	1,116,937	311,957	1,997,695	4,183,082
Incoming SCF	916,972	618,668	581,707	2,188,321	4,305,667
Incoming Primary	268,154	322,299	93,170	540,914	1,224,537
Incoming Sec/Box Section	3,932,715	3,037,682	1,960,485	6,634,733	15,565,615
Total	6,786,582	5,983,690	3,391,512	13,213,558	29,375,342

Table B-3: Workhours recorded at different AFSM 100 operation					
Type of Operation	AFSM100	AFSM100/ ATHS	AFSM100/ AI	AFSM100/ ATHS/AI	AFSM 100 Total
Outgoing Primary	377,290	345,400	131,556	307,532	1,161,778
Outgoing Secondary	32,957	46,324	3,361	18,449	101,092
Incoming MMP	358,293	472,865	106,212	361,420	1,298,789
Incoming SCF	462,276	267,547	201,182	381,775	1,312,780
Incoming Primary	128,387	135,166	22,851	92,042	378,445
Incoming Sec/Box Section	1,866,143	1,307,575	622,385	1,231,360	5,027,463
Total Excluding Operation 140 (Flats prep)	3,225,346	2,574,876	1,087,547	2,392,579	9,280,347
AI Flats Preparation			8,486,403		8,486,403
All AFSM 100					17,766,750

Table B-2 shows the pieces fed in each machine configuration for each sort scheme in FY07, according to the MODS summary data in USPS FY07 LR-23. Substantial volumes were sorted by all four machine configurations, but the largest portion (13.2 billion flats) was sorted by the most automated configuration, i.e., machines with both ATHS and AI.

Table B-3 shows the workhours recorded at the various AFSM 100 configurations and sorting schemes, again according to LR-23. Almost half of all such hours--8.49 million hours, versus 9.28 million at all other AFSM 100 operations--were recorded at operation 140, the AI flats prepping operation.

The costs associated with all of these workhours, including MODS 140 hours, are part of the AFSM cost pool. Considering the number of workhours, one must assume that the AI prep operation (MODS 140) incurred almost half of all AFSM costs. It is not known what portion of these costs was attributed to Periodicals, but it seems clear that those costs are not represented in the LR-11 flats models.

Before discussing how those costs might be included in the Periodicals model, it may be worthwhile to point out some conclusions that can be drawn from the numbers in tables B-2 and B-3. First, in the two machine configurations without AI, the total number of flats fed was 12.77 billion (Table B-2) and the total number of workhours was 5.8 million, giving an overall productivity rate for those machines of 2,202 flats per workhour. For the configurations equipped with AI, total flats volume fed was 16.605 billion, and total workhours used, including the 8.49 million flats preparation workhours, were 11.967 million. That gives an average productivity rate

of only 1,388 flats per workhour, much lower than the 2,202 for the machines without AI.

Of course, the two numbers are not really comparable, because the flats sorted on machines without AI need to be prepped elsewhere--most likely at the MODS 035 flats preparation operation. But the difference does illustrate the importance of the flats-prepping costs. The average FY07 productivity rate for all AFSM 100 machines on all sort schemes comes to 1,653. But if one were to ignore the hours in operation 140, the productivity rate would be 3,165 flats per workhour. It would be even higher on the machines equipped with AI.

Consider what the Postal Service's new model does. In fact it does the same thing as the R2006-1 model. Since no AFSM 100s were equipped with ATHS or AI in FY05, that model assumed that by FY08, deployment of ATHS systems would increase AFSM 100 productivity rates at each sort scheme by 25%. No assumption was made regarding the impact on productivity of AI deployment.

The present model takes the same approach, except that it starts with FY07 rather than FY05 productivity rates for machines with no ATHS (or AI). It again assumes a 25% productivity increase. The continued use of this approach seems rather odd, considering that in FY07 ATHS systems had been deployed, making it possible to use real data on machines with ATHS.<sup>5</sup> Table B-4 illustrates that machines with ATHS did achieve somewhat higher productivity rates in FY07 than

---

<sup>5</sup> Models developed in rate cases typically would extrapolate from (known) facts in the base year to various assumptions about the test year. But the purpose of the FY07 model filed with the ACR is simply to analyze FY07 costs using FY07 data, and for that it should not be necessary to make any stipulations about the capability of systems not yet deployed.

those without, but that in most cases the difference was much less than 25%. The first column in that table shows the TY08 productivity rates that were assumed in the R2006-1 model. The second column shows the rates assumed in the FY07 ACR model. The third column shows the actual FY07 ATHS rates, which are considerably lower than those assumed in the ACR model. The last column shows the FY07 productivities for AFSM 100s without ATHS (or AI). Comparing the last two columns, it appears that the productivity improvement due to ATHS, though real, has been considerably less than 25%.

