

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268

Annual Compliance Report, 2010

Docket No. ACR2010

**ERRATA TO INITIAL COMMENTS OF TIME INC.
ON USPS FY 2010 ANNUAL COMPLIANCE REPORT
(FILED FEBRUARY 2, 2011)
(February 18, 2011)**

At four places in the Initial Comments of Time Inc. on the United States Postal Service FY 2010 Annual Compliance Report (filed February 2, 2011), pages 1, 5, 6, and 15 of the Addendum, a reference to "RM2010-13" appeared where a reference to "RM2011-3" was intended. Corrected copies of those pages are appended hereto.

Respectfully submitted,

s/

John M. Burzio
Timothy L. Keegan

COUNSEL FOR
TIME 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: bmklaw@verizon.net
timothy.keegan@verizon.net

COMMENTS ON THE POSTAL SERVICE'S ACR2010 FILING

The following comments address some of the Periodicals data reported in ACR2010, and the Postal Service's claim that it is impossible to raise the Periodicals cost coverage significantly without "authority" to raise Periodicals rates beyond the inflation cap specified by the PAEA.

My comments in Docket R2010-4 described several reasons why the Postal Service cannot be said to have done all it can to reduce Periodicals costs. Those arguments still apply. I include in the following some new analysis using the FY2010 cost data, which show that Periodicals mail processing costs, particularly piece sorting costs, are much higher than they ought to be according to the Postal Service's own model data. To correct this situation, the Postal Service will need to solve the perennial problem with flats being diverted unnecessarily to manual sorting.

I also comment on the recently filed proposal for Periodicals rate increases (Docket R2011-2) and show that the Postal Service could have done far better if its intention had been to make Periodicals mail more efficient.

The discussion below also identifies some issues that I believe might be suitable for further analysis in Docket RM2011-3.

THE RECENT SHARP DROP IN COST COVERAGE WAS CAUSED BY A DRAMATIC SLIDE IN EFFICIENCY DUE AT LEAST IN PART TO EXCESS CAPACITY AND UNNECESSARY MANUAL PROCESSING. THE POSTAL SERVICE MUST REVERSE THIS SLIDE IN ORDER TO RESTORE THE COST COVERAGE OF PERIODICALS

Anomalous increases in Periodicals costs have been occurring for many years. But let us focus on just what has happened in the last few years, since FY2006.

The Commission's Docket R2006-1 Opinion, issued October 2007, raised the rates of Outside County Periodicals by 11.7%. Based on FY2006 costs and the Postal Service's own projections of cost trends and improvements to be achieved from various incentives, those rates should have led to a 100.2% cost coverage for Outside County

But developments in recent years have shown the opposite to be true. As Table 1 below shows, starting with FY2007, the first ACR year, the piece related CRA factor, i.e., the ratio between CRA piece costs and the piece costs the model indicates should be sufficient, just kept growing, reaching 161.63 percent in FY2009. It declined slightly in FY2010, when overall Periodicals per-piece mail processing costs also declined.

Table 1: CRA Adjustment Factors In Periodicals Flats Models Each ACR				
	FY2007	FY2008	FY2009	FY2010
Pure Piece Sorting	1.3402	1.4327	1.6163	1.5816
All Other Modeled Operations	0.9447	1.0431	0.9822	0.9236
Combined Adjust	1.0943	1.1913	1.2115	1.1485

On the other hand, as the table also shows, the modeled bundle, sack and pallet costs, in aggregate, have been remarkably close to their CRA costs, with a CRA to modeled costs factor varying between 104.3 percent (FY2008) and 92.4 percent (FY2010).

The Postal Service has so far chosen to ignore the more detailed information that can be extracted from the CRA cost pool data, and to simply apply an overall CRA factor to modeled piece costs as well as modeled bundle, sack and pallet costs.¹⁴ I believe, however, that the results in Table 1 point towards the following tentative conclusions, which I recommend be investigated further under Docket RM2011-3:

- (1) Piece sorting costs are much higher than the model indicates they should be. Reducing actual costs to be equal to modeled costs would have a very major impact on the Periodicals cost coverage; and
- (2) Bundle, sack and pallet costs reported in recent ACRs may have been too high. For example, in the FY2010 ACR reported bundle, sack and pallet costs were based on multiplying modeled costs with a factor of 1.1485 (the combined CRA

¹⁴ In the ACR2009 and ACR2010 model versions, the calculations of separate piece sorting and non-piece sorting CRA factors has been removed.

adjustment), when it might have been more appropriate to apply the lower (non-piece) CRA factor of 0.9236.

The current bundle, sack and pallet rates represent (particularly for sacks) much less than a 100 percent passthrough of costs incurred, so that even if those costs were found to be too high (as suggested above), the passthrough factors would still be well below 100 percent.

And the conclusion that modeled bundle, sack and pallet costs, in aggregate, appear to come close to the CRA costs, does not necessarily mean that all those costs are accurate. Many of the productivity rates used to model sack and pallet costs are, for example, quite old and were obtained from BMC's that have been drastically reconfigured. The accuracy of those productivity rates and other cost assumptions ought to be investigated further (e.g., in Docket RM2011-3).

Regarding the large discrepancy between modeled and actual piece sorting costs, there can be little doubt that this must be related to the widespread tendency in postal facilities to sort Periodicals flats manually.

My comments under Docket RM2008-2 reported a more detailed investigation, based on comparing CRA cost pool and modeled costs, of the already in FY2007 very high Periodicals piece sorting costs. Those comments included a further discussion of exactly what CRA costs are associated with automated and manual piece sorting costs. The main conclusion I reached then applies even more today, namely that:

- Either, the high manual sorting costs are unnecessary and must be eliminated through decisive actions by USPS management; or
- If they cannot be eliminated, it means that the piece-presort related cost differentials have been vastly understated and that the corresponding rate differentials (e.g., between 5-digit and carrier route presorted flats) ought to be increased substantially.

THE POSTAL SERVICE MUST ADDRESS THE ISSUE OF EXCESSIVE MANUAL SORTING OF PERIODICALS FLATS

With the recent sharp decline in flats volumes, combined with continued improvements

- automated induction twice. My impression, from admittedly very limited observations of FSS operations, was that all flats are not successfully inducted. Perhaps the question of what the criteria for FSS machinability really are should be addressed as a separate subject under RM2011-3.
- The percent of 5-digit barcoded flats that are AFSM machinable today is not even known, since the billing determinants only indicate how many meet the much weaker UFSM criteria;
- Had the Postal Service from the beginning used the same machinability criteria for 5-digit flats as for other flats, it would have collected more revenues from Periodicals mailers and the cost coverage would be somewhat larger. At the same time, there would have been in effect stronger incentives for mailers to use an AFSM machinable format. Instead, each year an unknown number of flats that were not AFSM machinable were able to pay rates as if they were, resulting in lower Periodicals revenues and higher costs.

I believe that changing the machinability criteria for 5-digit flats to be consistent with the real requirement for AFSM processing (at least for non-FSS zones) would be warranted and could bring about real reductions in Periodicals costs, at least if it is combined with a strong effort to assure that those flats that can be machine sorted no longer are diverted to manual sorting.