

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D. C. 20268-0001

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

RESPONSE OF TIME WARNER INC. ET AL.
WITNESS HALSTEIN STRALBERG TO MH/TW ET AL.-T1-25,
REDIRECTED FROM WITNESS MITCHELL
(June 28, 2004)

Time Warner Inc., Condé Nast Publications, a Division of Advance Magazine Publishers Inc., Newsweek, Inc., The Reader's Digest Association, Inc., and TV Guide Magazine Group, Inc. (collectively, Time Warner Inc. et al.) hereby provide the response of witness Stralberg (TW et al.-T-2) to McGraw-Hill interrogatory MH/TW et al.-T1-25, redirected from witness Mitchell, filed June 14, 2004.

The interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/

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**RESPONSE OF WITNESS STRALBERG (TW et al.-T-2) TO MH/TW et al.-T1-25,
REDIRECTED FROM WITNESS MITCHELL**

MH/TW et al.-T1-25. With regard to the proposed rate structure presented at page 43 of your testimony:

(a) Please explain whether it is anomalous that, alone among the container level and bundle level combinations, a 5-D bundle in a 5-D/CR container would pay no bundle charge.

(b) Please explain whether it is anomalous that (i) the charge for an origin-entered 3-D/SCF sack is lower than both the charge for an origin-entered ADC sack and the charge for an origin-entered 5-D/CR sack, while (ii) the charge for a DBMC-entered 3-D/SCF sack is identical to the charge for a DBMC-entered ADC sack and lower than the charge for a DBMC-entered 5-D/CR sack, while (iii) the charge for a DADC-entered 3-D/SCF sack is higher than the charge for a DADC-entered ADC sack and lower than the charge for a DADC-entered 5-D/CR sack, and (iv) the relationships among the corresponding pallet charges are identical to the above-described relationships among sack charges except that the charge for a DADC-entered 3-D/SCF pallet is higher than both the charge for a DADC-entered ADC pallet and the charge for a DADC-entered 5-D/CR pallet.

MH/TW et al.-T1-25. The per-bundle, per-sack and per-pallet charges in Mr. Mitchell's rate design are based on the unit costs presented in my testimony. In Exhibit B of TW et al.-T2, Table B1 shows the sack and pallet unit costs, and Table B2a shows the bundle unit costs that Mr. Mitchell used. As explained below, I believe these unit costs, far from being anomalous, reflect the way in which bundles and containers are processed in the mail processing network. Please see also my response to MH/TW et al.-T2-12, addressing a similar concern.

a. A five digit sack will normally contain only 5-digit bundles, besides possibly some loose pieces. For that reason, the sack can be transported directly to the place where the pieces in the bundle will be sorted to carrier route, which might be at either the DDU or the DSCF. The sack itself will undergo various handlings, including the opening up of the sack and shaking out of its content. All those costs are in my analysis attributed to the sack, not to the bundles/pieces in the sack. When a 5-digit bundle emerges from this sack, it needs no bundle sort, because it already is at the 5-digit level where it can be opened for piece sorting. The cost of piece sorting and all further handling of the pieces is charged to the pieces, leaving no costs to be charged to the bundle itself.

It is different in the case of a carrier route bundle in a 5-digit sack. Such sacks are referred to as carrier routes or CRS sacks. The bundles in them do incur bundle sorting

costs, as shown in my Table B2a. A 3-digit bundle in a 3-digit sack also requires sorting, because the sack may also contain 5-digit bundles.¹

b. Briefly stated, no. Your question weaves together four different concerns. Let me address them one at a time

(1) That “the charge for an origin-entered 3-D/SCF sack is lower than both the charge for an origin-entered ADC sack and the charge for an origin-entered 5-D/CR sack.”

