Postal Rate Commission
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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 USPS/TW ET AL.-T2-1-26
(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 United States Postal Service interrogatories USPS/TW et al.-T2-1-26, 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 UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-1.Between the time that you became aware that you would testify in this proceeding and today, did you conduct any field observations of flats mail processing, distribution, and delivery activities at postal facilities? If your response to this question is yes, please list the dates, facility type, facility location, and tasks observed. Please provide any copies of notes that you may have taken during those observations.

USPS/TW et al.-T2-1. Yes. On February 19, 2004, I visited the Morgan P&DC in New York, from around midnight until 2:30 am. I mostly observed flats processing and some of the 035 mail prep operation. I did not take any notes during those observations.

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USPS/TW et al.-T2-2. Between the time that you became aware that you would testify in this proceeding and today, did you conduct any field observations of flats printing, binding, mail preparation, and distribution activities at mailer facilities? If your response to this question is yes, please list the dates, mailer names, facility names, facility locations, and tasks observed. Please provide any copies of notes that you may have taken during those observations.

USPS/TW et al.-T2-2. No.

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USPS/TW et al.-T2-3.On page ii of your testimony you state, "[w]hereas my original analysis concluded that there was no need to apply a CRA adjustment to piece sorting costs, it now becomes necessary to use one for piece sorting costs as well as bundle, sack and pallets costs."

(a) Please state the costs (piece distribution, bundle, sack and pallet costs) to which you originally applied a CRA adjustment and why.

(b) Please state the costs (piece distribution, bundle, sack and pallet costs) to which you have applied a CRA adjustment factor in your revised testimony. In cases where your use of an adjustment factor changed, please explain why.

USPS/TW et al.-T2-3.

a-b In both cases, I divided the mail processing costs attributed to Periodicals for TY03 under PRC costing into three categories, by MODS operation:

(1) piece distribution costs;

(2) all other mail processing costs modeled in my analysis; and

(3) mail processing costs that I did not model, e.g., forwarding.

Originally, the modeled piece distribution costs came out very close to the CRA piece distribution costs. I therefore only adjusted all other modeled costs, as a group, so that total modeled costs would equal the sum of the first two groups of attributed costs.

With the change reported in the introductory note to my testimony, I adjusted the modeled piece distribution costs to be equal to the attributed piece distribution costs and all other modeled costs to be equal to the second group of attributed costs.

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USPS/TW et al.-T2-4.

(a) Do you believe that a cost estimate which measures a total Periodicals mail processing unit cost would exhibit a higher degree of accuracy level than cost estimates which have been developed for subcomponents such as piece distribution, bundle processing, pallet processing and sack processing activities? Please explain your answer.

(b) Do you believe that the piece distribution cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the piece distribution cost estimates.

(c) Do you believe that the bundle cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the bundle cost estimates.

(d) Do you believe that the sack cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the sack cost estimates.

(e) Do you believe that the pallet cost estimates you provide in Exhibit B are 100 percent accurate? If so, please explain why. If not, please provide an estimate of the accuracy level of the pallet cost estimates.

USPS/TW et al.-T2-4.

a. Much can be said about the accuracy or inaccuracy of the method used to attribute mail processing costs to different mail classes, including Periodicals. If you think only in terms of IOCS sampling accuracy, then it makes sense to think that estimates of a larger group of costs would be more accurate than estimates of only subsets of those costs. However, considering other uncertainties about the current costing method, such as the attribution of “not handling” costs, I would tend to conclude that piece distribution costs, which have a higher percentage of “direct” costs, may be the most accurate.

My testimony in this case is not about whether or not the costs attributed to Periodicals are accurate. The costs that the Commission has decided should be attributed to Periodicals are the costs that Periodicals mailers have to deal with and the costs

Periodicals mailers can avoid only by bypassing as many as possible of the postal operations where those costs are incurred.

b-e I don't believe one should ever assume that cost estimates are 100% accurate. For one thing, even if by chance they were 100% accurate at a particular point in time, it is unlikely that they would be that accurate next year.

