

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 ABM/TW ET AL.-T2-1-33
(June 10, 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 American Business Media interrogatories ABM/TW et al.-T2-1-33, filed May 27, 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 AMERICAN BUSINESS MEDIA

ABM/TW et al.-T2-1. Please refer to your response, after referral, to ABM/TW et al.-T1-3. For each separate column for which per copy postage figures are provided, state the number of copies (reasonable rounding is acceptable) to which those rates apply. Alternatively, if it would be less burdensome, please provide both the approximate average circulation per issue and a good faith estimate of the annual postage at present and “proposed” rates for each periodical identified in the response.

ABM/TW et al.-T2-1. Table 1 contains the piece volumes per issue that correspond to the information presented in the response to ABM/TW et al.-T1-3. Each row in Table 1 corresponds to a column in one of the tables in the earlier response. In the case of three comailed groups of Condé Nast/Fairchild publications, the volumes are given for each publication in each group, as well as the total for that group.¹

¹ The three co-mailing pools for which only pool aggregate data were presented in the response to ABM/TW et al.-T1-3 are: a five-publication pool consisting of Condé Nast's Allure, Gourmet, GQ, Self and Vogue; a two-publication pool consisting of Condé Nast's House and Garden and Golf Digest; and a four-publication pool consisting Fairchild Publications' DNR, Footware News, Supermarket News and Home Furnishing News. In the case of other comailed publications, such as Time Inc.'s Parenting, Baby Talk, and Health; and Reader's Digest Association's Family Handyman, American Woodworker and RD Large Type, the ABM/TW-T1-3 response included all information requested except that the postage that would be paid under the proposed rates is unavailable for reasons explained in the earlier response.

| Table 1: Pieces/Issue in response to ABM/TW et al.-T2-1 | | | |
|--|----------------------|-----------------------|-------------|
| Table in ABM/TW et al.-T1-3 Response | Title | Volume (pieces/issue) | Comments |
| TW-1 | Time | 3,977,381 | |
| TW-1 | Sports Illustrated | 3,323,687 | |
| TW-1 | People | 2,446,528 | |
| TW-1 | Entertainment Weekly | 1,842,991 | |
| TW-1 | Time for Kids | 114,686 | |
| TW-2 | BMX | 16,959 | |
| TW-2 | Motocross | 37,038 | |
| TW-2 | Ride BMX | 18,495 | |
| TW-2 | Skateboarding | 66,601 | |
| TW-2 | Snowboarding | 63,658 | |
| TW-2 | Surf | 32,564 | |
| TW-3 | Coastal Living | 444,101 | |
| TW-3 | Cooking Light | 1,308,587 | |
| TW-3 | Field & Stream | 1,270,058 | |
| TW-3 | Fortune | 842,421 | |
| TW-3 | Golf | 1,190,680 | |
| TW-3 | In Style | 838,815 | |
| TW-3 | Money | 1,781,577 | |
| TW-3 | Outdoor Life | 751,210 | |
| TW-3 | People en Espanol | 308,485 | |
| TW-3 | Popular Science | 1,267,993 | |
| TW-4 | Progressive Farmer | 599,217 | |
| TW-4 | Real Simple | 1,169,973 | |
| TW-4 | Ski | 245,277 | |
| TW-4 | Skiing | 294,742 | |
| TW-4 | SI for Kids | 695,289 | |
| TW-4 | Teen People | 1,105,195 | |
| TW-4 | This Old House | 882,666 | |
| TW-4 | Sunset | 1,207,735 | |
| TW-4 | Business 2.0 | 586,437 | |
| TW-4 | Yachting | 96,479 | |
| TW-5 | Southern Living | 2,355,590 | |
| TW-5 | Southern Accents | 311,780 | |
| TW-5 | Saltwater Sportsman | 148,675 | |
| TW-5 | Motorboating | 141,018 | |
| TW-5 | Parenting | 2,124,694 | |
| TW-5 | Babytalk | 1,381,460 | |
| TW-5 | Health | 1,294,843 | |
| TW-6 | Cooking Light | 403,635 | Supplements |
| TW-6 | Southern Accents | 79,244 | Supplements |
| TW-6 | Coastal Living | 91,008 | Supplements |
| TW-6 | In Style | 106,439 | Supplements |
| TW-6 | Money | 17,938 | Supplements |
| TW-6 | Real Simple | 10,663 | Supplements |
| TW-6 | SI for Kids | 17,551 | Supplements |
| TW-6 | Southern Living | 82,736 | Supplements |
| TW-6 | Teen People | 19,853 | Supplements |

