

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268

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Modification of Costing Methods, 2008-- Postal Service Proposal Twelve	:	Docket No. RM2009-1
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INITIAL COMMENTS OF TIME WARNER INC.  
IN RESPONSE TO ORDER NO. 130  
(December 1, 2008)

Time Warner Inc. (Time Warner) respectfully submits these initial comments in response to Order No. 130, Notice of Proposed Rulemaking on Costing Methods Used in Periodic Reporting (Proposal Twelve) (issued November 7, 2008).

**Summary**

The Postal Service's Proposal Twelve for cost-model modifications to be adopted in the FY 2008 Annual Compliance Report (ACR2008) lists 13 recommended modifications to the Periodicals flats model.<sup>1</sup> The proposal is accompanied by: (1) descriptions of a field study performed to calculate various model parameters; (2) a spreadsheet containing the results of the field study; and (3) a spreadsheet illustrating the implementation of each proposed modification in the ACR2007 version of the model.

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<sup>1</sup> See "Periodicals Cost Model Modifications.doc: Document describing changes in PER Model" (attachment to "Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Further Proposed Methodology Changes for the FY 2008 ACR (Proposal Twelve)" [filed November 4, 2008]).

After reviewing this material, Time Warner believes that the Postal Service has made considerable progress in updating the flats model to reflect current operational reality. We believe most of the proposed model changes should be adopted and that the new data obtained from the field study should be used in the model. Section 1 below discusses each of the specific model modifications that the Postal Service has proposed. Section 2 discusses additional model issues and model data that we believe still remain to be updated.

## **1 The Postal Service Has Made Considerable Progress in Updating the Periodicals Flats Model and in Collecting Needed Data.**

Time Warner's comments on each of the Postal Service's thirteen proposed model changes are presented below.

- a. Proposed Modification 1: Use Mail.Dat Files Entered through the PostalOne! eVS System to Generate Estimates of Bundle Down-Flow from MADC and ADC Containers.

The bundle-flow data in the current model, which come from LR-I-88 and are based on a 1996 data collection, do not distinguish between classes of mail. But most of the Periodicals (and Standard) flats volume today is described by mail.dat files which are entered in the PostalOne! System, which makes it possible to obtain down-flow percentages for ADC and MADC containers that are both class-specific and based on current data. A mail.dat file identifies every bundle in every container by its destinating Zip code. Combining that information with the preparation criteria in labeling lists L002 and L004, the Postal Service is now able to calculate all the bundle-flow percentages that the model needs for MADC and ADC containers.

Time Warner supports this new approach but believes that one potential weakness should be recognized: especially with regard to MADC sacks, a substantial portion of volume may come from very small publications that do not use mail.dat files and are not part of the PostalOne! System. While we know no reason why the down-flow percentages from MADC sacks from small publications would differ substantially from those for larger publications, this may be an issue that needs to be addressed in a future data collection.

It should be noted that the new methodology gives down-flows that differ substantially from those of LR-I-88, and that the impact generally is to increase the modeled bundle costs. For example, according to the LR-I-88 data, 55.62% of 5-digit bundles on an ADC pallet or in an ADC sack would go directly to piece sorting, i.e. require no further bundle sorting after the ADC bundle sort. But according to the new data, only 22.09% of such bundles would avoid further bundle sorting. Similarly, carrier-route and 3-digit bundles also require more iterations of bundle sorting than previously assumed.

We also note that the new methodology should make it be possible to determine separate down-flow percentages for ADC sacks and for ADC pallets, which might further enhance the accuracy of model results.

b. Proposed Modification 2: Field Study to Update Model Parameters.

A field study in 15 processing plants and 30 delivery units has provided several important pieces of information that previously were not available. Use of the field study results will:

- allow several unverified assumptions regarding bundle breakage to be replaced with empirically based data;

- for the first time, allow a direct modeling of the flats-preparation functions performed in postal facilities before flats are inducted into AFSM 100 sorting machines;
- provide new productivity data on manual bundle-sorting operations, both in plants and delivery units;
- provide information not previously available on the degree to which single pieces are sorted on bundle sorting machines; and
- provide new conversion factors for flat tubs and rolling containers.

We believe that the Commission should accept the results of the field study and apply them in the model as proposed by the Postal Service.