For unit cost estimates based on mail flow models, I don't believe the Postal Service provides estimates of statistical accuracy and I don't believe providing such estimates is possible.

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USPS/TW et al.-T2-5.On page 3, lines 4-7 of your testimony, you state, "I believe rates developed on the basis of this information, as described in the testimony of witness Mitchell, will give both large and small mailers incentives to improve their mail preparation and entry practices, thus reducing Periodicals postal costs."

(a) Would you classify the five complainants as "large" mailers? If not, how would you classify them?

(b) Please confirm that some mailers may not change their mail preparation and entry practices in response to the "incentives" you describe. If not confirmed, please explain.

(c) In general, do you believe that large mailers are more likely to change their mail preparation and entry practices in response to the proposed "incentives" than smaller mailers? If not, please explain.

USPS/TW et al.-T2-5.

a. In the sense that they all mail some large publications, yes. Note, however, that several of the complainants also have short-run publications, such as the Fairchild titles (Condé Nast) and the Transworld titles (Time Warner).

b. I believe nearly all mailers would at least consider what changes would be appropriate given a new rate structure and a different set of economic incentives.

c. I think each organization would react somewhat differently. See, for example, the varied responses of the five complainants to POIR 1, question 2. However, whether large or small, publications will need to review their mailing practices and search for the best way to adapt to changed circumstances. Smaller mailers would probably depend more on their printers to take initiatives to modify existing practices.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-6.On page 6, lines 4-7, you state, "[s]uch charges would, in my opinion, quickly reduce the fairly widespread practice among Periodicals mailers of sending sacks with only one or a few pieces in them through the postal system."

(a) Please list the reasons why you feel Periodicals mailers are currently engaged in this "fairly widespread practice."

(b) For each reason in the list, please discuss whether there are any characteristics of those mailers engaged in the practice that distinguishes them from those mailers not engaged in the practice (e.g., size of mailer).

(c) In footnote 4 of your testimony you state, "If given correct price signals that require them to bear the costs of choosing such practices, however, chances are that mailers will avoid such practices in almost all cases." Did you survey mailers to see why they currently enter skin sacks and whether or not they would stop doing so were the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43) to be adopted and implemented? If not, what is your basis for forming the conclusion in footnote 4.

USPS/TW et al.-T2-6.

a. Please see my answers to MH/TW et al.-T2-2 and ABM/TW et al.-T2-6.

b. Please see my answer to part a. I do not know what motivates large mailers that is different from what motivates small mailers.

c. I did no survey. However, in discussions with Time Warner personnel, and after reviewing numerous mail.dat files for magazines owned by Time Inc., I am convinced that at least one large mailer would remove from the system many of the sacks it now uses.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-7.

(a) Did you evaluate the impact that site-specific Periodicals mail volumes have on piece distribution costs? If so, please provide the results of that evaluation.

(b) Please confirm that witness Mitchell's proposed rate schedule (TW et al.-T1-1, page 43) could reduce the amount of Periodicals mail processed in some piece distribution operations. If not confirmed please explain.

(c) If witness Mitchell's proposed rate schedule (TW et al.-T1-1, page 43) were implemented, and additional Periodicals mail bypassed piece distribution operations, please confirm that it is even more likely that some facilities would not find it cost effective to process Periodicals on postal equipment due to volume considerations, such that this mail would have to be processed manually. If not confirmed, please explain.

(d) Please confirm that if a greater percentage of mail were ultimately processed manually in a given operation as a result of the witness Mitchell's proposed rate schedule (TW et. al.-T-1, page 43) being implemented, the unit piece distribution costs would increase for those mail pieces requiring piece distribution in that operation. If not confirmed, please explain.