| Table 1: Pieces/Issue in response to ABM/TW et al.-T2-1 (Continued) | | | |
|--|----------------------|-----------------------|-------------|
| Table in ABM/TW et al.-T1-3 Response | Title | Volume (pieces/issue) | Comments |
| CN-1 | Allure | 730,829 | Comailed |
| CN-1 | G.Q. | 541,296 | Comailed |
| CN-1 | Gourmet | 787,374 | Comailed |
| CN-1 | Self | 938,348 | Comailed |
| CN-1 | Vogue | 781,038 | Comailed |
| CN-1 | Comail total: | 3,778,885 | Comailed |
| CN-1 | Bon Appetit | 1,087,157 | |
| CN-1 | The New Yorker | 920,991 | |
| CN-1 | Glamour | 1,392,461 | |
| CN-1 | Vanity Fair | 752,414 | |
| CN-1 | Modern Bride | 160,309 | |
| CN-1 | Brides | 127,165 | |
| CN-1 | Traveler | 682,900 | |
| CN-1 | Teen Vogue | 351,859 | |
| CN-1 | House & Garden | 336,844 | Comailed |
| CN-1 | Golf Digest | 738,446 | Comailed |
| CN-1 | Comail total: | 1,075,290 | Comailed |
| CN-1 | Golf world | 179,244 | |
| CN-2 | DNR | 10,508 | Comailed |
| CN-2 | Footware News | 14,583 | Comailed |
| CN-2 | Supermarket News | 31,472 | Comailed |
| CN-2 | Home Furnishing News | 16,699 | Comailed |
| CN-2 | Comail Total | 73,262 | Comailed |
| CN-2 | Details | 313,842 | |
| CN-2 | Childrens's Business | 12,185 | |
| CN-2 | Executive Technology | 30,273 | |
| CN-2 | In Furniture | 23,292 | |
| CN-2 | W Magazine | 431,514 | |
| CN-2 | Women's Wear Daily | 28,560 | |
| CN-3 | Bon Appetit | 28,067 | Supplements |
| CN-3 | Brides | 5,890 | Supplements |
| CN-3 | Glamour | 27,806 | Supplements |
| CN-3 | House & Garden | 35,257 | Supplements |
| CN-3 | Teen Vogue | 13,886 | Supplements |
| CN-3 | Vanity Fair | 16,950 | Supplements |
| CN-3 | Golf Digest | 7,160 | Supplements |
| NW-1 | Newsweek | 2,856,420 | |
| NW-1 | Budget Travel | 426,512 | |
| TV-1 | TV Guide | 6,285,141 | |

| Table 1: Pieces/Issue in response to ABM/TW et al.-T2-1 (Continued) | | | |
|--|---------------------|-----------------------|----------|
| Table in ABM/TW et al.-T1-3 Response | Title | Volume (pieces/issue) | Comments |
| RD-1 | Reader's Digest | 10,714,401 | |
| RD-1 | Family Handyman | 1,121,840 | Comailed |
| RD-1 | American Woodworker | 296,751 | Comailed |
| RD-1 | RD Large Type | 656,557 | Comailed |
| RD-1 | Selecciones | 285,705 | |
| RD-1 | Taste of Home | 4,194,396 | |
| RD-1 | Birds & Blooms | 1,957,124 | |
| RD-1 | Quick Cooking | 2,699,170 | |
| RD-1 | Country | 1,157,640 | |
| RD-1 | Country Woman | 1,215,720 | |
| RD-1 | Light & Tasty | 1,455,997 | |
| RD-1 | Reminisce | 1,088,311 | |
| RD-1 | Reminisce Extra | 340,799 | |
| RD-1 | Crafting Traditions | 249,769 | |
| RD-1 | Country Discoveries | 340,481 | |
| RD-1 | Farm & Ranch Living | 393,594 | |
| RD-1 | Country Extra | 328,439 | |

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-2. Is it your understanding that increasing levels of worksharing in the past, such as application of bar codes, increased drop shipping and increased palletization, did not reduce the Postal Service's Periodicals processing costs to the extent that should have been experienced? If so, please state all of the factors that, in your view, produced this result.

