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POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Report, 2011	:	Docket No. ACR2011

REPLY COMMENTS OF TIME INC.
ON USPS FY 2011 ANNUAL COMPLIANCE REPORT
(February 17, 2012)

Pursuant to Order No. 1095, Notice of United States Postal Service's Filing of Annual Compliance Report and Request for Public Comments (issued January 3, 2012), Time Inc. hereby submits its reply comments on the Postal Service's FY 2011 Annual Compliance Report (ACR).

These reply comments address the initial comments of three parties.

First they demonstrate that what little support Valpak's positions regarding Periodicals class mail may once have been able to command has now collapsed under the weight of Valpak's tendentious and unreliable representations of the record, its refusal to accept the Commission's evolving body of precedent interpreting the PAEA or to acknowledge the Commission's rejections of Valpak's interpretations, and the increasingly obvious untenability of the policies that Valpak urges the Commission to order to be summarily implemented.

Second, these comments express Time Inc.'s concurrence with the Joint Comments of DMA, MMA, NAPM, NPPC and PSA regarding the necessity that the Postal Service "construct price signals that recognize the importance of efficiency by promoting worksharing, as opposed to making use of excess capacity . . . to discourage worksharing and increase work performed by the Postal Service."

Third, Time Inc.'s comments commend and support the conclusions of the critique of the Periodicals Study Report's historical analysis of Periodicals cost growth in the Comments of ACMA.

Fourth, we endorse ACMA's broader account of the unreliability that has crept into flats costing.

And fifth, Time Inc.'s independent review of Robert Mitchell's analysis in ACMA's comments shows that when adjusted for all the factors that should have reduced costs, the increases in Periodicals costs are even worse than Mitchell's analysis indicates.

1. Valpak's arguments ignore the march of circumstance, are unaffected by the evolution of Commission precedent, and are not even responsive to previous rejection by the Commission

Based on the probably accurate but certainly insufficient assertion that neither the operational nor the pricing measures thus far adopted by the Postal Service can be relied on to eliminate the reported deficiency in Periodicals cost coverage, Valpak argues that (1) the Commission must find that the Periodicals class is in non-compliance and (2) must order either that the rates for the class be raised above the statutory cap or that the Periodicals class be eliminated.

Before considering the specifics of Valpak's arguments, we note that Valpak has raised virtually identical arguments before. In the FY 2010 ACD, for example, the Commission states:

> Two commenters (Valpak and the Public Representative) assert that a non-compliance determination for [Periodicals] is

> warranted on the basis of the repeated cost coverage shortfall and violation of section 101(d). Valpak also invokes instances of non-compliance with respect to other statutory pricing factors and objectives.

FY 2010 Annual Compliance Determination, issued May 29, 2011, at 16 (ACD).

In that case, the Commission expressly declined to find Periodicals class to be non-compliant, stating:

> [T]he Commission concludes that the rates for Periodicals do not satisfy section 3622(c)(2), but it does not find FY 2010 Periodicals rates out of compliance with applicable provisions of chapter 36 or regulations promulgated thereunder. A finding that a product (either individually or collectively) fails to satisfy a provision of title 39 does not compel a finding of non-compliance. In making its determination, the Commission must take into account numerous sometimes conflicting considerations.
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> The situation in Periodicals is distinguishable from that of Standard Flats. First, concerns about Periodicals cost coverage existed in the years prior to the PAEA; they are not a recent development. Second, unlike Standard Mail, Periodicals as a class fails to cover costs. While this is a concern, there is no suggestion that the Postal Service has ignored its pricing flexibility under the PAEA with respect to Periodicals products.
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> Lastly, management has not yet fully brought to bear efficiency enhancements, network adjustments, and related changes which could alter the attributable cost picture for Periodicals. The Commission believes it is appropriate to allow time for these measures to be implemented and take hold.

FY 2010 ACD at 17.