USPS/TW et al.-T2-7. The questions appear to presume that Periodicals flats piece distribution needs to be done separate from all other flats sorting, when in fact the processing occurs on the same sorting machines, using the same sorting schemes and aiming for the same dispatches to the same locations.

a. I have no doubt that the piece distribution cost in a given facility may vary with the volume of mail distributed in that facility. Some years ago when I was able to compare productivity rates in many different facilities, it appeared that the small facilities were achieving higher productivity rates, especially in manual operations. I used to conclude that this discrepancy had more to do with stability and morale of the workforce in more rural locations than with volume as such. Today, I would assume that facilities with AFSM-100 machines achieve significantly better flats sorting productivity than those without. The notion that Periodicals volume, rather than total flats volume, should determine flats sorting productivity frankly doesn't make sense to me.

b. Confirmed that anything is possible. However, as the proposed rates include per-bundle charges, they might just as well serve to discourage use of very small bundle sizes and therefore result in some mailings being somewhat less presorted than today.

c. Not Confirmed. Your statement that it is "even more likely" that facilities would not find it cost effective to process Periodicals on postal equipment is surprising, at least with reference to piece sorting. At postal facilities I have visited in recent years I have mostly heard management say they were trying to feed as many flats through the AFSM-100 machines as possible, even flats that exceed the official parameters for AFSM-100 machinability. To take Periodicals off these machines when the machines often have extra capacity does not seem to make sense.

One thing I do believe happens in some facilities is that some flats are processed manually because there are too many flats, even with the AFSM-100, to get them all processed before some critical dispatch time.

When it comes to incoming secondary processing, at least some facilities combine Periodicals either with First Class or Standard flats. There really should be no need to keep Periodicals separate at that stage. The question of whether Periodicals need to be kept separate all the way to the carrier was discussed extensively by the 1998-99 Joint Industry/Postal Service Periodicals Review Team, in which I participated. The team agreed that such separation is not necessary and not desirable, and that it was more efficient to process incoming Periodicals flats with either Standard or First Class or both.[1]

d. If I understand your question, you are suggesting that facilities would process Periodicals manually, leaving the machines (AFSM-100's) underutilized and thereby raising the unit costs of processing, and then would blame it on Mr. Mitchell's proposed rate schedule. It seems to me the only reason for leaving the machines underutilized in

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[1] See Report of the Periodicals Operations Review Team, sponsored by the American Business Press, the Magazine Publishers of America, and the United States Postal Service, March 1999. The report was included as part of library reference LR-I-193 in Docket No. R2000-1. See also the direct testimony of James O'Brien, TW-T-2, on behalf of a coalition of Periodicals mailers in the same docket.

order to process Periodicals manually would be to keep an excess manual workforce occupied.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-8. The Postal Service will soon deploy the Automated Package Processing System (APPS), which can be used to process flats bundles.

(a) Did you analyze the impact that the APPS would have on bundle sorting costs? If so, please provide the results of that analysis.

(b) Did you analyze the extent to which the APPS is compatible with current postal mail preparation requirements and mailer preparation methods? If so, please provide the results of that analysis.

USPS/TW et al.-T2-8.

a & b. The purpose of my testimony was to develop unit costs and mail volume estimates consistent with TY03, which is the basis for the rates now in effect. The APPS machines are not relevant to TY03, and I did not analyze them. Nor do I possess the type of detailed information about the APPS and the Postal Service's plans for it that one would need to perform the types of analyses suggested.

A short video about the APPS, prepared by Lockheed Martin, that I viewed recently emphasizes the role of the machine as a parcel sorter and its importance for the Postal Service's parcel network. But if the machine is also going to be used on a significant scale to sort flats bundles, and if its productivity as a bundle sorter is significantly different from that of the SPBS, then it should of course be included in future updated versions of the cost model presented in my testimony.