Time Warner is particularly pleased that the Postal Service has now filled a major gap in information about bundle breakage. Previous data collection related to bundle breakage focused exclusively on the initial bundle sort, when bundles are dumped from mailer-prepared sacks and pallets. No information was available about the degree to which bundles break downstream, at subsequent bundle sorting operations or at delivery units. Each generation of flats model has contained its own assumptions about downstream bundle breakage. For example, the R2006-1 model assumed a 10% breakage in each downstream bundle sort, but zero breakage at delivery units.<sup>2</sup>

In the ACR2007 model, the Postal Service changed these assumptions to 5% breakage in downstream bundle sorts at both plants and delivery units. The field

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<sup>2</sup> The latter assumption was based on an interrogatory response to AOL-TW/USPS-T39-14 (Tr. 2179-80). by witness Kingsley in Docket No. R2001-1. In response to a question about sorting of carrier route packages from a 5-digit pallet or hamper to carrier route, Kingsley stated: "Packages are typically not thrown into a hamper or U-cart for each carrier route. The packages are typically placed into flat tubs or other containers where breakage should not be an issue at this point."

study now indicates that the average bundle-breakage rate in downstream bundle-sorting operations is 3.67% at the plants and only 0.7% at delivery units.<sup>3</sup>

c. Proposed Modification 3: Direct Modeling of Flats Preparation.

Productivity data that the Postal Service has now collected makes it possible for the first time to directly model the flats preparation activity in postal facilities. Time Warner supports this important modification, although, as explained in the following, one additional piece of information would make the application to Periodicals flats more accurate.

When the Postal Service deployed the AFSM-100 machines, it established a separate manual operation to prepare flats for induction into the machines, using MODS number 035. In his testimony in Docket No. R2006-1, Time Warner witness Stralberg discussed the need to include flats preparation in the flats mail flow model, pointing out that (in FY2005) “the mail processing costs attributed to Outside County flats in the 035 cost pool, intended to facilitate entry into the AFSM-100 machines, actually exceed the costs attributed in the AFSM-100 pool itself.” See Docket No. R2006-1, TW-T-2 at 10.

Because there was no productivity data available for the 035 flats operation, Stralberg devised a scheme to distribute its costs, relying on the total CRA costs

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<sup>3</sup> The low percentage (0.7%) of DDU bundle breakage essentially confirms witness Kingsley’s statement that bundle breakage simply is not an issue at DDUs. One reason it is not an issue is that bundle sorting at the DDUs usually consists of lifting bundles from the container they arrived in and bringing them directly to the carriers, with little chance of premature breakage. And as can be seen from the spreadsheet facilitystudy.xls, at worksheet ‘DDU breakage’, the observed breakage percentage was zero at many DDUs and the average would be even considerably less than 0.7% except for one DDU (Site S07, DDU P1) where only a few bundles were observed and the breakage

[footnote continues]

attributed to Outside County Periodicals in the 035 cost pool and estimating the number of flats at each presort level that would use that cost pool. That methodology was adopted by the PRC in its R2006-1 Opinion.

The Postal Service's ACR2007 version of the Periodicals flats model continued the treatment of MODS 035 costs that had been adopted by the Commission in R2006-1. However, as pointed out by Time Warner and others, in FY2007 a significant portion of the mail preparation work formerly done in the MODS 035 cost pool had been transferred to the Automated Induction (AI) attachments that had been added to many AFSM-100 machines. Employees preparing flats at the AI are logged under MODS number 140 and prepare flats in bundles or in flats tubs for induction into the AFSM 100.

In its comments on the ACR2007 model, Time Warner pointed out that the costs of the considerable number of manhours logged at the MODS 140 operation and attributed to Outside County flats by the CRA were not represented in the model, contributing to a severe discrepancy between model costs and CRA costs. We proposed, as an interim solution, reducing the AFSM-100 productivity rates used in the model so as to account for the work performed under MODS 140, which is part of the AFSM-100 cost pool. We acknowledged, however, that this solution, which would not have been able to properly distinguish between the degree to which flats at different presort levels use the 140 costs, was imperfect.

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was calculated at 8.6%, far higher than at any other sampled DDU.

With the new approach and the flats preparation productivity data that now have become available, such an interim solution is no longer necessary. The proposed model includes the bundle-preparation activity at the AI, with MODS number 140, as well as at the MODS 035 operation. Average productivity was determined to be 101.31 bundles per workhour. The new model also includes preparation at the MODS 140 operation of flats that arrive in tubs, with a reported productivity rate equal to 37.13 tubs per hour.