Type of Operation	TY08 rates Assumed In R2006-1 model	FY08 rates Assumed In FY07 model	Actual FY07	No ATHS FY07
Outgoing Primary	2,731	2,759	2,214	2,207
Outgoing Secondary	3,287	3,019	2,661	2,415
Incoming MMP	2,861	2,639	2,362	2,111
Incoming SCF	2,805	2,480	2,312	1,984
Incoming Primary	2,772	2,611	2,384	2,089
Incoming Sec/Box Section	2,660	2,634	2,323	2,107

Sorting Scheme	Productivity Rates Without AI Workhours					AI Adjusted Productivity Rates
	AFSM100	AFSM100/ ATHS	AFSM100/ AI	AFSM100/ ATHS/AI	AFSM100 Average	
Outgoing Primary	2,207	2,214	3,243	5,374	3,165	<b>1,653</b>
Outgoing Secondary	2,415	2,661	5,218	10,804	4,152	<b>2,169</b>
Incoming MMP	2,111	2,362	2,937	5,527	3,221	<b>1,682</b>
Incoming SCF	1,984	2,312	2,891	5,732	3,280	<b>1,713</b>
Incoming Primary	2,089	2,384	4,077	5,877	3,236	<b>1,690</b>
Incoming Sec/Box Section	2,107	2,323	3,150	5,388	3,096	<b>1,617</b>
Average	2,104	2,324	3,118	5,523	3,165	<b>1,653</b>

In order to include all AFSM 100 costs in the model, we propose a simple modification to the current (ACR) model. This approach may not be perfect, but it is far better than simply ignoring the change in the AFSM 100 operation, and it can be carried out using readily available data.

Our proposed approach first computes the current average AFSM 100 productivity rates by sort scheme, without including the MODS operation 140 costs, then degrades all productivity rates by a factor equal to  $9280347/17766750$ , or 0.52, which is the portion of AFSM 100 workhours that are not MODS 140 workhours. Table B-5 shows the resulting productivity rates in the rightmost column.

When these productivity rates are introduced into the Postal Service's model, the modeled Periodicals piece-sorting costs increase by about \$40 million, from \$396.947 million to \$436.293 million, as seen by comparing Tables A-1 and A-2 above.

Even with this correction of AFSM 100 productivity rates, the gap between modeled and actual (as measured by the CRA) piece-sorting costs remains quite large and ought, in our opinion, to be investigated further.

An alternative to the above approach might have been to model the 140 costs as a separate operation, similar to the way the 035 mail prep operation is modeled. However, for such an approach to be practical, the IOCS tallies based on which AFSM 100 costs are attributed to different mail classes would need to show, for

each tally, whether or not it represents work at the 140 operation. This information does not appear to be available in the FY2007 IOCS data.<sup>6</sup>

Time Warner believes a similar adjustment to that described above should be applied to the FY07 mail-flow models for First Class and Standard flats, but those models are not a focus of our present comments.

**C. All model costs are relevant and should be considered in comparing cost avoidances**

Mail flow models used by the Postal Service and the Commission to set presort and automation discounts have traditionally been designed to represent the costs of: (1) sorting pieces (e.g., flats); and (2) sorting bundles, for different categories of mail preparation. Those costs, along with estimated delivery-cost differentials, were used to set the discounts for presorting and automation compatibility.

But the models presented by Stralberg in Dockets No. C2004-1 and R2006-1, and the earlier LR-I-332 model developed in Docket No. R2000-1, cover a much wider range of mail processing operations, including the handling of bundles, sacks, and pallets, as well various "allied" operations in the handling of bundles and pieces. The "allied" piece-sorting costs, referred to simply as "weight related piece costs" in Stralberg's model, are incurred in moving pieces that have been sorted either to a subsequent sorting operation when more sorts are needed, or to carriers at the DDU

---

<sup>6</sup> Unfortunately, the IOCS tallies filed in FY07 LR-27 are of no help in determining how the MODS 140 workhours were used by different types of mail or different sort schemes. That is because not a single tally indicates MODS number 140, even though IOCS clerks are supposed to record the MODS number a sampled employee is clocked into. The FY07 LR-23 data show that almost half the AFSM 100 employees were in fact logged into MODS number 140.

if sorting has been completed. The "allied" bundle costs are costs associated with moving bundles between bundle-sorting operations.