ABM/TW et al.-T2-2. While it is unclear to me precisely what you mean by "the extent that should have been experienced," I can offer the following comments.

In the case of barcode application by mailers, I believe it may be true that the savings produced often have been less than the discounts offered, for reasons that include the following:

- (1) unlike other worksharing discounts, some barcode discounts have been set with a passthrough much higher than 100% of projected cost savings;
- (2) many pre-barcoded flats are sorted manually, often to a greater extent than assumed in the cost studies used to justify the discounts;
- (3) placement of OCR's on all flats sorting machines and advances in OCR technology have reduced the importance of pre-barcoding; and
- (4) address quality problems may reduce the effectiveness of barcodes.

On the other hand, dropshipping and palletization are both effective means to bypass postal operations and thereby avoid costs. The value of these forms of worksharing has never been fully recognized in the Periodicals rate structure.

My testimonies in Dockets No. R90-1, R94-1, R97-1 and R2000-1 documented and examined possible explanations for the unusually large increase in Periodicals costs that started in FY87 and continued until at least very recently. I demonstrated that those cost increases occurred in spite of numerous advances in mail processing technology that had been expected to reduce costs, and in spite of extensive efforts by Periodicals mailers to avoid postal operations through worksharing.

My present testimony does not address the reasons for the current high costs of postal operations. But I believe that, with an eighteen year history of increasing costs, Periodicals mailers and the Commission must conclude that the best hope for cost containment and cost reduction is to bypass as many postal handling and transportation operations as possible, leaving to the Postal Service the job it does best, namely to deliver the mail. The cost analysis presented in my testimony and the corresponding rate recommendations presented by witness Mitchell are intended to provide incentives that will minimize the combined mailer and Postal Service costs.

To speculate that increased dropshipping and palletization somehow has caused the increase in Periodicals costs turns reality upside down. When Periodicals bypass a postal operation they cause no cost at that operation and can be charged with no costs by the Postal Service's accounting system.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-3. As a general matter, would Time Warner's Periodicals postage bill benefit from a shift in cost responsibility from pieces to pounds? Explain your answer.

ABM/TW et al.-T2-3. The answer to this question might depend on exactly how the piece and pound rates are structured. However, an average Time Warner Periodical's piece weighs more than the average Outside County piece, and so it can probably be said that as a "general matter" Time Warner would not benefit from a shift in cost responsibility from pieces to pounds.

More precisely, based on an accumulation of postal statement data for Time Warner's Periodicals, its average piece in calendar year 2003 weighed 8.07 ounces. According to the RPW piece and weight statistics reported for FY03, an average Outside County Periodicals piece weighed 7.06 ounces, while an average regular rate piece weighed 7.89 ounces.

Time Warner et al.'s proposal in this case is to shift some cost responsibility away from both pieces and pounds, by properly identifying the costs of bundles, sacks and pallets. At the same time, it is proposed to make pound rates more cost based by extending the zoning to editorial matter, while maintaining the overall benefit given to editorial matter.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-4. Is the term “hot pubs” familiar to you? If so, please explain how that term is used in postal processing plants and how it affects the operations of those plants.

ABM/TW et al.-T2-4. Yes. I do not believe it is an official Postal Service term, but “hot pubs” is used informally in some postal facilities to refer to daily and weekly publications. Mail processing clerks are instructed to give priority to such publications over monthly publications when it makes a difference in meeting a critical dispatch. Some facilities post lists of “hot pubs” that employees are asked to pay special attention to.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-5. If certain Periodicals impose higher processing or other costs on the Postal Service by virtue of being characterized as “hot pubs,” how, if at all, are those additional costs reflected in your calculations?

ABM/TW et al.-T2-5. My testimony addresses only costs that can be quantified by application of existing data and cost models, and whose existence has been established. There can be no dispute that the Postal Service does incur certain costs each time it handles a bundle, a sack or a pallet, and that those costs depend on factors such as presort level and entry point. I believe that I have demonstrated the feasibility of quantifying those costs.