In the Periodicals model, both the per-bundle and the per-tub productivity rates are converted to pieces per workhour in order to determine per-piece costs. In the case of bundles, the conversion factors used are specific to Periodicals and to each bundle presort level. But in converting the per-tub productivity rate, the conversion factor used, 56.61 pieces per tub, was determined from the new field study and represents an average for all flats.

Because Periodicals flats generally are thicker than Standard or First Class flats, it seems likely that tubs with Periodicals flats would, on the average, contain fewer flats than the 56.61 average for all flats that was estimated in the field survey. Use of a pieces-per-tub conversion factor specific to Periodicals flats would therefore lead to somewhat higher modeled costs of tub preparation.<sup>4</sup>

The Commission should approve the proposal for directly modeling flats preparation, as proposed by the Postal Service, with the provision that when it

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<sup>4</sup> The average pieces-per-tub factor was used, appropriately, in the survey that determined the productivity rate for tub flats preparation. But in the Periodicals model, a conversion factor unique to Periodicals would be more appropriate.

becomes possible, the Periodicals model should be changed to use a pieces per tub conversion factor that is specific to Periodicals flats.

d. Proposed Modification 4: Use of IOCS Questionnaire to Derive Estimates of SPBS and APPS Container Dumping Time.

As the Postal Service explains, the issue addressed is the need to adjust the MODS based productivity rates in APPS and SPBS bundle sorting operations. The need arises because some of the work performed at these operations, and counted as APPS or SPBS workhours in MODS, is actually modeled separately in the Periodicals flats model. Specifically, the work of dumping containers of mail onto the APPS or SPBS sorting belt is modeled separately and has different productivity rates depending on whether the container dumped is a sack or a pallet.

In its FY 2007 ACR, the Postal Service proposed to increase the previously used adjustment factor to a value equal to 6/7, or 85.71%. It now proposes to increase it further to 90.11%, based on a tabulation of dollar-weighted responses to IOCS question Q18C12.

We agree that tabulations of IOCS responses to specific questions can be used to address questions of this type, but we have several doubts about the way it has been done in this case. We explain our reservations in the following. We hope that they will be addressed before the Commission adopts this particular proposal. To facilitate the discussion, we reproduce below as Table 1, in a slightly altered

format, the spreadsheet table that the Postal Service uses to derive the 90.11 factor.<sup>5</sup>

For employees sampled at a mechanized bundle-sorting operation, IOCS clerks can respond to question Q18C12 with codes A through M, or they can give no response. As Table 1 shows, response B indicates “Induction/Dumpers/Loaders,” i.e., that the sampled employee was engaged in dumping bundles from a container to induct them into the bundle sorter. The tallies with response B are shown as having a total dollar value of \$62.301 million, while all tallies, including the no response tallies, have a total value of \$629.648 million. The 90.11% factor is derived by assuming that all tallies with Q18C12 response other than B, including the 25.98% of tallies with no response, represent proper bundle sorting. In other words, it is calculated as  $(629.648-62.301)/629.648$ .

It seems quite a stretch to assume that all tallies with no response represent proper bundle sorting and that none of them represent the dumping of containers, or for that matter any other activity not related to bundle sorting. Absent further information, we believe a more appropriate adjustment might be calculated by excluding the tallies with no response, in which case the factor would be calculated as:  $(629.648-163.313-62.301)/(629.648-163.313)$  which equals 86.6% and is close to the value that was adopted in ACR2007.

Additionally, we note that 8.05% of the tallies were associated with response A, which represents “Moving Mail or Equipment Into/Out of Operation.” But moving

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<sup>5</sup> The table can also be found at worksheet ‘ACR 2008 MODIFICATIONS,’ in cells d62:q81.

“mail or equipment” to a bundle-sorting operation, when the bundles are still on pallets, in sacks, or in a Postal Service container such as a hamper, is an operation whose productivity would be measured in pallets, sacks, or postal containers, rather than in bundles, and which already, like the dumping function, is explicitly modeled separately from the bundle sorting itself. Similarly, the Periodicals model explicitly models, separately from the bundle sorting, the act of moving a container of already sorted bundles to the next operation, or to the platform if that container is to be dispatched. One might therefore conclude that at least a portion of the tallies with response A also should be excluded when determining what constitutes actual bundle sorting.<sup>6</sup> That would indicate a factor smaller than the 85.71% adopted in ACR2007.