Time Warner witness Robert W. Mitchell's R2006-1 rate design proposal (TW-T-1), which the Commission adopted with some modifications, used the other costs developed by Stralberg but did not include the "allied" piece costs or the "allied" bundle costs. Nor were those costs used in the Commission's rate design.

In its FY07 ACR model, the Postal Service confirms the existence of these additional costs. In fact it proposes changes that increase the "allied" piece costs. But it did not include these costs in the LR-3 worksharing discount table.

Yet these are marginal costs. For example, according to the summary tab in the Postal Service's revised model submission, the difference in "allied" piece costs between carrier route presorted flats and machinable non-auto flats with 5-digit presort is about two cents per piece. If a group of flats changes from 5-digit to carrier route presort, then the "allied" cost difference will disappear along with the difference in direct piece-sorting costs. The fact that such costs were not used in previous rate designs, and in fact were not identified in the Postal Service's earlier models (and still are not identified in their First Class or Standard flats models), does not mean that they are not costs which additional worksharing will help avoid. So in providing, for the ACR, a comparison between worksharing discounts and actual costs avoided, the Postal Service should include these costs in its avoidance estimates.

#### **D. Bundle breakage at delivery units**

At the second technical conference, Stralberg pointed out that the Postal Service's FY07 ACR Periodicals model uses bundle breakage assumptions that differ from those the Commission adopted in R2006-1. He promised to provide written documentation.

As pointed out in Stralberg's R2006-1 testimony (TW-T-2) at 19-21, and as reflected in the mail flow model then adopted by the Commission, bundle breakage ceases to be an issue when bundles arrive at a delivery unit on a pallet or in a rolling container (e.g., a hamper) into which they were sorted at a previous operation. The reason is that bundle sorting at delivery units is almost always done manually and directly from the pallet or hamper, so that no initial dumping is involved. Furthermore, the bundles are then either brought directly to each carrier or put in a container of mail for only one carrier, so that breakage never becomes an issue.<sup>7</sup>

But this fact is not reflected in the ACR-FY07 model, as can be seen in spreadsheet tab 'bundle probabilities', in cells I88, N88, R88, AD88 and AH88. Each of those cells applies a bundle breakage percentage to bundles that have been sorted into a container (called QWC in the model) at an upstream bundle-sorting operation. The bundle breakage probabilities used in the model would apply in reality only when the bundles from that container (QWC) are sorted on mechanized bundle sorting equipment. But that occurs seldom at a delivery unit.<sup>8</sup>

---

<sup>7</sup> This view of bundle sorting as it normally occurs at DDUs was confirmed by USPS witness Kingsley in response to AOL-TW/USPS-T39-14 (Tr. 2179-80) in Docket No. R2001-1.

<sup>8</sup> The model includes an assumption, originating in LR-I-88 from Docket No. R2000-1, that seven percent of 5-digit bundle sorts are performed on mechanized equipment. But LR-I-88 does not state

It would be more in accordance with the model assumptions adopted in R2006-1 to apply, in the cells referred to above, a bundle breakage percentage equal to seven percent (the assumed percent of mechanized bundle sorting at DDUs) of five percent (the percentage assumed broken in subsequent sorting operations on mechanized equipment), i.e., 0.35%.

After Stralberg raised this issue at the second technical conference, there followed some discussion about whether or not there might exist, inside the hampers with previously sorted bundles that arrive at delivery units, a significant percentage of bundles that are broken beyond repair and whose pieces therefore must undergo an incoming secondary sort before being given to the carriers. That is a question which could be settled once and for all if the Postal Service were to undertake a survey of the bundles arriving in such hampers at randomly selected DDU's. To our knowledge, no such study has ever been conducted. Witness Kingsley in R2001-1 did not seem to believe that bundle breakage is a problem in these circumstances, and Stralberg's R2006-1 model also assumed it is not a problem.