There are other costs whose existence cannot be doubted but that I did not attempt to analyze, because I do not know a feasible way to analyze them, such as costs related to forwarding. With regard to the costs you say may be imposed by characterizing certain periodicals as “hot pubs,” such costs are to my knowledge not measurable, their existence has not been proven, and they may well not exist at all.

Let me elaborate. Many years ago I devoted considerable time and effort to the study of peak load costs in mail processing.¹ In the context of postal mail processing, peak loads occur when a large quantity of work has to be accomplished in a short period of time, requiring the availability of a large workforce who then must be paid not only for the short duration of the peak but for an entire eight hour day, during part of which a smaller staff might have been sufficient. Peak loads occur when mail collected from mail boxes and postal customers arrives at a processing facility only a few hours before it must be dispatched to other plants in order to meet First Class delivery standards. Another peak occurs at many plants in the early morning, when in a short time span incoming mail must undergo several operations (including delivery point sequencing of letters) and then be dispatched to the DDUs in time for carriers to begin their rounds.

¹ See Docket No. R87-1, Time-T-4, Direct testimony of Halstein Stralberg, Concerning Peak Load Costs, and Docket No. R80-1, USPS-RT-5, Rebuttal Testimony of Halstein Stralberg.

If it could be shown that so-called “hot pubs” cause peak loads by forcing postal managers to add staff that would not have been needed if they were handled outside the peak, then one might argue that they incur additional costs by virtue of being “hot.” However, there is to my knowledge no evidence that this occurs. In fact, Periodicals mailers who dropship are typically assigned windows for entering their mail that are designed to avoid the possibility of contributing to peak loads. By entering their mail outside the processing peak, Periodicals mailers, whether daily, weekly or monthly, may in fact be helping to reduce peak load costs.

As an example, when Time Inc. makes arrangements with an SCF to enter a product, e.g., People magazine, it is assigned a critical entry time (CET). If for any reason the CET is missed, the facility does not guarantee to process the product on the same day. The CET’s vary by facility but are generally between noon and 5 pm. They are designed to assure that Periodicals will be available for processing before the peak associated with arrival of the collection mail. Because flats sorting machines run different sorting schemes at different times of day, Periodicals that miss their CET are unlikely to be processed until much later and may be delivered a day later than normal.

The mere fact that an employee may be told to process a container of weekly publications before he starts on a container of monthly publications does not in itself add costs. Adding extra staff in order to process weekly/daily publications faster would add costs but I do not believe that this occurs.

I think one could also argue that the greater urgency created by a “hot” publication may in fact cause it to be worked faster, especially at manual operations. Having watched on occasions the very slow pace at which Standard flats or monthly Periodicals flats sometimes get worked at, for example, manual bundle sorting or “prep” operations, it has occurred to me that if those flats and bundles were known to be “hot” they might be processed a lot faster, in which case they would presumably incur lower rather than higher costs by virtue of being characterized as “hot.”

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-6. In footnote 4 at page 6, you state that a mailer may have a good, service-related reason to mail a few pieces in a sack. Please explain the circumstances under which such good reason might exist.

ABM/TW et al.-T2-6. I am not familiar with all the reasons mailers may have for mailing a few pieces in a sack, but the practice appears to be widespread, even among high-volume mailers. The footnote you refer to simply suggests that mailers should have the flexibility to continue the practice if they are prepared to pay for the extra costs.

There appears to be at least a perception that pieces in a sack with a high presort level will travel faster through the postal system than pieces in a sack or pallet with lower presort. I am not sure that this is always so. For example, if a 5-digit sack is entered into the postal system far from its destination, it will have to be sorted several times, and in the process delays could easily occur. A sack with lower presort (e.g., a 3-digit sack) would be opened earlier, i.e., it would require fewer sack sorts, but the pieces or bundles inside it would have to undergo more bundle and/or piece sorting. I am not aware of any studies that document how much faster individual pieces travel through the system because they are placed in sacks with a high level of presort.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-7. Please confirm that, under the complainants' proposal here, a small circulation Periodical that might need to mail in, for example, low-copy, 5-digit sacks in order to obtain adequate service will be required to pay what are deemed by you to be the true costs of obtaining that service, but that a daily publication, for example, that imposes higher costs not associated with bundle, sack or pallet size on the Postal Service as a result of its service needs will not be assigned responsibility for those costs. If you cannot confirm, please explain why.