Finally, we note, as we did in Time Warner’s ACR2007 comments, that the proper adjustment factor may be quite different for APPS and SPBS machines, since in the case of APPS there is no keying except for bundles whose address could not be read automatically, whereas keying the address for each bundle is a major activity at SPBS machines. See Docket No R2006-1, USPS-T-42 at 26-27. The IOCS approach should allow separate factors for APPS and SPBS, and we recommend this be done in the future.

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<sup>6</sup> It is possible, however, that response A could indicate an employee at the APPS or SPBS who simply removes a full container, takes it to a nearby staging area and replaces it with an empty container that will receive newly sorted bundles. That would be a proper part of bundle sorting and is distinct from actually taking the container away from the bundle sorter to another operation. Still, for reasons explained above, we believe that at least a portion of the “A” responses represent activities that are explicitly modeled outside the bundle-sorting operation.

To summarize: the 90.11% adjustment factor should not be adopted; however, the data provided may be sufficient to determine a more accurate adjustment factor, especially if the Postal Service will address the issues raised above in its reply comments.

**Table 1: USPS Proposed IOCS-based Adjustment Factor For APPS/SPBS Productivity Rates**

Q18C12	Description	(\$000)		Total	
		Clerks	Mail Handlers		
A	Moving Mail or Equipment Into/Out of Operation	21,634	29,039	50,673	8.05%
B	Induction/Dumpers/Loaders	3,900	58,401	62,301	9.89%
C	Keying/Feeding/Facing Mail	153,463	11,008	164,471	26.12%
D	Culling/Directing Flow	2,311	11,375	13,686	2.17%
E	Sweeping/Additional Separations at Runouts (Other than End of Run or Dispatch)	59,313	34,219	93,533	14.85%
F	Setting Up, Scheme Change, or Taking Down (Including Final Sweep/Tying Out.)	21,003	15,399	36,402	5.78%
G	Verifying Mail	1,168	1,440	2,608	0.41%
H	Clearing Machine Jam/Machine Maintenance	764	946	1,710	0.27%
I	Waiting for Machine Restart/Waiting for Mail	9,188	5,948	15,136	2.40%
J	Monitoring Machine Operation	2,351	2,654	5,005	0.79%
K	Crew Rotation	4,390	1,227	5,617	0.89%
L	Damage Repair/First-Aid/Rewrap (Machine-Specific)	246	130	376	0.06%
M	Other (Specify)	8,259	6,257	14,516	2.31%
	No Response	93,511	70,102	163,613	25.98%
Total		381,502	248,146	629,648	
		<b>ACR 2008</b>	<b>ACR 2007</b>		
	Pure Keying Adjustment	90.11%	85.71%		

e. Proposed Modification 5: Removal of Additional Handlings for Bundle Sorting Activities.

According to the LR-I-88 bundle-flow results, some bundle-sorting schemes require some bundles to be sorted more than once. This has been reflected in the flats models since Docket No. R2000-1 as multiplying factors applied to the costs of handling bundles with different sort levels at different sorting operations.<sup>7</sup> The Postal Service now proposes to set all these factors to exactly 1, explaining that while such second handlings within a bundle scheme may have been necessary in 1996, when the LR-I-88 data collection was performed:

In the current bundle processing environment, this is no longer necessary. Most facilities have enough separations on the SPBS or APPS to sort bundles in one pass. When additional handlings are necessary, the employees performing the second pass are clocked into the SPBS or APPS operation. In these cases, the inclusion of the second handling parameter would double count the costs of the second handling, as second handlings are already incorporated in the MODS productivities. The few sites that still sort bundles manually are small and can accomplish the necessary separations in one pass.

Time Warner agrees with this modification.

It should be noted that this modification generally has the opposite effect of modification 1, discussed above. Whereas that modification will increase the modeled bundle sorts and bundle sorting costs, this modification will reduce the modeled costs. The net effect will be a model closer to operational reality.

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<sup>7</sup> In the ACR2007 model as well as the modified version now proposed, these factors are in cells 'BUNDLE DATA'!C16:C42.

f. Proposed Modification 6: Outgoing Primary (OP) Bundle Sorting Set at 100 Percent Manual.