Valpak is thus obliged to argue that the Commission's "previous rationales for deferring action on Periodicals are no longer available" or no longer appropriate in this docket, because circumstances have changed since the Commission issued its FY 2010 ACD this past March 29. Comments at 68. According to Valpak, two things have changed since March of 2011 to make the "rationales for deferring action on Periodicals" used by the Commission in Docket No. ACR2010 "no longer available" to the Commission.

First, in Docket No. ACR2010, "the Commission held out high hopes for reductions [in Periodicals costs] as a result of (i) the Postal Service's "Flats Strategy" submitted with the exigent price request in Docket No. R2010-4, and (ii) the (then) "forthcoming Periodicals Study Report." Comments at 67. The Commission also found that "there is room for improvement in worksharing discounts and in the prices for bundles and containers [in order to] create additional incentives for mailers to prepare mail more efficiently." Comments at 67.

However, says Valpak, the Periodicals Study Report "finally was issued in September 2011," and "[i]n its FY 2010 ACR the Postal Service confirmed that cost-cutting strategies contained in the Flats Strategy alone would not return Periodicals to compliance with section 3622(c)(2)." *Id*. at 67, 69.[1] Therefore, concludes Valpak:

> each of [those reports] *now confirms* that there are not enough cost-cutting strategies in the known world that alone ever will return Periodicals to a status where it covers its costs (much less make some small contribution towards institutional costs).

Id. at 68 (emphasis added).

Consequently, "[n]one of the Commission's cost-side reasons to defer action [in Docket No. ACR2010] is available to it in this docket." *Id*. at 70.

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[1] It is difficult to understand how conclusions about the Flats Strategy stated by the Postal Service in the FY 2010 ACR, and rejected by the Commission as factually unsound in its FY 2010 ACD, can constitute evidence of changed circumstances between the FY 2010 ACD and the FY 2011 ACR.

Moreover, states Valpak. the Periodicals Study Report also confirms that on "the 'pricing side,' a realignment of workshare discounts for bundles and containers will not, in and of itself, enable Periodicals to cover costs in the short term." *Id*. Therefore, the Commission's FY 2010 ACD pricing side reasons for deferring action are also unavailable in the FY 2011 ACD.

Second, Valpak states that "[t]he Commission apparently declined to remedy the problem [of Periodicals class failure to cover attributable costs in Docket No. ACR2010] for the reason that section 3622(c)(2) was only 'one of 14 factors that must be taken into account.'" Comments at 71. Thus, "[a]lthough the Commission has determined the price cap has primacy over **individual** objectives and factors (*see* FY 2010 ACD, pp. 18-19), it has not explored the scope of its authority to make a determination of noncompliance when a product or class is not in compliance with **numerous** objectives and factors." *Id.* In the current proceeding, by contrast, states Valpak, it "will review all of the numerous statutory considerations (Objectives, Factors, and Requirements) to reveal the degree of conflict with section 3622(c)(2), if any." *id*. at 71, and the Commission will therefore be obliged in this case to make the finding of noncompliance that it avoided in its FY 2010 ACD by taking into account only one factor, section 3622(c)(2).

If the Commission accepts Valpak's invitation to explore this uncharted territory, it should be forewarned against raising its hopes too high, for only last year Valpak asserted noncompliance with 5 objectives, factors, and requirements ((b)(1); (b)(5); (b)(8); (c)(2); (c)(12)), as well as of section 101(d), which the Commission considered and rejected in its FY2010 ACD at 16. *See* Docket No. ACR2010, Valpak Initial Comments at 49-50, 31.

In fact, the only thing that one may be sure has changed after reading Valpak's arguments is the record itself:

a. The Commission has never made it a condition for avoiding a determination of noncompliance that the means for achieving full cost coverage must have been established or identified.