ABM/TW et al.-T2-7. See my responses to ABM/TW et al.-T2-5 and ABM/TW et al.-T2-6.

I do not believe the practice you describe has been proven to be a reliable method for obtaining "adequate" service.

I can confirm that my testimony addresses costs that can be quantified based on available data and that it does not address costs that cannot be quantified and whose existence has not been proven. The practice of sending sacks with just a few pieces in them through the postal system is in my view extremely costly. Its costs, which can be calculated, ought to be known to the mailers who engage in it.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-8. Please explain why, at page 7, line 23, you state that certain savings depend upon whether Periodicals would have been sorted on an AFSM 100 or manually, but do not mention the FSM 1000.

ABM/TW et al.-T2-8. Flats sorting on the AFSM-100 is substantially faster than either manual or FSM-1000 sorting. By comparison, the difference in productivity between FSM-1000 and manual sorting is relatively small. According to the Postal Service's R2001-1 mail flow model, FSM-1000 machines are no longer used for incoming secondary flats sorting, the sorting scheme performed most often on Periodicals flats.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-9. At page 9, lines 26-27, you give pieces thicker than $\frac{3}{4}$ inch as an example of non-machinable pieces. What other types of Periodicals are considered non-machinable?

ABM/TW et al.-T2-9. Please note that, consistent with the Postal Service's R2001-1 mail flow model, I define machinable as meaning machinable on AFSM-100 machines.

DMM Section C820.2 describes the requirements that flats must meet to be considered AFSM-100 machinable. Section C820.4 describes additional requirements that apply to polywrapped flats.

In practice, it has been my observation that facilities often process some flats on AFSM-100 machines that do not meet all the DMM requirements for AFSM-100 machinability. For example, the AFSM-100 weight limit for Periodicals flats is given in DMM section C820.2.4 as 20 ounces. But in a facility I visited recently I observed that copies of In Style weighing close to 2.5 pounds were sorted on an AFSM-100 without apparent problems. At the same visit, some flats polywrapped in material approved only for use on UFSM 1000 (formerly FSM 1000) machines were sorted on an AFSM-100, again without apparent problems. On the other hand, it is my impression that oversized flats, as defined in section C820.2.3 (over 12 inches high, or over 15 inches long, or over $\frac{3}{4}$ inches thick) will not be sorted on AFSM-100 machines.

Additionally, I believe most newspapers are not sorted on AFSM-100 machines, although there appears to be no explicit statement to that effect in DMM section C820.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-10. With respect to your testimony at page 11, lines 14-15, is the 60% of revenue from piece rates based upon an “assumption,” as you state, or upon an estimate?

ABM/TW et al.-T2-10. Estimates are often based on assumptions. An implicit assumption behind the 60/40 split between piece and pound rates has been that Periodicals costs are either piece related or pound related. My testimony shows that some costs are determined neither by pieces or pounds but by the number of bundles, sacks and pallets used by Periodicals mailers.

The 60% allocation of Periodicals revenues to the piece rates was proposed in Docket No. R87-1 by then USPS witness Mitchell who based his proposal in part on a Docket No. R84-1 study by witness Madison, which identified 15% of non transportation costs as weight related. After reviewing arguments favoring both a higher and lower piece percentage, the Commission agreed.¹

¹ Since Docket No. R87-1, a number of changes in mail preparation and postal handling methods might have been assumed to alter that relationship one way or another. Increases in the per-piece weight of Periodicals since 1987 would for example, absent other changes, have increased the weight related portion of Periodicals costs.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-11. With respect to your testimony at page 17, lines 1-3, please provide your understanding of the type of Periodicals mail that is drop shipped in sacks.

