

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268

Modification of Analytical Principles in :
Periodic Reporting : Docket No. RM2010-4
(Proposals Twenty-Two through Twenty-Five) :
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INITIAL COMMENTS OF TIME WARNER INC.
IN RESPONSE TO ORDER NO. 327
(November 16, 2009)

Time Warner Inc. (Time Warner) respectfully submits these initial comments in response to Order No. 327, Notice of Proposed Rulemaking on Analytical Principles in Periodic Reporting (Proposals Twenty-Two through Twenty-Five) (issued October 29, 2009).

In Docket No. RM2010-4 the Postal Service proposes four changes in the analytical principles used in its periodic reporting of costs.¹ Time Warner's comments are addressed exclusively to Proposal 25, which concerns the flats mail flow models that the Postal Service relies on in its annual compliance reports.

DISCUSSION

Proposal 25 includes three proposed modifications to the flats models (which we shall refer to for convenience as Proposed Modifications 25.1, 25.2 and 25.3). Time Warner does not object to any of the three modifications. However, with respect to Proposed Modifications 25.1 and 25.2, Time Warner does have concerns

¹ See Petition of the United States Postal Service Requesting Initiation of a Proceeding to Consider Proposed Changes In Analytic Principles (Proposals Twenty-two – Twenty-five) (filed October 23, 2009) ("USPS Petition").

regarding the accuracy of both the current methodologies and the proposed modifications. We discuss these concerns in parts A and B below.

Additionally, in examining the potential impact of Proposed Modification 25.2, we have become aware of what appears to be a flaw in the way the model calculates the piece sorting costs for flats with 3-digit/SCF bundle presort. That issue is addressed in part C below.

A. Proposed Modification 25.1

This proposal would change the method that determines the "coverage factors" used in the flats models. Coverage factors represent the probabilities of flats sorting being performed in facilities that have either AFSM capability, UFSM capability, or both. The Postal Service states that

[t]he proposed methodology uses a variety of data sources not used before to map mail volume and mail processing equipment to processing location. The result is an improved calculation of Coverage Factors.

USPS Petition, Proposal 25, at 1.

The data sources referred to are MODS, ODIS and the "MAILDIRECTIONv2" file. The Postal Service estimates

that the proposed Coverage Factors methodology will be more accurate in quantifying the operational reality of how flat mail is distributed. The proposed methodology includes annual updating to reflect data from the past fiscal year. The use of MAILDIRECTIONv2 and MODS data will assist in mapping mail volume to sites. On occasion, adjustments are made to incorporate local decisions regarding mail redirection.

Id. at 2.

The coverage factors are used in the mail flow models to determine the proportions of flats that are sorted, respectively, manually, by AFSM 100, and by

UFSM 1000. There are strong reasons to believe that the current model severely understates the extent to which Periodicals flats continue to be sorted manually.²

The question, therefore, is whether the alternative derivation of coverage factors now proposed by the Postal Service would bring the model's estimate of how many Periodicals flats are sorted manually significantly closer to reality. This seems unlikely, since replacing the old coverage factors with the ones now proposed causes only very minor changes in model results.

While not objecting to Proposed Modification 25.1, Time Warner believes that answers to the following questions respecting that modification need to be provided:

1. What precisely is the "MAILDIRECTIONv2" file described in Appendix A in the USPS Petition, and exactly what information does it contain? For example, does it identify 5-digit offices that routinely do their own (manual) incoming secondary flats sorting? Does it identify different policies for different classes of mail regarding where and how flats sorting is performed?
2. It used to be the case that if a 5-digit office served only a few (e.g., five or fewer) carrier routes, incoming secondary flats sorting would be performed manually even if the processing plant had AFSM 100 capability. Does the proposed calculation of coverage factors take such policies into account?
3. Appendix A of the USPS Petition indicates that "[o]n occasion, adjustments are made to incorporate local decisions regarding mail redirection." Do these decisions include, for example, decisions to sort Periodicals flats manually for service related reasons?

² See the analysis by Halstein Stralberg that was appended to Time Warner's Initial Comments in Response to Commission Order No. 269 (Docket No. RM2009-10) (filed August 20, 2009), which demonstrates that the costs of manual Periodicals flats sorting are far higher than the model predicts those costs to be. That conclusion is supported by an October 28 online PowerPoint presentation given by the Postal Service on the subject of Periodicals costs. It clearly demonstrated (particularly in slide 27), based on CRA costs, that Periodicals flats are much more likely to receive manual sorting than are Standard flats, while Standard flats are more likely to receive automated sorting, in spite of roughly similar degrees of flats machinability between the two types of flats.

Time Warner believes that answers to these questions would lead to a clearer understanding of what the coverage factors represent, and might even help in understanding why Periodicals manual processing costs appear to be so much higher than the model indicates they should be.

B. Proposed Modification 25.2

The Postal Service proposes in Modification 25.2 to use the piece density data from UFSM 1000 machines, rather than density data taken at manual flats cases, to determine the down-flows from manual flats cases. Density data show the percentages of sorted flats that go to each subsequent sorting operation. For example, from an outgoing primary sort the density data show what percent of flats goes next directly to an incoming secondary (5-digit) sort, what percent goes next to an incoming primary, SCF primary, etc.