   The Commission expressly disavowed such a standard in Docket No. ACR2010, where it stated:

   > The Commission disagrees with the Postal Service’s conclusion that denial of the exigent rate request deprives the Postal Service of any ability to devise realistic plans, within statutory constraints, to achieve full cost coverage for Periodicals and certain underwater products. Moreover, to the extent the Postal Service’s reference to “fully covering … attributable costs” means immediately moving certain classes or products to full coverage, the Commission rejects that point. The Commission’s consistent position has been that a statutorily-consistent course of action, in some instances, is meaningful progress toward improved cost coverage.

   FY 2010 ACD at 14.

b. The Commission, in its FY 2010 ACD, stated that it "disagrees with the Postal Service’s conclusion that denial of the exigent rate request deprives the Postal Service of any ability to devise realistic plans, within statutory constraints, to achieve full cost coverage for Periodicals and certain underwater products." It has not since then stated that it has changed its view or that it now agrees with the Postal Service's statement.

c. The Commission's views regarding the opportunities for cost-side and price-side savings opportunities in Periodicals class in its FY 2010 ACD, the conclusions expressed in the Periodicals Study Report, and the views of the Postal Service in its FY 2011 ACR suggest a close continuity of circumstances over time, not that circumstances have materially changed.

   The Commission's statements in the Periodicals Mail Study Report in fact appear to be entirely consistent with its statements in the FY 2010 ACD, at 17, that "management has not yet fully brought to bear efficiency enhancements, network adjustments, and related changes which could alter the attributable cost picture for Periodicals." *See, e.g.,* pp. 97-98 ("Postal Regulatory Commission Findings"): "Significant opportunities exist to improve efficiency and reduce costs for Periodicals, most notably with respect to mail processing. . . . . The Commission recommends that the Postal Service develop a comprehensive plan to reduce manual handling of automation-compatible Periodicals mail."

The Postal Service states in its FY 2011 ACR at 33-34:

> The Postal Service continues to pursue operational efficiencies as detailed in the Periodicals Mail Study, as well as opportunities to fine-tune prices that signal the appropriate level of cost-reducing behavior. In particular, the Postal Service is focusing pricing research on bundle and container "cost passthroughs" (price as a percent of cost), which have been low since the new Periodicals pricing structure was recommended by the Commission in Docket No. R2006-1. This inquiry has been encouraged by the Commission's findings in the FY 2010 ACD. [Footnote omitted.]

Similarly, Valpak's assertion, at 70, that "a realignment of workshare discounts for bundles and containers will not, in and of itself, enable Periodicals to cover costs in the short term" appears to describe the situation at any time one may care to name and thus to be of little use as a standard. Valpak entirely fails to show how potential progress on the pricing side currently compares unfavorably to the situation a year ago.

d. Valpak's suggestion that, in asserting that "Periodicals class could be found out of compliance with at least 11 of the 24 objectives, factors, and requirements," it is raising new legal issues, because the Commission "has not explored the scope of its authority to make a determination of noncompliance when a product or class is not in compliance with **numerous** objectives and factors," Comments at 78, is beyond understanding, since in Docket No. ACR2010 Valpak asserted that Periodicals class was not in compliance with five objectives and factors and with section 101(d), and the Commission considered and rejected those arguments in its FY 2010 ACD at 18.

To plumb the depths of Valpak's incomprehension, or mischaracterization, of the Commission's FY 2010 ACD, one cannot do better than to return to this passage from its Comments:

> [t]he Commission apparently declined to remedy the problem [of inadequate Periodicals cost coverage] for the reason that section 3622(c)(2) was only "one of 14 factors that must be taken into account." It stated: "[i]n making its determination, the Commission must take into account numerous sometimes conflicting considerations." The Commission was not specific about the source of the perceived conflict.

Comments at 71 (internal citations omitted).