ABM/TW et al.-T2-11. I am not aware of any statistic that provides insight in the characteristics of sacked Periodicals that are dropshipped. I would assume, however, that the category includes many local or regional publications, as well as some sacks of time sensitive publications that are airlifted.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-12. At page 18, line 12, you state that the LR-1-332 model was changed by you to use “PRC costing methodology.” Please confirm that this change results in a greater amount of cost attribution.

ABM/TW et al.-T2-12. Confirmed that the PRC costing methodology attributes more costs than the Postal Service’s methodology.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-13. At page 18, line 12, you state that the LR-1-332 model was changed by you to use “PRC costing methodology.” Please explain the reason why this change was necessary.

ABM/TW et al.-T2-13. I was advised by Time Inc. counsel to use the PRC methodology because it is the one that the Commission has ruled appropriate. My present testimony does not address issues related to volume variability or cost attribution. I presume that when/if the Commission recommends the adoption of cost-based rates along the lines proposed in this docket, it will base those rates on the costing methodology it considers most appropriate.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-14. At page 18, line 12, you state that the LR-1-332 model was changed by you to use “PRC costing methodology.” Please explain, in relative terms, how your costs and witness Mitchell’s resulting rates would have been different if this change were not made.

ABM/TW et al.-T2-14. There would be no difference at all in the recommended pound rates because there is no difference between the Postal Service and the PRC with regard to the attribution of transportation costs. Proposed piece rate differentials based on machinability, presorting and pre-barcoding would be somewhat smaller. The proposed bundle, sack and pallet unit charges would also be slightly smaller.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-15. At page 18, line 12, you state that the LR-1-332 model was changed by you to use “PRC costing methodology.” As a general matter, does Time Warner support use of the PRC methodology as opposed to the methodology used in LR-1-332?

ABM/TW et al.-T2-15. I am not a spokesperson for Time Warner. The position of Time Warner with regard to attribution of postal costs was described in its briefs submitted in the R97-1 and R2000-1 rate cases and in its presentation to the Presidential Commission on the Postal Service.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-16. At page 18, line 12, you state that the LR-1-332 model was changed by you to use “PRC costing methodology,” and at page 28, you state that you used PRC rather than Postal Service assumptions of volume variability. Is the second statement an explanation of the change identified in the first statement?

ABM/TW et al.-T2-16. The difference between the Postal Service’s and the Commission’s costing methodology, at least with regard to mail processing costs, is mostly, though not totally, about volume variability at different cost pools. The piggyback factors applied to different mail processing cost pools also differ between the two methodologies.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-17. Does Time Warner agree that the PRC assumptions of volume variability to which you refer at page 28, line 18, are more accurate than those of the Postal Service? If not, why did you make this change?

ABM/TW et al.-T2-17. Please refer to my answers to ABM/TW et al.-T2-13 and ABM/TW et al.-T2-15.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-18. In general terms, what is the effect on the rates proposed by the complainants of your substituting the PRC assumptions of volume variability for those of the Postal Service?

ABM/TW et al.-T2-18. Please refer to my answer to ABM/TW et al.-T2-14.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-19. Your testimony at page 20, line 21, through page 21, line 1, explains that you computed certain costs on a per-piece basis but that Mr. Mitchell did not use them in his design of piece rates. (a) Why did Mr. Mitchell not use them in his design of piece rates? (b) How or where did Mr. Mitchell consider these costs?

ABM/TW et al.-T2-19.

- a. The costs referred to are incurred moving containers (hampers, APC's, etc.) with trays of flat mail on and off trucks, between the platform and the workroom floor or between flats sorting operations. Such costs are predominantly weight related. Therefore, Mr. Mitchell did not use them to design per-piece rates.
- b. They are part of the 30% of Periodicals costs that I estimated to be incurred on a per-pound basis. The development of this estimate is explained on pages 36-38 of my testimony. Mr. Mitchell accordingly designed the proposed pound rates to produce 30% of the revenues from the outside county subclass.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-20. With respect to bundle breakage costs, addressed at page 21, line 25, through page 22, line 5, does your model use actual bundle breakage data from a prior time period? If so, from what period?