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USPS/TW et al.-T2-9.On page 5, lines 24-27 you state, "[s]ack related costs include the cost of sorting sacks, either on mechanized sack sorters or manually, loading and unloading sacks from trucks, moving them across postal platforms and workroom floors, opening sacks, shaking out their contents, putting aside empty sacks and recycling them for further use by mailers."

(a) Please confirm that the configuration of a specific postal processing facility (e.g., single story vs. multiple story, available staging space, platform location and configuration, etc.) would affect sack processing costs at that facility. If not confirmed, please explain.

(b) Please confirm that the sack costs you develop in your testimony reflect the average sack cost characteristics exhibited by the wide spectrum of postal facilities. If not confirmed, please explain.

(c) If periodicals, on average, were entered at facilities with characteristics producing above average sack cost (e.g., a greater than average distance were traveled within a given plant), would that increase the sack costs above the costs presented in your testimony? Please explain your answer.

USPS/TW et al.-T2-9.

a. Confirmed. Sack handling methods differ from facility to facility and costs also differ.

b & c. My mail flow model, relying on the mail flows developed in LR-I-332 with a few modifications described in my testimony, is meant to represent the flow of Periodicals sacks through the postal system, which is not identical to the flow of all sacks. For example, a sack carrying parcels is typically opened at the destinating BMC, using the BMC's mechanized sack shakeout method. The BMC then sorts the parcels to the DDU level. In many cases, Standard sacks are also opened at the BMC. Periodicals sacks, on the other hand, are not opened at the BMC and often do not go to the BMC at all but are transported to the DADC, DSCF or DDU depending on their level of presort.

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USPS/TW et al.-T2-10. On page 6, lines 11-12 of your testimony, you state, "[p]allets incur costs as they are moved on or off trucks, across platforms and across the workroom floor to the bundle sorting area where the pallet's contents are distributed."

(a) Please confirm that the configuration of a specific postal processing facility (e.g., single story vs. multiple story, available staging space, platform location and configuration) would affect pallet processing costs at that facility. If not confirmed, please explain.

(b) Please confirm that the pallet costs you develop in your testimony reflect the average pallet cost characteristics exhibited by the wide spectrum of postal facilities. If not confirmed, please explain.

(c) If periodicals, on average, were entered at facilities with characteristics producing above average pallet costs (e.g., a greater than average distance were traveled within a given plant), would that increase the pallet costs above the pallet costs presented in your testimony? Please explain your answer.

USPS/TW et al.-T2-10.

a. I confirm that postal facilities have different configurations and differ in their methods of handling pallets.

b & c. My mail flow model, relying on the mail flows developed in LR-I-332 with a few modifications described in my testimony, is meant to represent the flow of Periodicals pallets through the postal system, which is not identical to the flow of all pallets. For example, a Standard pallet may be presorted to the DBMC and is transported to the DBMC where it is opened and its contents distributed. For Periodicals pallets, on the other hand, the DBMC presort level is not permitted, but they may be presorted to the DADC and are therefore transported to the DADC where they are opened and their contents distributed.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-11. On page 6, line 16 you state, "[u]se of pallets generally causes fewer costs than if the flats are entered in sacks." In your analysis, did you find any circumstances or instances in which flats on pallets cost more than comparable flats in sacks, at a given presort level? If so, please describe those circumstances or instances.

USPS/TW et al.-T2-11. A pallet generally offers cost advantages because it can replace not one but many sacks. But this depends of course on the volume of mail loaded on a pallet versus the volume in each sack. If, for example, a 5-digit pallet weighing 250 pounds is entered far from its destination, e.g. at the originating ADC, then, according to the pallet unit cost estimates in Exhibit B of my testimony, such a pallet would cost the Postal Service about $44, and five fifty pound sacks carrying the same volume would in fact cost less.

Generally, it does not make sense to make up a pallet to a given destination unless one has sufficient volume going to that destination.

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USPS/TW et al.-T2-12. On page 8, lines 1-2 of your testimony, you state, "[t]he current bundle minimums are six pieces for Periodicals flats and ten for Standard flats. Postal officials have been known to argue that both minimums should be raised."