The statement that "[t]he Commission was not specific about the source of the perceived conflict" is jaw-dropping. It leads one to wonder whether the following section was omitted from Valpak's copy of the FY 2010 ACD:

> The focus in this case on section 3622(c)(2)'s standing within the statutory pricing hierarchy occurs mainly in the context of (i) the Postal Service's suggestion that the Commission explore its remedial options, including whether these options include piercing the price cap; and (ii) two proposals which not only would exceed the Periodicals price cap, but exceed it by a significant degree. Valpak proposes two successive increases of 16 percent; the Public Representative proposes an 8 percent hike. The Public Representative's proposal tracks the Postal Service's Periodicals proposal in the exigent rate filing.
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> Section 3622 creates a hierarchy based on "requirements," sections 3622(d) and (e), "objectives," section 3622(b), and "factors," section 3622(c). With the exception of an exigent rate request and use of banked pricing authority, the PAEA's price cap mechanism in section 3622(d)(1)(A) takes precedence over the statutory pricing objectives and factors in sections 3622(b) and (c), even if some of these can be considered quantitative. Therefore, to the extent an objective or factor with a quantitative component can be seen as competing with the price cap, the price cap has primacy.
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> In bills that became the PAEA, the price cap was understood as a feature that would focus management's attention on cost control. There is also an indication, in the section 708 directive for a joint Postal Service/Postal Regulatory Commission study of Periodicals costs and efficiency practices, that legislators were aware that the attributable cost floor provision would pose special challenges for any class that had experienced difficulties

> in satisfying former section 3622(b)(3) under the Postal Reorganization Act of 1970 (PRA).
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> The PAEA, in section 3622(a), required the Commission to establish a modern system for regulating rates and classes for market dominant products within a relatively short time after enactment. It further provided, in section 3622(d)(1)(A), that an annual limitation [cap] on rates was a requirement of that system. With this cap in place, the Commission was directed to design the system to achieve certain objectives set out in section 3622(b)(1) through (9). And, in establishing or revising the cap-based system, the Commission was directed to "take into account" the factors set out in section 3622(c)(1) through (14). The Commission understands this directive as one which clearly calls for the application of its considered judgment.
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> The price cap is the signal feature distinguishing the modern system from the cost-of-service approach under the PRA. Many of the statutory objectives the cap-based system is to be designed to achieve, and the factors that are to be taken into account, are expressed in language similar to the ratemaking considerations under the old system, and present familiar challenges in terms of achieving an appropriate balance; however, none has precisely the same standing under the PAEA as they did under the PRA. Instead, the objectives and factors, including those that can be regarded as quantitative operate within the context of the price cap; they are not on an equal footing with it. However, giving precedence to the price cap does not render the attributable cost floor provision inconsequential. It advances the section 3622(b)(5) objective of assuring adequate revenues to maintain financial stability and promotes the recognition of other objectives and factors. Consequently, the Commission will continue to press for meaningful cost-reduction efforts, examination of costs, and use of pricing flexibility to promote PAEA policies.

FY 2010 ACD at 18-19 (footnotes omitted).

Finally, we note that, according to Valpak (Comments at 81):

> In the Periodicals Mail Study, the Commission and the Postal Service appear to have jointly recommended discontinuing Periodicals as a class, and substituting for it a "bottom line discount to recognize the ECSI value of Periodicals" within the remaining classes. *See* Periodicals Mail Study, pp. 93-94. This is a creative and important suggestion.

It is said that appearance is in the eye of the beholder, but all principles have their limits. We assert with confidence that "[i]n the Periodicals Mail Study, the Commission and the Postal Service" *do not "appear to have jointly recommended* discontinuing Periodicals as a class." The passage quoted by Valpak is introduced by the words, "*The Postal Service* has a longer-term recommendation: to consider simplifying the overall pricing structure for Periodicals." *See* Periodicals Mail Study at 93 (emphasis added). In the same chapter, but five pages later, appears a section entitled "Postal Regulatory Commission Findings."[2]

We do not think that any comment is needed to assist the Commission in deciding whether eliminating the Periodicals class is "a creative and important suggestion."