#### **E. Other model issues**

The previous sections have identified some major problems with the FY07 Periodicals flats model and proposed some partial solutions. Many other issues should be addressed, including those raised by the Postal Service in its ACR filing and additional issues raised at the two technical conferences. Unfortunately, the

---

that seven percent of bundle sorts at DDU's are done by mechanized equipment, only that seven percent of *all* 5-digit bundle sorts are done by mechanized equipment. Since the Postal Service says that all 5-digit bundle sorts have now been moved to the DDU's (whereas previously some were performed at the processing plants), it is unclear whether the seven percent still applies. The Postal Service could help improve the accuracy of the model by replacing the assumptions from LR-I-88 with a newer study.

time constraints imposed by §§ 3652 and 3653 do not permit a full exploration, much less resolution, of all the issues that must eventually be addressed in order for models of this type to be more reflective of operational reality.

It is also important to realize that “operational reality” is a moving target. The Postal Service's network and handling methods, as well as mailers' preparation, are constantly changing. In fact, the major problem regarding the modeling of AFSM 100 operations, described in subsection B above, did not exist in FY 2005, the R2006-1 base year. For that reason, simply replacing R2006-1 data with FY2007 data does not produce a very accurate model.

The following important issues remain to be addressed. Many of them can be resolved only by collecting new data.

**i. The gap between modeled and CRA piece-sorting costs needs to be analyzed further**

Subsection 5A above describes a large gap between the piece-sorting costs projected by the ACR model and the corresponding costs attributed by the CRA, and proposes correcting the productivity rates at the AFSM 100 cost pool. But even after that correction, the gap remains large. “CRA adjustments” have become accepted practice in models of Postal Service operations, but it is important to realize that such adjustments do not resolve the underlying questions. In this case, the underlying questions are:

Why does the sorting of Periodicals flats cost much more (according to the CRA) than the mail flow models indicate it should cost?

Why is the gap in the FY07 model much larger than it was in the corresponding R2006-1 model?

We hope the Postal Service will give serious attention to these issues in the coming year.<sup>9</sup>

**ii. More data are needed for an accurate modeling of AFSM 100 sorting and mail preparation operations**

In subsection 5B we proposed an interim solution to the question of how to model the AFSM 100 operation after it has been expanded to include significant mail preparation workhours. A fuller analysis of the MODS 140 part of the operation would be helpful. A useful first step would be to have the IOCS tallies indicate when employees were engaged at the 140 AI operation.

**iii. There still are not sufficient data to determine the real impact of bundle breakage on flats costs**

The current Periodicals model, with the changes the Postal Service has made in its ACR filing, could be a fairly sophisticated tool for determining how bundle breakage affects costs of flats with different types of preparation. The problem is that there is very little data on which to base such a determination. The only data collection on bundle breakage reflected in the model was performed in 1999 and is described in USPS LR-I-297. That data showed that many bundles in sacks are found to be broken when the sacks are opened, whereas bundles on pallets seldom break (although some of them do sustain some damage) when dumped from the pallet onto a bundle sorter “belt.”

---

<sup>9</sup> It might be tempting to speculate that the gap occurs simply because Periodicals flats are heavier and more difficult to handle than other flats. But the fact is that the CRA adjustments used in the FY07 ACR First Class and Standard flats models are even larger, indicating substantial problems with those models as well.

There apparently has never been any study of what happens to bundles on the other (sweep) side of a bundle sorting machine, or of the state of bundles arriving at a delivery unit after being sorted in an upstream facility.

The ACR model, like those that preceded it, continues to rely on dubious assumptions regarding what happen to bundles at each stage of processing. In Section 5D, we pointed to one such assumption in the ACR model that is inconsistent with the assumption made by Stralberg in the model adopted by the Commission in R2006-1 and, we believe, also inconsistent with operational reality.

The Postal Service should seek to fill these gaps in reliable data regarding bundle breakage.

**iv. Better data are needed on bundle-sorting productivity**

The MODS productivity data for bundle sorters such as SPBS or APPS machines cannot be used directly in the model, because they incorporate a combination of sack-handling, pallet-handling, and bundle-handling activities, and one model objective is to separately determine bundle, sack, and pallet costs.

In Docket No. R2006-1, Stralberg relied on a statement in the original LR-I-332 model that three sevenths, or 43%, of the workhours at an SPBS machine are used in bundle sorting and determined bundle-sorting productivities on that basis. The Postal Service now says that another three sevenths of the same workhours are used for “sweeping” and should also be considered part of the bundle-sorting costs, which essentially doubles the cost of bundle sorting relative to that assumed in the R2006-1 model.