Outgoing primary (OP) bundle sorting is performed on bundles that arrive at postal facilities in mixed ADC (MADC) containers. The LR-I-88 report indicated that 64% of MADC (i.e., OP) bundle sorting is performed on mechanized bundle-sorting equipment, and that assumption has continued to be reflected in the Periodicals flats model, for lack of any more recent data. In fact, however, Time Warner has never actually observed, or talked to anyone who has observed, a mechanized MADC bundle-sorting operation in a postal facility. APPS and SPBS bundle sorters, when used to sort flats bundles, are normally used for either BMC, ADC, SCF or 3-digit bundle-sorting schemes.

As the Postal Service points out, only 3% of Periodicals flats and less than 2% of Standard flats arrive in MADC containers. Such small volumes normally would not justify the substantial setup time required to run an MADC bundle-sorting scheme on an APPS or SPBS bundle sorter. Furthermore, many of the MADC containers are sacks, which tend to cause extensive bundle breakage, making facilities reluctant to sort them on mechanized equipment.

Based on the above and the fact that in all the facilities represented in its field study outgoing primary bundle sorting is done manually, the Postal Service recommends modifying the model to assume that 100 percent of such sorts are done manually. Time Warner agrees and believes this change will make the model more realistic. However, the following comments may be in order.

First, in Dockets No. R2005-1 and R2006-1 the Postal Service described the Periodicals Cost Reductions Initiative, an important component of which was to

consolidate Periodicals mail entered at origin into processing at a limited number of large facilities (labeling list L009) in order to facilitate the processing of these small volumes on mechanized and automated equipment. Assuming that some of the facilities in the Postal Service's field study were L009 facilities, its conclusion that all MADC bundle sorting is done manually, even in the facilities where MADC containers of Periodicals flats are being consolidated, indicates that, at least for bundle sorting, the goal of eliminating manual outgoing sorting has not been achieved.

Second, a substantial portion of flats entered at origin is entered in sacks with some level of presort (e.g., 5-digit, 3-digit or ADC sacks). Bundles in these sacks sustain substantial amounts of damage. As the Postal Service continues to remove its BMC sack sorters, these sacks are sorted in slow manual operations as they make their way through the postal network. Mailers who prepare these sacks are unable to put their contents on pallets under today's regulations, due to insufficient volumes. But the Postal Service could eliminate almost all these sacks, while at the same time substantially increasing the volume of bundles available for outgoing primary sorting, if it were to allow mailers to place their residual bundle volumes on mixed ADC pallets. The Postal Service would have to evaluate whether such a change would increase bundle volumes enough to justify mechanized/automated sorting of those bundles, and whether real savings could be achieved in this manner.

g. Proposed Modification 7: Incoming Secondary Bundle Sorting Set at 100 Percent Manual.

The LR-I-88 report indicated that 7% of incoming secondary bundle sorting was being performed with mechanized bundle-sorting equipment. This has been reflected in the Periodicals model ever since. But incoming secondary bundle sorting is performed at delivery units, and the Postal Service now says that its field study found no mechanized bundle sorting equipment at any delivery unit. We have long been skeptical about the existence of 7% mechanized bundle sorting at DDUs. We agree with the Postal Service that there is no reason to continue to assume that any mechanized bundle sorting occurs at DDUs.

h. Proposed Modification 8: Calculation of Mechanized Incoming Secondary Incidence Using MODS TPF and RPW Measures.

As shown on worksheet 'ACR 2008 Modifications' in cells B92:D104, the Postal Service has estimated that in FY 2008 74.3% of non-carrier route flats received incoming secondary sorting on mechanized equipment, i.e., on AFSM-100 or UFSM-1000 machines. The figure is obtained as a ratio between total flats volume sorted to carrier route on mechanized equipment according to MODS TPF data, and the RPW volume of non-carrier route flats.

The Postal Service further proposes that this figure, or its updated value in future fiscal years, be used in the model to determine the percentage of Periodicals non-carrier route flats that will receive mechanized or automated incoming secondary sorting. It argues that:

this method is superior to the "educated assumptions" used in previous models, is easily updateable, and gives nearly identical results.

Time Warner agrees that the proposed method gives results nearly identical to those produced by the current model. We do not agree, however, that it settles the question of what portion of non-carrier route Periodicals flats in reality receives manual and what portion receives mechanized or automated incoming secondary sorting. Our reasons are described below.

