

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

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

Docket No. C2004-1

RESPONSES OF TIME WARNER INC. ET AL.
WITNESS HALSTEIN STRALBERG TO NNA/TW ET AL.-T2-1-10
(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 responses of witness Stralberg (TW et al.-T-2) to McGraw-Hill interrogatories NNA/TW et al.-T2-1-10, filed June 14, 2004.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/ _____
John M. Burzio
Timothy L. Keegan

COUNSEL FOR
TIME WARNER INC.

Burzio & McLaughlin
Canal Square, Suite 540
1054 31st Street, N. W.
Washington, D. C. 20007-4403
Telephone: (202) 965-4555
Fax: (202) 965-4432
E-mail: burziomclaughlin@covad.net

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-1. Would you expect that preparing sacks with as few as one piece would be more costly to mailers than preparing a sack with 40 pieces.

NNA/TW et al.-T2-1. For a given number of pieces, I would expect it to cost more to put them in many sacks than in just a few sacks.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-2. Please describe the factors, not including indifference to costs, that you believe would motivate a mailer to prepare sacks with only one or a very few pieces

NNA/TW et al.-T2-2. Please see my answers to MH/TW et al.-T2-2-3 and ABM/TW et al.-T2-6, and witness Schick's answer to ABM/TW et al.-T-4-6.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-3. Would you expect a local weekly newspaper with a mailing to MADC with as few as 50 pieces weighing fewer than 6 ounces each outside Zones 1- 2 to be able to prepare that mail in any container but a sack? 100 pieces? 500 pieces? If so, please describe the container

NNA/TW et al.-T2-3. I would not.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-4. Please refer to your testimony on pages 5-6 with regard to the potential for lighter-weight pallets. When you are thinking of mailers' incentives to create more 5-digit pallets, are you thinking primarily of magazine mailers or do you have examples in mind of other types of periodicals mailers, such as newspapers, whom you would expect to take advantage of such an opportunity. Please explain your response

NNA/TW et al.-T2-4. My testimony on the pages referred to is not about incentives to create more 5-digit pallets. The gist of my discussion about pallets on those pages is to point out that, on the one hand, pallets with high levels of presort help the Postal Service avoid bundle sorting costs but that, on the other hand, there are costs associated with handling each pallet. I also point out that if both bundles and pallets, whose handling costs vary with presort level and entry point, are priced in accordance with their costs, mailers will tend to balance the higher cost of handling more pallets against potential savings in bundle costs that result from finer presort levels.

The purpose of my testimony was to develop unit costs for bundles, sacks and pallets, as well as flats pieces. I do not believe creating more 5-digit pallets should be a goal in itself. I did not have any particular kinds of Periodicals in mind.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-5. Do you consider flats sorted on FSM-1000 machines “machinable?” If not, why not?

NNA/TW et al.-T2-5. Obviously, something that is processed on a machine is by definition “machinable.” The FSM-1000 machines were designed to be able to process almost all flats, and I believe they are also capable of sorting some small parcels. However, the most efficient flat sorting machine in the postal system today is the AFSM-100, which not only achieves much higher productivity (pieces/workhour) but a much higher sorting accuracy, because of its link to remote coding of those flats whose address/barcode can not be read by the machine itself.

Please see also my answer to ABM/TW et al.-T2-9.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-6. Have you done any analysis on how your more cost-based rates would affect the in-county subclass? If so, please provide workpapers for any analyses you have done. If not, please explain whether you would expect the in-county subclass to be affected by the application of your analysis to the costs of that class.

NNA/TW et al.-T2-6. My testimony addresses costs. Mr. Mitchell is the rate design witness in this case. I did not develop costs for the in-county subclass, and Mitchell did not propose any rates for the in-county subclass. With regard to the unit cost estimates presented in Exhibit B of my testimony, many of the presort and entry point categories are, of course, not relevant for in-county mail. Furthermore, the mail characteristics data I used in my analysis was data collected for outside county Periodicals only. However, I believe that many of the cost modeling techniques I have used might also be helpful in addressing relevant cost issues for in-county Periodicals. See also witness Mitchell's response to NNA/TW et al.-T1-28.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-7. Please refer to your response to ABM/TW et al T2-2, where you suggest that the best solution to rising periodicals costs is to bypass operations. If all mailpieces capable of responding to the price signals witness Mitchell proposes respond as you and he recommend, what would effects upon rates arising from changes in cost averaging would you expect to see upon the mail that is not susceptible to such response?

NNA/TW et al.-T2-7. Most of the operations that might be bypassed are used also by mail in other classes that would not be capable of responding to the proposed price signals, which only concern outside county Periodicals flats. I do not see increased worksharing and dropshipping by Periodicals mailers as leading to sharply higher unit costs for non-participating mailers. Please see my response to MH/TW et al.-T2-8, particularly part b of that interrogatory, which focuses on the case of transportation costs.

My testimony is about costs. It is not my intention, and I believe neither is it Mr. Mitchell's intention, to make recommendations regarding how mailers ought to respond to the proposed price signals. It is not a given that all mailers will bypass all postal operations that they are capable of bypassing in response to the proposed rates, because mailers must evaluate many factors other than postage costs.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-8. Have you done any analysis of own-price sensitivities of the mail that might have no alternative to sacks, following any increases occasioned by the rates proposed by Time Warner et al? If you have, please supply any documents or workpapers that would demonstrate your conclusions or show your work.

NNA/TW et al.-T2-8. No.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-9. Have you done any analysis of own-price sensitivities of the mail that might not be susceptible to drop shipment and that must enter in an origin far from destinations, following any increases occasioned by the rates proposed by Time Warner et al? If you have, please supply any documents or workpapers that would demonstrate your conclusions or show your work.

NNA/TW et al.-T2-9. No.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE
NATIONAL NEWSPAPER ASSOCIATION**

NNA/TW et al.-T2-10. Would you assume that there is a price point at which the mail described in NNA/TW et al T2-9 and T2-10 would disappear from the mailstream?

NNA/TW et al.-T2-10. I have not analyzed these issues. Obviously there is a price point at which all mail would disappear, but I have no special insight to offer on where that point might be for any specific mail category.