There are two problems with the Postal Service's view. First, the Postal Service extends its assumption to APPS machine productivity. Since those machines are automated and do not use keyers, it is impossible that three sevenths of the workhours on them could be devoted to keying. Second, the original assumption regarding SPBS machines relies on an old and poorly (if at all) documented study.

A new study of how workhours are actually used at each type of bundle sorting machine is clearly called for.

**v. Many of the questions raised by the Postal Service regarding the R2006-1 model can be addressed satisfactorily only through new data collection efforts**

In comments that were circulated at the first technical conference and posted on the Commission's website,<sup>10</sup> Stralberg responded to various questions raised by the Postal Service in its ACR filing regarding undocumented factors in the R2006-1 model that the Postal Service retained in its ACR model. Some of those questions are listed below. We will not repeat here Stralberg's response to each question. In each case, certain assumptions had to be made because of a lack of data. The Postal Service's questions can be resolved authoritatively only by collecting the necessary data or extracting it from other existing data that the Postal Service may have.

The questions raised by the Postal Service concerned:

the assumption that 85% of flats at AFSM 100/UFSM 1000 equipped facilities receive incoming secondary sortation on

---

<sup>10</sup> See Preliminary Comments Made Available at the January 11, 2008 Technical Conference (posted January 11, 2008).

that equipment;

the assumption that 50% of bundles worked on an MMP scheme will not need transportation to another facility;

The assumption that 64% of MADC bundles receive sorting on SPBS or APPS machines;

the percentage of MADC sacks that are L201 sacks; and

the percentages of 5-d, CRS and CR sacks that are opened at the DDU.

It is possible that the Postal Service could answer some of these questions without needing to undertake a full-blown data collection, e.g., by analysis of mail.dat files and network data. What is clear is that only the Postal Service can provide the necessary information.

## **6. Recommendations for Commission action**

As indicated in the discussion above, the FY 2007 ACR provides little occasion for the Commission's exercise of its authority under § 3653 to review the legality of the FY 2007 rates, since those rates were adopted pursuant to recommended decisions of the Postal Rate Commission under the legal criteria of the PRA. On the other hand, the FY 2007 ACR does provide the Commission with a basis on which to advise the Postal Service of potential compliance problems in FY 2008 and subsequent years. The Commission has already identified some areas, and should make an effort to identify others in its FY 2007 Annual Determination of Compliance, where Postal Service methods or data systems need improvement, special studies need to be undertaken, or serious gaps exist in the Postal Service's current ability to model costs fully and accurately.

The FY 2007 ACR and the two technical conferences sponsored by the Commission should also spur serious reflection about the timing, nature, and scope of a rulemaking, or series of rulemakings, to establish periodic data reporting requirements, specify the content and form of Postal Service annual compliance reports, and design procedures for the review of changes to established methods or analyses.

Respectfully submitted,

s/

---

John M. Burzio  
Timothy L. Keegan

COUNSEL FOR  
TIME WARNER INC.

Burzio McLaughlin & Keegan  
Canal Square, Suite 540  
1054 31st Street, N. W.  
Washington, D. C. 20007-4403  
Telephone: (202) 965-4555  
Fax: (202) 965-4432  
E-mail: burziomclaughlin@covad.net