Valpak is correct about one thing. Circumstances have changed since the Commission issued its FY 2010 ACD.

After several years of robust discussion and debate regarding the issue of the Commission's potential authority to order rates for a market dominant class raised above the statutory cap in order to achieve compliance with section 3622(c)(2), the Commission implicitly excluded such power from its account of the statutory hierarchy set out in its FY 2010 ACD, and it recommended neither expansion nor clarification of its authority to order such rate increases in the 5-year report to

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[2] Not only does Valpak incorrectly attribute the recommendation to the Commission as well as the Postal Service, but it also incorrectly describes the recommendation as one to *discontinue* Periodicals class, rather than to *consider* discontinuing the class, and it misleadingly omits the description of the recommendation as "longer-term," while requesting that the Commission issue a remedial order in the current proceeding requiring its implementation.

Congress on possible changes to the PAEA that is required by § 701 of the Act. Instead, it stated in that report:

> in furtherance of the PAEA's goals, the use of the price cap promotes pricing flexibility for the Postal Service; predictability and stability in prices for mail users; and encourages cost reductions for the Postal Service. The Commission recommends no legislative changes in this area.

Postal Regulatory Commission, Section 701 Report, Analysis of the Postal Accountability and Enhancement Act of 2006 (September 22, 2011), at 39.

Committees in both houses of Congress have reported out postal reform bills that address the problem of underwater classes, adopting the same general approach, which could not be more different from the measures being urged on the Commission by Valpak. The Committee Report on the House Bill Postal Reform Act of 2011), for example, describes that approach as follows:

> Another PRA reform requires entire mail classes that fail to cover attributable costs to eventually reach a minimum of ninety percent cost coverage—even if that means small, gradual rate increases that exceed the CPI price cap. As part of an effort to ensure that attributable cost measures are accurate, the PRA permits a two-year delay before the increases in excess of CPI are implemented. Ultimately, this change will ensure that the Periodicals class moves toward greater cost coverage in a fair manner.[3]

We are aware of no evidence of congressional support for the kind of measures that Valpak espouses.

2. Time Inc. supports the principles espoused in the Joint Comments of DMA, MMA, NAPM, NPPC and PSA

Time Inc. supports and associates itself with the following view expressed in

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[3] H.R. 2309, 112th Cong., 2d Sess., Rept. 112-363 (January 17, 2012), at 55.

in this docket in the Joint Comments of the Direct Marketing Association Inc., the Major Mailers Association, the National Association of Presort Mailers, the National Postal Policy Council, and the Parcel Shippers Association ("Joint Comments") (February 3, 2012), at 1:

> Prices that encourage work to be performed by the least cost provider (i.e., whether that provider be a mailer, mail service provider, or the Postal Service) are efficient and allow the Postal Service to size its infrastructure appropriately. In contrast, inefficient prices designed to make work for the Postal Service will result in too large a network, higher costs to mailers, and accelerated volume declines.

Time Inc. further agrees with the Joint Comments that "[a] shift in prices to discourage worksharing and increase work performed by the Postal Service," *id*. at 2, would be "a disturbing trend" and in asking "the Commission, in this proceeding, to instruct the Postal Service to construct price signals that recognize the importance of efficiency by promoting worksharing, as opposed to making use of excess capacity," *id*. at 3.

3. Time Inc. commends ACMA's critique of the Periodicals Study Report's historical analysis of Periodicals cost growth

There is no need for Time Inc. to acquaint the Commission with Robert W. Mitchell's experience or expertise in the area of Periodicals cost analysis or rate design. We would add only that we first became familiar with his work in the area of cost indices when he was testifying as Time Warner *et al*.'s rate design witness in Docket No. C2004-1.