Origin entry refers to everything that is not entered at either the DDU, DSCF, DADC or DBMC. It includes entry points that may be near the final destination as well as entry points thousands of miles away. If a 3-D/SCF and an ADC sack were entered at the same facility, and that facility were far away, then one might expect them to travel the same path and incur the same costs until they get to the DBMC, and from there they would also receive the same handling, for reasons explained in part (2) below. But as explained in my testimony at pages 31-32, the proportions of origin entered containers that in fact are close to the destinating facility vary considerably between container types and presort levels. Because more origin entered 3-D/SCF sacks in fact are entered in nearby facilities, their average costs are lower than for origin entered ADC sacks.

(2) That “the charge for a DBMC-entered 3-D/SCF sack is identical to the charge for a DBMC-entered ADC sack and lower than the charge for a DBMC-entered 5-D/CR sack.”

A BMC has transportation to all the SCF’s served by it, including SCF’s that serve as ADC’s. The BMC separates the sacks by SCF/ADC. Both the sack sorting performed

¹ As can also be seen from Table B2a in my testimony, I do assign costs to 5-digit bundles on 5-digit pallets, because a 5-digit pallet may contain primarily carrier route bundles but also a few 5-digit bundles that have to be sorted and will be taken to an incoming secondary sorting scheme. However, many more 5-digit bundles are in 5-digit sacks than on 5-digit pallets, as shown in Table A2, Exhibit A in my testimony. Mr. Mitchell used the cost for 5-digit sacks. Finally, note that even for 5-digit bundles in 5-digit sacks there are some costs that I define as weight related, shown in Table B2b of my testimony. Mitchell did not include those costs in his design of bundle rates.

at the BMC and the subsequent transportation to the SCF/ADC consists of the same operations for ADC and 3D/SCF sacks. And whether it is a 3D/SCF or ADC sack, it is transported to the SCF/ADC where it will be opened. So the operations performed on the DBMC entered 3D/SCF and the ADC sacks are exactly the same, even the recycling and eventual return of the sacks for future use by mailers. On the other hand, a DBMC entered 5-D/CR sack will undergo more handling, because after it arrives at the SCF/ADC it may still need to be cross docked for transportation to the DDU and then unloaded at the DDU.

(3) That “the charge for a DADC-entered 3-D/SCF sack is higher than the charge for a DADC-entered ADC sack and lower than the charge for a DADC-entered 5-D/CR sack.”

An ADC sack entered at the DADC is already at the facility where it will be opened and its content distributed. A 3-D/SCF sack, on the other hand, requires cross-docking to the DSCF and later unloading at the DSCF. Its cost is therefore higher, although the bundles inside it may need less handling than the bundles in the ADC sack. A 5-D/CR sack entered at the DADC needs to get to the DSCF, and from there it needs to get to the DDU.

(4) That “the relationships among the corresponding pallet charges are identical to the above-described relationships among sack charges except that the charge for a DADC-entered 3-D/SCF pallet is higher than both the charge for a DADC-entered ADC pallet and the charge for a DADC-entered 5-D/CR pallet.”

The reason a DADC entered 3-D/DCF pallet costs more than a DADC entered ADC pallet is the same as explained for sacks in part 3 above. The reason the comparison with 5-D pallets has a different outcome than in the case of sacks is as follows. Note first of all that both in the case of pallets and in the case of sacks the 3-D and 5-D entered at the DADC have fairly similar costs. There are no CR pallets.

An ADC is a large SCF, typically larger than the nearby SCF's that it serves. It usually serves more and larger delivery units than the smaller surrounding SCF's. A 5-D pallet

entered at the DADC has a 65% probability of going to one of the DDU's served by the ADC itself, in which case it just needs to be transferred from the ADC to the DDU.² Its costs are considerably less than for those pallets that first must go to another SCF and then be transferred to the DDU. Additionally, whereas most 3-D/SCF pallets undergo pallet dumping at a mechanized bundle sorting operation, most 5-D pallets are not dumped. For sacks, on the other hand, the dumping is required regardless of presort level. Altogether, the net outcome is that for pallets the DADC entered 5-D pallet costs, on the average, 4.4% more than the corresponding 3-D pallet, whereas the 5-D sack costs 4% more than the 3-D sack.

² The 65% estimate is from LR-I-332.