ABM/TW et al.-T2-20. LR-I-332 relied on the bundle breakage statistics documented in LR-I-297, which describes a data collection performed in the fall of 1999. I am not aware of any more recent source of data on bundle breakage. As described in my testimony, I adopted the LR-I-332 method of bundle breakage analysis.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-21. On page 29, lines 1-12, are you assuming that the time it takes to move a pallet through a postal facility is related only to the distance moved and not the configuration, congestion, availability of a forklift when and where needed or other factors associated with particular facilities?

ABM/TW et al.-T2-21. I have made no assumption regarding the relative impact of the factors you mention upon the time it takes to cross-dock a pallet. The section of my testimony that you refer to traces the origins of the different estimates of pallet cross-docking productivity used in the past by Postal Service witnesses. It points out that the estimate which originated in measurements taken at an SCF (i.e., the Buffalo SCF) indicates faster pallet cross-docking than the estimate that originated in measurements at a BMC and concludes that the former is more appropriate to use when analyzing pallet cross-docking at SCF's and ADC's.

Please see also my response to ABM/TW et al.-T2-22.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-22. Please explain whether or not it would be fair to assume that cross docking a pallet in a large facility designed for cross docking operations could be faster than cross docking a pallet in a smaller facility not designed for such an operation.

ABM/TW et al.-T2-22. I don't know which particular large and small facilities you have in mind, but in general I believe that, contrary to your suggestion, pallet transfer in smaller processing facilities is faster than it is in larger facilities. The BMC's are examples of large postal facilities. They were designed and built before the use of pallets had become widespread. I understand that some BMC's, in order to compensate for this design deficiency, rely on smaller nearby facilities, often referred to as annexes, for cross docking of Periodicals pallets.

If by "smaller facility" you are thinking of smaller SCF's, I believe that by now they all have the capability to handle pallets. Smaller SCF's, as well as the even smaller DDU's, tend to have only one platform area, whereas large processing facilities may have several platforms, located for example on opposite sides of the facility, or in some cases at different levels. Such facility layouts tend to complicate transfer of pallets and other rolling stock from one platform to another.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-23. How fast does a forklift carrying a pallet travel if unimpeded by congestion?

ABM/TW et al.-T2-23. I don't know, and I rely on no assumption regarding the maximum speed of a forklift. I would assume it depends on the weight of the pallet carried as well as the strength of the motor used by a particular forklift.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-24. When you conclude at page 29, lines 3-4, that cross docking a pallet in an SCF should be faster than doing so in a BMC, what distance were you assuming would be covered in the SCF and in the BMC?

ABM/TW et al.-T2-24. I made no attempt to quantify distances covered. See, however, my responses to ABM/TW et al.-T2-21 and ABM/TW et al.-T2-22.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-25. With reference to your testimony at page 30, lines 1-6, please state how a pallet is moved from the platform to the bundle sorting operation at a DDU.

ABM/TW et al.-T2-25. Normally with a pallet jack.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-26. With reference to your testimony at page 30, lines 1-6, how are bundles typically sorted at a DDU?

ABM/TW et al.-T2-26. The bundles that are sorted at a DDU are typically carrier route bundles. They are typically lifted from the pallet and placed either on the ledge of each carrier's case or in an area such as a shelf or a cubbyhole for each carrier where the carriers can pick them up.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-27. With reference to your testimony at page 30, lines 1-6, please state your understanding of how many DDUs do not have loading docks and forklifts necessary to receive pallets.

ABM/TW et al.-T2-27. I do not know any number. However, it is my impression that today DDU's with volume sufficiently large that some mailers are able to make up separate pallets to them generally are equipped to receive pallets.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-28. If a mailer prepares a 5-digit pallet destined to a DDU without the ability to offload and move a pallet to the bundle sorting operation, how is that pallet handled by the Postal Service?

ABM/TW et al.-T2-28. It is my understanding that the Postal Service is not obligated to accept pallets at such facilities and that mailers therefore will not make up pallets for such facilities. It is also my understanding that facilities without the ability to handle pallets tend to be very small facilities to which mailers are unlikely to have sufficient volume to make up a separate pallet.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-29. With reference to your testimony at page 30, lines 18-22, where you state that you might have underestimated such costs as shaking out a sack, is it also possible that you might have underestimated some costs associated with pallets?