(a) Please confirm that bundle size is a bundle cost driver. If not confirmed, please explain.

(b) Please confirm that bundles size is not accounted for in the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43). If not confirmed, please explain.

(c) In the course of developing this proposal, did the complainants consider incorporating bundle size ranges into the rate schedule? If not, please explain why not.

(d) Please confirm that bundle breakage is a bundle cost driver. If not confirmed, please explain.

(e) Please confirm that the specific materials used to secure bundles affect the bundle breakage rates in postal facilities. If not confirmed, please explain.

(f) Please describe the materials that mailers use to prepare and secure bundles and the impact that these materials have on postal bundle breakage rates, based on your experiencing assisting with the analysis contained in Docket No. R2000-1, USPS LR-I-297 (as described on page 1, lines 22-27 of your testimony).

(g) Please confirm that the materials mailers use to secure bundles are not simply a function of postal equipment and operations requirements, but are also a function of the equipment and operations requirements at the mailers' plants. If not confirmed, please explain.

(h) Please confirm that bundling materials are not accounted for in the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43). If not confirmed, please explain

(i) In the course of developing this proposal, did the complainants consider incorporating bundling materials into the rate schedule? If not, please explain why not.

(j) Please confirm that if piece minimums were raised, the average weight of bundles would increase. If not confirmed, please explain.

(k) Please confirm that if the average weight of bundles increases, the bundle breakage rates would tend to increase. If not confirmed, please explain.

(l) Have you conducted, or are you aware of any studies which have been conducted, in which the impact of bundle size or weight on bundle breakage rates, bundle costs, or piece distribution costs was analyzed?

(m) Are you aware of any studies that attempted to determine the point at which larger bundles may become problematic because the additional weight results in higher bundle breakage rates and piece distribution costs that outweigh the lower bundle distribution costs (in per-piece terms) associated with larger bundles? If so, please provide the results of those studies.

(n) Please confirm that bundle activities can affect piece distribution costs due to the fact that bundles can break. If not confirmed, please explain.

(o) On page 10, lines 15-18 you state, "LR-I-332 also estimates the costs of bundle breakage and presents them as per-bundle costs. I have defined them instead as per-piece costs. Most of the extra costs incurred when a bundle breaks prematurely are due to the additional piece sorting required for the previously bundled pieces." If bundle characteristics do, in fact, affect piece distribution costs, please explain why it is appropriate to measure separate and distinct bundle and piece distribution costs, which are, in turn, used to support separate and distinct rates.

USPS/TW et al.-T2-12. Before addressing the many individual questions pertaining to bundles and the possibility that they may break prematurely, let me point out that the Postal Service fairly recently (I believe 2003) put in place various restrictions on how packages (bundles) are prepared, aimed at enhancing package security. DMM sections M020.1.4 through 1.6 in particular. If these regulations are effective, they should presumably by now have led to a significant reduction in the frequency of bundle breakage.

It is my understanding that these regulations were based in large part on data collected during the 1999 MTAC sponsored package integrity study, where I participated in the data collection phase. The raw data from that study are listed in LR-I-297 in Docket No. R2000-1. Besides participating in that study, I made extensive observations of bundle sorting operations in many postal facilities as member of the 1998-99 Periodicals review team, and on other occasions. Based on that experience, and on examining the data in LR-I-297, I am convinced that the most important factor affecting bundle breakage costs is whether bundles are carried in sacks or on pallets, as pallets provide far better protection for the bundles. The second most important factor is, I believe, the presort of the container versus the presort of the bundle. For a 5-digit pallet with carrier route bundles, bundle breakage simply is not an issue. Similarly, when a bundle is at the same presort level as the container in which it is carried (e.g., a 3-digit bundle in a 3-digit sack), even if the bundle does break prematurely, no extra piece sorting is required.