First, the Postal Service divides the total mechanized incoming secondary TPF flats volume (15.921 billion) by the RPW estimate of non-carrier route flats (21.432 billion). But there are more carrier-route than non-carrier route flats. Some of the carrier-route flats are in bundles that break prematurely and therefore end up needing incoming secondary sorting, whether it is done manually or by machine. The number of such flats is not known, but when they are included, the total number of flats that require incoming secondary sorting is somewhat larger than the 21.432 billion. The percentage receiving mechanized/automated incoming secondary must therefore be somewhat smaller than the 74.3% estimated by the Postal Service.

Second, and more important, as the Postal Service acknowledges, its estimate is not class-specific but represents an average for all flats. As was discussed extensively in Docket No. R2006-1, there is much evidence indicating that Periodicals flats are, on the average, more likely than other flats to be sorted manually in the incoming secondary. See Docket No. R2006-1, TW-T-2 at 12-13.

One reason for this is simply that, according to the coverage factors for destinating piece-sorting activities as shown in the model (cells 'coverage factors'!a38:f44), Periodicals flats are more likely than flats in general to destinate at processing facilities that do only manual flats sorting (12.12% for Periodicals flats

versus 8.51% for First Class and 9.53% for Standard). Another is that Periodicals flats are more likely than First Class or Standard flats to be non-machinable and to receive manual sorting for that reason.

In Docket No. R2006-1, Postal Service operations witness McCrery testified, in response to an interrogatory:

I can think of the following circumstances that could lead to non-carrier route flats being processed manually: some plants maintain "hot 2C" lists in which mail pieces are, to a large extent, processed manually to minimize the potential for service issues, some plants maintain separate manual operations for processing newspapers due to the problems associated with placing some of those mail pieces on equipment, mailings could be entered after the automation incoming secondary processing window had expired, mail for a class with significantly higher volume (e.g., Standard Mail) could be given processing precedence over mail for a class with lower volume if the classes are processed to maintain a separation and the equipment cannot be used to finalize both mail classes within the processing window, equipment breakdowns could result in the implementation of contingency processing plans, power outages/disruptions could result in the implementation of contingency processing plans, adverse weather conditions could affect the staffing level and transportation network and result in the implementation of contingency processing plans, and mail from upstream operations could be delayed.<sup>8</sup>

Since several of these reasons apply only to Periodicals and, according to McCrery, facilities may prefer processing Standard flats on machine when machine capacity is limited, it seems more than likely that Periodicals flats are processed manually more often than the average flat.

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<sup>8</sup> Docket No. R2006-1, Response of Postal Service witness McCrery to TW/USPS-T20-9b from Time Warner, redirected from witness Miller.

As explained previously by Halstein Stralberg, the costs of manual processing of Periodicals flats, according to the CRA, far exceed the costs of manual sorting indicated by the model.<sup>9</sup> It is important for the Periodicals class that the reasons for this discrepancy be determined and to the extent possible corrected. If, as seems likely, Periodicals are processed manually more often than the model indicates, that could be part of the reason for the discrepancy.

i. Proposed Modification 9: Removal of Partial CRA Controls.

The Postal Service proposes to use a single overall CRA adjustment factor in the ACR2008 model rather than separate factors for piece-sorting and other processing costs. Time Warner considers this an improvement over the form of the adjustment used in the ACR2007 Periodicals model, and we recommend that the Commission adopt it.

Time Warner understands the Postal Service's expressed reservations about mapping specific cost pools to specific model operations, at least at the present time. As the Postal Service points out, the individual costs pools are not pure and may not be perfectly aligned with the individual modeled activities. On the other hand, looking beyond the ACR2008 report to the longer-term necessity of better understanding why Periodicals costs are so high and finding ways to reduce these costs, we believe that analyses based on comparing groups of modeled activities with groups of related cost pools could be extremely useful. Such comparisons may

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<sup>9</sup> See Docket No. RM2008-2, Initial Comments of Time Warner Inc. in Response to Order No. 99 (filed September 8, 2008), App. B at 2-5.

require further partitioning the costs in some cost pools (e.g., the AFSM-100 cost pools includes the mail prep activities under MODS number 140 as well as other tasks associated with automated sorting operations). One example of the possibility to draw conclusions from such comparisons, which we hope will be followed up by more detailed analyses, was provided in Halstein Stralberg's Recommendations for Improving the Periodicals Class, filed as an addendum to Time Warner's initial comments in response to Order No. 99.<sup>10</sup>

j. Proposed Modification 10: Set Piece Coverage Factors for OP, OS, and MMP to 100 Percent Mechanized.