**Exhibit A : Workshare Discounts and Benchmarks**

Type of Worksharing	Benchmark	Discount / (Surcharge)[1]	Cost Differential[2,3]	Passthrough
<b>Periodicals Outside County Mail</b>				
<b>Presorting (dollars / piece)</b>				
Machinable Nonautomation ADC Flats	Machinable Nonautomation MADC Flats	\$0.061	\$0.084	72.4%
Machinable Nonautomation 3D/SCF Flats	Machinable Nonautomation ADC Flats	\$0.022	\$0.036	61.2%
Machinable Nonautomation 5D Flats	Machinable Nonautomation 3D/SCF Flats	\$0.072	\$0.100	71.8%
CR Basic	Machinable Nonautomation 5D Flats	\$0.107	\$0.101	106.0%
High Density	CR Basic	\$0.020	See Note [3]	
Saturation	High Density	\$0.018	See Note [3]	
Machinable Automation ADC Flats	Machinable Automation MADC Flats	\$0.054	\$0.073	74.2%
Machinable Automation 3D/SCF Flats	Machinable Automation ADC Flats	\$0.019	\$0.032	59.5%
Machinable Automation 5D Flats	Machinable Automation 3D/SCF Flats	\$0.063	\$0.088	71.4%
Nonmachinable Nonauto ADC Flats	Nonmachinable Nonauto MADC Flats	\$0.102	\$0.125	81.4%
Nonmachinable Nonauto 3D/SCF Flats	Nonmachinable Nonauto ADC Flats	\$0.059	\$0.084	69.9%
Nonmachinable Nonauto 5D Flats	Nonmachinable Nonauto 3D/SCF Flats	\$0.084	\$0.197	42.7%
Nonmachinable Automation ADC Flats	Nonmachinable Automation MADC Flats	\$0.092	\$0.113	81.5%
Nonmachinable Automation 3D/SCF Flats	Nonmachinable Automation ADC Flats	\$0.050	\$0.072	69.3%
Nonmachinable Automation 5D Flats	Nonmachinable Automation 3D/SCF Flats	\$0.077	\$0.151	51.2%
<b>Pre-barcoding (dollars / piece)</b>				
Machinable Automation MADC Flats	Machinable Nonautomation MADC Flats	\$0.027	\$0.038	71.3%
Nonmachinable Automation MADC Flats	Nonmachinable Nonauto MADC Flats	\$0.030	\$0.075	40.2%

**Notes**

[1] Source of Discounts: Docket No. R2006-1, Opinion and Recommended Decision, Appendix One

[2] Presorting and Pre-barcoding Cost Differences--Source: TW- PER OC flatsRevised.xls

[3] Cost differentials are based on mail processing costs alone - Delivery costs for Periodicals flats are not calculated for Carrier Route & Non-Carrier Route pieces. Also mail processing costs for Carrier Route High Density and Saturation Mail is not calculated for Periodicals flats. Table below provides the same information with Proxy data for delivery from USPS-FY-07-19, UDC Model 07211.xls, 1. Table 1. High Density and Saturation Cost Differential are based on Delivery Cost Differential only.

Letters Presorting and Pre-barcoding Cost Differences--Source: USPS-FY07-10, STD Letter Costs-Final.xls, Presort Letters Sum page

Type of Discount	Benchmark	Discount / (Surcharge)[1]	Cost Differential[2]	Passthrough
<b>Periodicals Outside County Mail</b>				
<b>Presorting (dollars / piece)</b>				
Machinable Nonautomation ADC Flats	Machinable Nonautomation MADC Flats	\$0.061	\$0.084	72.4%
Machinable Nonautomation 3D/SCF Flats	Machinable Nonautomation ADC Flats	\$0.022	\$0.036	61.2%
Machinable Nonautomation 5D Flats	Machinable Nonautomation 3D/SCF Flats	\$0.072	\$0.100	71.8%
CR Basic	Machinable Nonautomation 5D Flats	\$0.107	\$0.130	82.4%
High Density	CR Basic	\$0.020	\$0.025	80.9%
Saturation	High Density	\$0.018	\$0.020	88.7%
Machinable Automation ADC Flats	Machinable Automation MADC Flats	\$0.054	\$0.073	74.2%
Machinable Automation 3D/SCF Flats	Machinable Automation ADC Flats	\$0.019	\$0.032	59.5%
Machinable Automation 5D Flats	Machinable Automation 3D/SCF Flats	\$0.063	\$0.088	71.4%
Nonmachinable Nonauto ADC Flats	Nonmachinable Nonauto MADC Flats	\$0.102	\$0.125	81.4%
Nonmachinable Nonauto 3D/SCF Flats	Nonmachinable Nonauto ADC Flats	\$0.059	\$0.084	69.9%
Nonmachinable Nonauto 5D Flats	Nonmachinable Nonauto 3D/SCF Flats	\$0.084	\$0.197	42.7%
Nonmachinable Automation ADC Flats	Nonmachinable Automation MADC Flats	\$0.092	\$0.113	81.5%
Nonmachinable Automation 3D/SCF Flats	Nonmachinable Automation ADC Flats	\$0.050	\$0.072	69.3%
Nonmachinable Automation 5D Flats	Nonmachinable Automation 3D/SCF Flats	\$0.077	\$0.151	51.2%
ADC Automation Letter	Mixed ADC Automation Letter	\$0.038	\$0.013	283.4%
3-Digit Automation Letter	ADC Automation Letter	\$0.014	\$0.003	408.1%
5-Digit Automation Letter	3-Digit Automation Letter	\$0.064	\$0.016	406.2%