ABM/TW et al.-T2-29. It is possible. Generally, however, I believe it is just as likely that they may have been overstated.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-30. Do you agree that, over time, the Postal Service has made changes to its operations, such as adding loading docks to delivery units and improving the intake process at SPBSs, that are designed to facilitate the handling of pallets and that it has made other changes, such as the elimination of sack sorters, that render the handling of sacks more costly? If not, do you agree with either of these propositions?

ABM/TW et al.-T2-30. Many older postal facilities, including the BMC's, were designed for sacks, not for pallets. Over the years, facilities have been upgraded and modified to facilitate the movement of pallets and rolling containers between trucks, platforms and work areas. Today, all processing facilities and most large DDU's can handle pallets.

I disagree with your theory that the facility modifications that have occurred have led to more costly sack handling. Back in the 1970's and, I believe, most of the 1980's, sacks requiring long-haul transportation were typically bedloaded, a slow and costly process that required an equally slow and costly unloading process at the other end. BMC's and other sack-sorter equipped facilities would extend conveyor belts into trucks on which sacks were placed one at a time for unloading, with a similar process for loading the sacks on the outbound platform after they had been sorted.

Today, however, sacks are typically transported between facilities, including long-haul transportation, in rolling containers such as APC's, OTR's or hampers, or in "postal paks." All of these are easily moved on and off trucks and across platforms. In my opinion, the benefit of this change in operating mode far outweighs the effect of removing a few space consuming sack sorters no longer deemed useful. Sack sorters are, I believe, one of the main reasons for the extensive breakage problem experienced by bundles that travel in sacks.

While sacks may also have benefited from the upgrading that has occurred in facility layout, they remain a far less efficient and less secure means of transporting flats bundles than pallets.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-31. You make numerous assumptions throughout your testimony and you make certain changes to data used in other cases. In reaching your assumptions and deciding whether changes are appropriate, did you in any instance consider the impact of a change or an assumption on the rates that would be paid by Time Warner? If so, please provide the details and identify the alternative(s) that you chose not to use.

ABM/TW et al.-T2-31. No. In fact, it was only after completing the cost model described in my testimony that I addressed the problem of how to determine the impact the proposed rates would have on a particular publication. Only after completing the analysis required to respond to ABM/TW et al.-T1-3 could it be said that we now know how the proposed rates would affect each of Time Warner's publications.

My main concerns in developing the model described in my testimony were that: (1) the model should reflect actual mail processing reality as closely as possible without being excessively complex; (2) it must correspond to certain known aggregate measures for test year TY03, such as CRA costs and billing determinant volumes; and (3) the model needed to rely on existing Postal Service data.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-32. Please state your understanding of the Postal Service's present plans with respect to delivery point sequencing of flats, including Periodicals.

ABM/TW et al.-T2-32. It is my understanding that the Postal Service's engineers are considering two different concepts for automating the sequencing of flats, called FSS (flats sequencing system) and DPP (delivery point packaging). Neither system is ready to be implemented, and the Postal Service has not decided (at least not publicly) which system it will use or whether it will use any of them. Both approaches have potential problems that would need to be resolved. One problem is that non-machinable flats might become much more expensive to handle. Another is that large volumes of flats already being entered at the DDU's would have to be brought back to the processing plants, causing additional transportation costs as well as adding to an already severe congestion. Bringing mail currently entered at DDU's back to the plants could have a severe impact on local mailers, including in-county mailers for whom the plant/SCF is very much outside the county.

In any case, I do not think the possibility that the Postal Service may change its processing environment in the future should prevent one from seeking the best possible rate structure in today's environment. The need to consider costs incurred by bundles, sacks and pallets and the desirability of encouraging mailers to dropship at least to the destinating SCF will also exist in a future environment that may include delivery point sequencing of flats.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
AMERICAN BUSINESS MEDIA**

ABM/TW et al.-T2-33. . If the Postal Service proceeds with delivery point sequencing of flats, including Periodicals, at what type of facility (that is, DDU, SCF, P&DC, etc) is the sequencing likely to be done?

ABM/TW et al.-T2-33. I believe the Postal Service has considered the possibility of sequencing both at the DDU and the SCF, but that it is most likely to be at the SCF. However, I am not privy to the Postal Service's most recent thinking about this matter.