Time Inc. concurs with and commends to the Commission's attention Mr. Mitchell's objection to the Commission's surmise that

> the decrease in costs that was caused by the additional

> worksharing [between 1997 and 2011] might have been approximately equal to the increase in costs that was caused by the redesign of the IOCS, which would mean that the increase in unit costs, properly corrected, was approximately equal to the increase in factor prices . . . [and] that if all this were the case, . . somehow, Periodicals "was not able to benefit from the overall productivity gains obtained by the Postal Service and for most Postal Service products."

ACMA Comments at 13-14 (*quoting* Periodicals Mail Study Report at O-4-5).

Mitchell's conclusion that, "at its increase of 108.7 percent, the cost index is about 45 percentage points above the factor price index," and that "[i]f the Report had seen this gap, . . . it would not have been tempted to engage in the reasoning process just outlined, and it would not have been able to conclude that the costs being reported for Periodicals are 'reasonably accurate for ratemaking purposes' (at 1)," is of the first importance. It amounts to flat disagreement with the most important finding of the Report, a finding that has seemed increasingly in question from a variety of perspectives (volume variability; excess capacity; conflicting magnitude of rate increases and cost coverage declines; expected effects of improved automation and mail preparation; and trends in worksharing).

4. ACMA's broader account of the unreliability that has crept into flats costing states a case that has become compelling

Plotting the unit costs of a Postal Service product over time can lead to misleading conclusions if there have been significant changes in the product's composition. For example, if there have been significant increases in the degree of presortation performed by mailers, or if more of the mail is being dropshipped to destinating facilities, one would expect significant cost reductions**,** at least on those accounts.

ACMA's comments include a series of cost indices, developed by Mitchell with the intent to recognize adjustments in mail characteristics that affect costs. The method that he developed involves dividing a volume-weighted rate index by the cost coverage in each period. While, as we will discuss in the next section, this methodology has some limitations, it does nevertheless succeed in accounting in substantial degree for the mail-mix changes that have occurred within the postal products Mitchell analyzed.

Mitchell's summation of the historical record as it stands now, based on the cost and rate indices he develops, is extraordinarily incisive and captures something that seems finally to be coming into focus simultaneously in a number of quarters. The changes that he documents, says Mitchell--an increase in the cost of Standard Letters of just 18.2 percent and of Standard Flats of 129.6 percent over just 13 years, in the face of a factor price increase of about 60 percent; and an increase of Periodicals costs of 108.7 percent over 14 years, in the face of a factor price increase of 55.6 percent--"which occurred despite certain changes that should have reduced costs, seem beyond the bounds of possible explanation."

> Even if the costs were right in 1998, which becomes open to question obviously, they are far out of bounds now. An advocate of placing reliance on these costs should bear some burden of showing that they are likely reliable. No showing has been made, and the opposite appears to be the case.
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> The results suggest either that the Postal Service is going backwards technologically, and installing higher and higher cost processing and delivery systems for flats but not for letters, that excess costs are being assigned, or that something is awry in the costing systems. The first possibility is not likely and is certainly not something with which mailers should be burdened. The second and third are more likely, and they could be working together.

> It is sometimes the case that volume declines lead to excess capacity. If the costs of this excess capacity creep into the costs of the products, as though it were caused by processing and delivering the products, decision-making is hampered and the cost-base of the products is artificially inflated. This can make the situation worse, and is, we believe, a reason a recent legislative proposal (H.R. 2309) requires the estimation and removal of excess-capacity costs.
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> [S]ection 3622(c)(2) requires that costs be attributed "through reliably identified causal relationships." The evidence reviewed above is compelling that the relationships are not reliable.

ACMA Comments at 23-24, 25.

5 When adjusted for all the factors that should have reduced costs, the increases in Periodicals costs are even worse than Mitchell's analysis indicates

The cost indices used by Mitchell are derived by dividing rate indices by the corresponding cost coverages, for reasons explained in his appendix. But as he also explains, the accuracy of this approach depends on the existence of rate elements corresponding to "the mail characteristics of interest." *See* ACMA Comments at 37, n. 34, where Mitchell explains that his method would not, for example, yield an accurate First Class cost index when the average haul of the mail is decreasing, since First Class rates have no distance element.