## Periodicals Bundle and Container Pricing[1]

### Bundle Pricing by Container Level

Container Level	Bundle Level	Price	Bottom-up Cost	Price as Percent of Cost
Mixed ADC	MADC	\$0.100	\$0.284	35.2%
	ADC	\$0.129	\$0.458	28.2%
	3-D/SCF	\$0.134	\$0.496	27.0%
	5-D	\$0.161	\$0.469	34.3%
	Firm Bundle	\$0.079	\$0.562	14.0%
ADC	ADC	\$0.038	\$0.176	21.6%
	3-D/SCF	\$0.063	\$0.277	22.8%
	5-D	\$0.095	\$0.249	38.2%
	CR	\$0.104	\$0.353	29.4%
	Firm Bundle	\$0.048	\$0.349	13.8%
3-D/SCF	3-D/SCF	\$0.039	\$0.170	22.9%
	5-D	\$0.084	\$0.216	38.8%
	CR	\$0.095	\$0.324	29.3%
	Firm Bundle	\$0.045	\$0.319	14.1%
5-D/CR	5-D	\$0.008	\$0.144	5.6%
	CR	\$0.039	\$0.144	27.1%
	Firm Bundle	\$0.027	\$0.143	18.9%

### Sack Pricing by Entry Point

Sack Level	Entry Point	Price	Bottom-up Cost	Price as Percent of Cost
Mixed ADC	OSCF	\$0.42	\$1.79	23.4%
	OADC	\$0.42	\$1.49	28.2%
ADC	OSCF	\$1.80	\$4.12	43.6%
	OADC	\$1.80	\$4.02	44.8%
	OBMC	\$1.80	\$3.55	50.7%
	DBMC	\$1.10	\$2.66	41.3%
	DADC	\$0.60	\$1.49	40.3%
3-D/SCF	OSCF	\$1.90	\$4.42	43.0%
	OADC	\$1.90	\$4.21	45.1%
	OBMC	\$1.90	\$3.68	51.6%
	DBMC	\$1.20	\$2.74	43.8%
	DADC	\$1.00	\$2.31	43.3%
	DSCF	\$0.60	\$1.49	40.3%
5-D/CR	OSCF	\$2.24	\$5.55	40.3%

OADC	\$2.24	\$5.11	43.9%
OBMC	\$2.24	\$4.61	48.6%
DBMC	\$1.50	\$3.70	40.6%
DADC	\$1.30	\$3.19	40.8%
DSCF	\$0.90	\$2.43	37.0%
DDU	\$0.70	\$1.64	42.6%

### Pallet Pricing by Entry Point

Pallet Level	Entry Point	Price	Bottom-up Cost	Price as Percent of Cost
<b>ADC</b>				
	OSCF	\$18.61	\$45.10	41.3%
	OADC	\$18.61	\$40.28	46.2%
	OBMC	\$18.61	\$35.57	52.3%
	DBMC	\$13.00	\$29.60	43.9%
	DADC	\$8.90	\$15.64	56.9%
<b>3-D/SCF</b>				
	OSCF	\$22.98	\$54.71	42.0%
	OADC	\$22.98	\$50.84	45.2%
	OBMC	\$22.98	\$42.51	54.1%
	DBMC	\$14.40	\$32.94	43.7%
	DADC	\$12.20	\$28.62	42.6%
	DSCF	\$6.70	\$15.34	43.7%
<b>5-D/CR</b>				
	OSCF	\$26.95	\$69.52	38.8%
	OADC	\$26.95	\$61.02	44.2%
	OBMC	\$26.95	\$53.42	50.5%
	DBMC	\$17.50	\$44.57	39.3%
	DADC	\$15.50	\$42.02	36.9%
	DSCF	\$8.00	\$28.49	28.1%
	DDU	\$1.20	\$2.78	43.2%

#### Notes

[1] Based on Docket No. R2006-1, PRC-LR-14. Outside County Periodicals bundle and container rates were developed by passing through part of the respective costs, not cost differentials. Bundle & Container Cost --Sources: USPS-FY07-10 FCM Letters Costs-Final.xls,