Density data are collected automatically at automated/mechanized sorting machines, but for manual sorting they must be collected by taking samples of the mail sorted at particular flats cases and manually counting the flats sorted into each individual bin. To get representative density data for all sorting schemes represented in the various mail flow models, many manual tests must be taken and tabulated in a large number of postal facilities. The Postal Service has been maintaining a national data base of the combined results from such tests and using that data in the flats mail flow models. But performing these manual tests is time-consuming and expensive. Proposal 25 appears to indicate that the Postal Service no longer finds these expenses worthwhile and that up-to-date manual density data are therefore no longer available.

Given the Postal Service's urgent need to cut costs, its wish to rely on UFSM density data as proxies for manual density data is understandable, even if it is unlikely that accurate manual densities can be obtained from the UFSM.³

However, it should be noted that the model's UFSM density data for the SCF primary sort scheme add up to more than 100. This seems to make little sense when applied to manual sort densities.

Table 1 below shows the UFSM 1000 density percentages from the SCF sorting scheme. (They can also be found on the 'Piece Densities' worksheet, cells c14:g14, in the spreadsheet that accompanied the Proposal 25 petition.) When the 0.83% shown as flowing to an MMP scheme and 7.26% shown flowing back to the SCF scheme are included, the densities add up to more than 100%. The percentages for the flows to IP (incoming primary) and IS (incoming secondary) do add up to 100%. Furthermore, they are the only percentages that the model appears to use; i.e., nowhere does the model make use of the percentages that indicate flows to MMP or SCF.

Clearly these extra percentages have no relevance to manual sorting and should be removed from the manual densities that the Postal Service proposes. Since they are produced by the UFSM system, their meaning must relate to UFSM operations. It would appear that the 7.26% shown as flowing from the SCF scheme back to the SCF scheme must represent pieces that are fed back into the machine and sorted a second time, as could happen, for instance, when a piece fed to the

³ A manual flats sorting case allows fewer separations than are possible on a UFSM or AFSM machine. Consequently, one would expect the UFSM sort scheme to produce deeper sorts, requiring fewer subsequent sorts, than might be possible with manual sort schemes.

UFSM in the automated mode must be sorted on the machine again in the manual mode. One question that we hope the Postal Service will address is whether this additional processing is included in the productivity rate that the model uses for UFSM processing of the SCF sort scheme.

The 0.83% going to the MMP sort scheme would seem to represent pieces that must be redirected due to some earlier missort and sent back to an MMP (ADC) sort scheme. The current model does not appear to include this type of mail flow.

Similar questions can also be raised concerning some of the AFSM 100 piece densities used in the model. They also include percentages that represent mail pieces requiring either an additional sort on the same scheme or redirection to an earlier sort scheme but that the model does not appear to be using. (See cells c9-g9 in the 'piece densities' worksheet.)

Table 1: UFSM Piece Densities From SCF Piece Sorting					
OS	MMP	SCF	IP	IS	TOTAL
0.00%	0.83%	7.26%	2.30%	97.70%	108.09%

C. The Current Periodicals Piece Sorting Model Incorrectly Treats All 3-digit/SCF Bundles as 3-digit Bundles and None as SCF Bundles

In the course of Time Warner's examination of the potential impact of Proposed Modifications 25.2's change in manual piece density data, the following inaccuracy in the current Periodicals piece sorting model was discovered.

By way of background, the current Periodicals rate structure makes no distinction between 3-digit and SCF bundle presort, even though there clearly is a difference in costs. In SCF sort schemes a small portion of the flats will require subsequent sorting at a 3-digit (incoming primary) sort scheme, as can be seen from the model densities at the 'Piece Densities' worksheet.

In the rate structure that existed prior to Docket No. R2006-1, on the other hand, pieces with SCF bundle presort were priced the same as pieces with ADC or mixed ADC bundle presort, whereas pieces with 3-digit bundle presort earned a much lower rate. Given that the cost of pieces with SCF presort is much closer to the cost of pieces with 3-digit presort than to the much higher cost of those with ADC or mixed ADC presort, that clearly was inappropriate. But rather than making a separate rate for pieces with SCF presort, the rates approved in Docket No. R2006-1 combined the rate for SCF pieces with that for 3-digit pieces. Similarly, a 3-digit/SCF bundle rate was created, which applies to both 3-digit and SCF bundles, and 3-digit/SCF sack and pallet rates.

In order to accurately calculate the piece costs for pieces with 3-digit/SCF bundle presort, it must be recognized that some of these pieces are in SCF bundles and some are in 3-digit bundles, the former incurring on the average somewhat higher costs. The calculation of 3D/SCF piece sorting costs is performed in the model worksheet called '3D'. And as can be seen from the flow diagrams and formulas on that worksheet, all such pieces are assumed to flow directly to an incoming primary sort, which is appropriate for pieces in 3-digit bundles but not for pieces in SCF bundles, which must first flow to an SCF primary sort. There are in fact no flows modeled at all of pieces going to an SCF primary sort.⁴

To correct this part of the model so as to represent not just pieces with 3-digit presort but also those with SCF presort, the proportion or 3d/SCF pieces that have SCF bundle presort must be known. In the '3D' worksheet, which perhaps ought to

⁴ The AFSM, UFSM and manual incoming primary operations are modeled in rows 72-79 of the worksheet, while the flows to SCF primary operations would have been shown in rows 62-70.

have been named '3D/SCF,' that proportion of pieces should then be flowed to SCF primary sorting operations rather than to incoming primary sorting operations.

The required extra data element, namely the proportion of 3d/SCF pieces that is in SCF bundles, does not appear to be included in the present model but could certainly be extracted from the underlying mail characteristics data. The effect of such a model correction would be to slightly increase the modeled 3D/SCF piece costs.

Respectfully submitted,

s/

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