What may be less obvious, but can nevertheless be verified by a closer examination of Mitchell's logic, is that if, for example, rate elements associated with characteristics such as presort levels, or machinability, pass through less than 100% of the corresponding costs, then the computed cost indices will only partially recognize the effect of changes in those characteristics.[4]

Applying the above considerations to Outside County Periodicals, we note that several important rate elements pass through far less than the corresponding cost differences. For example, Periodicals rates pass through only about 70% of the cost differential between the two largest presort groups, 5-digit and carrier route. That the percentage of carrier route has been increasing for many years, while the mailers who changed to carrier route were awarded only a portion of the resulting cost savings should, if the rate and cost increases had been held to inflation, have led to higher Periodicals cost coverages each year. Similarly, Periodicals mailers have been using sacks less and less and, because of the low passthrough of sack costs, they have been rewarded with only a small portion of the resulting savings. And they have done more dropshipping, reducing Postal Service transportation costs, but, due to the flat editorial pound rate, have been awarded only some of the savings.

All of the above effects should have led to higher cost coverages. That cost coverages instead have been going sharply in the other direction shows that there must be something seriously wrong with the costs that are being attributed each year to Periodicals. In fact, for reasons explained above, the situation is even worse than Mitchell's cost indices indicate.

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[4] As Mitchell suggests (at 37), "Volume indexes using weights other than rates could be considered, such as ones using marginal costs, but an index using rates is a good indicator." Were a volume index based on marginal costs to be developed under conditions in which worksharing is increasing (a given) and rate differences are smaller than the marginal cost differences, we believe it would suggest that Mitchell's index is an understatement of the cost increases.

As to why Periodicals costs have grown so much for so many years, despite all the factors that should have made them grow less, perhaps it is time to reconsider an explanation first offered in Stralberg's Docket No. R90-1 testimony, as well as in several subsequent rate cases, but which the Postal Service always has rejected. Stralberg suggested, essentially, that with the progress of letter mail automation, clerks no longer needed to sort letters, or at least not during their whole eight-hour tour, tend to be kept busy at flats and bundle sorting operations and therefore to be shown by the IOCS as handling flats or flats bundles, whether or not they really were needed for that purpose.

In the Network case, Docket No. N2012-1, Postal Service witnesses have described a worsening peak load problem caused by the current service standards for First Class mail.[5] The problem results from the fact that almost all letter mail is now DPS'd, and that the second and last stage of the DPS process cannot begin until all the letters to be delivered on a given day (including Standard letters) are available.

The combined effect is that a very large portion of the work required to DPS letters must be performed in the span of a few hours. The continuing sharp decline in the volumes of single-piece letters has reduced the ability of managers to keep clerks occupied before and after the interval spent DPSing them. What the DPS clerks do the rest of their eight-hour tour is a matter of speculation, but one thing

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[5] *See* Docket No. N2012-1, USPS-9 (Smith), at 3-6. USPS-4 (Neri) and USPS-3 (Rosenberg) also discuss the same phenomenon, without using the term "peak load."

they can be told to do is to spend time sorting flats or bundles, or “prepping” flats for later sorting. If these employees must work under time pressure while DPSing letters, it is only to be expected that they will work at a more leisurely pace on tasks they are given before or afterwards.

The Postal Service now proposes to relax service standards in order to allow much longer time intervals for the processing of both flats and letters, thus eliminating the current peak load problem and allowing the same work to be performed with a smaller network and a smaller workforce. While Time Inc. is concerned about the service consequences of the proposed changes, we predict that if they are carried out the effect will be much lower costs of flats processing and in particular Periodicals processing. Perhaps a drastic change in the processing environment, of the type being proposed in Docket N2012-1, will be needed to achieve significant progress towards full Periodicals cost coverage.

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