The Postal Service states that all ADCs, the facilities in which the OP, OS and MMP flats-sorting schemes are performed, are now equipped with both AFSM 100- and UFSM-1000 machines. Per definition of the outgoing coverage factors, as they are used in the model, it then follows that those coverage factors should be set to 100%.

The modification should be adopted. However, it appears to Time Warner that this is not a matter of changing a methodology but simply of updating data elements in the model to their current value. The "coverage factors" in the model, representing the availability of various types of automated and mechanized equipment, ought to be updated every year.

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<sup>10</sup> See Docket No. RM2008-2, Initial Comments of Time Warner Inc. in Response to Order No. 99 (filed September 8, 2008), Table B-4 at page B-5.

k. Proposed Modification 11: Account for Rejects in APPS and SPBS Operations.

At piece-sorting operations, rejected pieces (from the reject bin) are, according to the model and, we believe, in reality, sent to a manual-sorting operation. But the proposed method of accounting for bundles rejected at an APPS or SPBS bundle-sorting operation is consistent with the assumption that at bundle-sorting operations such bundles would be resorted on the same machine. Time Warner believes this assumption is correct, at least with regard to the APPS, and recommends that the Commission approve this modification.

l. Proposed Modification 12: The Use of All AFSM 100 MODS Data in Calculating Productivity.

In Docket No. R2006-1, actual base-year (FY 2005) productivity data for AFSM-100 machines with ATHS (automated tray handling system) and AI (automated induction) were not available, because those capabilities had not yet been installed in the base year. The R2006-1 flats model used engineering estimates of what the productivity would be with ATHS installed. The same methodology was used in the FY 2007 model, but as pointed out in our ACR2007 comments, there was no need for such estimates since in FY 2007 the ATHS and AI had already been installed, so that actual productivity data were available.

In the modified model, the Postal Service appears to have used average AFSM-100 productivity rates based on FY 2007 MODS data, except that workhours incurred at MODS number 140 are excluded, since the flats preparation function is being modeled separately.

Time Warner agrees with this approach. It should be adopted by the Commission.

m. Proposed Modification 13: Adjusting SPBS and APPS Productivities for Single Piece Sorts.

The Postal Service determined in its field study that 3.71% of the items sorted in an APPS bundle-sorting operation, and 5.81% of those in an SPBS bundle-sort operation, actually are single pieces. It proposes to modify the APPS and SPBS bundle-sorting productivity rates accordingly. It appears that the proposed model adjustment will make the model correspond more closely to reality. It should be adopted.

**2. While Considerable Progress Has Been Made, Other Model Issues Remain To Be Addressed**

As discussed above, the Postal Service has made considerable progress and has collected several items of previously unavailable data, primarily relating to the costs of sorting, preparing for piece sorting, and premature breakage of flats bundles. The following are some remaining issues that Time Warner believes should be addressed in the future.

a. The model still uses productivity rates for container movement and handling that are based on very old data.

As can be seen from column K in worksheet 'PRODUCTIVITIES' in the Periodicals model, most of the productivities related to moving containers across the platform, on and off trucks, and to opening facilities, as well as sorting sacks, are based on old data, some going as far back as to Dockets No. R84-1 and R87-1.

Furthermore, these productivity rates were mostly obtained at BMCs, as those facilities used to be configured.

A fresh and comprehensive approach to the issue of container handling productivity rates, similar to what the Postal Service now has done with bundle handling, appears to be overdue. It makes little sense, for example, to assume, as the model still does, that sacks are sorted at mechanized sack sorters when in fact more and more of those machines are being removed, even from the BMCs.

We hope the Postal Service will deal with this issue in its next round of model updates.

- b. The assumed incidence of flats non-machinability in the current model should be adjusted to be consistent with billing determinant data.

As pointed out by Halstein Stralberg, billing determinant data from the end of FY2007, when R2006-1 rates were in effect, appeared to indicate that the percentage of Periodicals flats which are non-machinable on the AFSM 100 is lower than the model assumes.<sup>11</sup> If that conclusion is confirmed by the FY 2008 billing determinants when they become available, then the percentages of machinability and non-machinability in the Periodicals model should be adjusted accordingly. It appears that the Postal Service should be able to do so before presenting its final version of the ACR2008 model.

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<sup>11</sup> See Docket No. RM2008-2, Initial Comments of Time Warner Inc. in Response to Order No. 99 (filed September 8, 2008), App. C.

Respectfully submitted,

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