There is little doubt that things like the bundling material used and the physical size of a package, along with how the bundling material is applied and many other factors, all affect the probability that a bundle will stay intact until it is meant to be broken. But

having already made such factors the subject of very detailed regulations, I cannot see that it would make sense to also make them independent rate elements. The Postal Service has a right to demand that bundles be secured sufficiently well to withstand, with high probability, the processing they are likely to be subjected to. If current regulations are ineffective in that regard, then maybe they should be modified.

Please see also my answer to USPS/TW et al.-T1-12, redirected from witness Mitchell.

a. I agree, in the sense that the physical size of a bundle determines how much space it occupies in the container into which it is sorted and thereby how frequently such containers must be replaced. In my analysis and in the proposed rate design, the associated costs are defined as weight related costs and are not part of the proposed per-bundle charges.

b. Confirmed that bundle size is not a proposed rate element.

c. I am not the rate design witness in this case, Mr. Mitchell is. However, I can say that I recall no conversation with Mitchell or anyone else involved in preparing the TW et al. proposal where such an idea came up.

d. Yes, in the sense that when bundles break costs tend to be higher than when they don't break.

e-i. Please see my general comments above. Bundling materials do affect the probability of breakage, as do numerous other factors. I don't believe it is necessary to introduce bundling material as a rate element, but the Postal Service should be free to refuse to accept bundling materials it considers unsuitable. Besides the 1999 MTAC study mentioned above, the mail characteristics study described in LR-I-87 in Docket No. R2000-1 also recorded data on bundle securing materials. It found, for example, that 8.3% were secured by strings and 3.7% by rubber bands.

j-m. Please see my general comments above. Periodicals bundles cannot exceed 20 pounds, due to weight limitations on SPBS bundle sorters. Additionally, current regulations already impose various size limits that depend on whether the bundles are in sacks or on pallets and various other factors. I do not believe that in addition to an

already complex set of regulations governing permissible bundle size one should also turn bundle size into a rate element. Such a rate element would need to consider the numerous other factors that also affect the probability of breakage and would add a high level of complexity to the rate structure.

n. Confirmed.

o. Separating the costs incurred by individual pieces and by bundles, and reflecting those costs in the rate structure, will provide mailers with the most appropriate and cost-based price signals.

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USPS/TW et al.-T2-13. On page 10 of your testimony, you describe the mail preparation rules in which palletized periodicals are always assessed rates based on the bundles presort level, whether the mail pieces are barcoded or not, while sacked periodicals are assessed bundle-based rates only if the mail pieces are barcoded. Please confirm that the Postal Service could impact costs by changing these mail preparation rules without having to adopt and implement the rate schedule proposed by witness Mitchell (TW et al.-T-1, page 43). If not confirmed, please explain.

USPS/TW et al.-T2-13. The Postal Service can, if it wishes, change the mail preparation rules that assign different presort levels to sacked bundles that in fact have the same presort level, based on whether or not the pieces inside the bundles are barcoded. Such a regulation change would remove the anomaly described in the part of my testimony that you refer to. It would not eliminate the need for truly cost-based Periodicals rates.

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USPS/TW et al.-T2-14. On page 10, lines 2-4 you state, "For palletized flats, the presort rate level is defined by bundle presort; the presort level of the pallet is ignored, even though it has a major impact on postal costs."

(a) Please confirm that the container presort level affects the bundle processing costs as you measure them. If not confirmed, please explain.

(b) Assuming that the container presort level does affect the bundle processing costs as you measure them, please explain why it is appropriate to measure separate and distinct container and bundle processing costs, which are, in turn, used to support separate and distinct rates.

(c) Please confirm that the container presort level affects the piece distribution costs as you measure them. If not confirmed, please explain.

(d) Assuming that the container presort level does affect the piece distribution costs as you measure them, please explain why it is appropriate to measure separate and distinct container and piece distribution costs, which are, in turn, used to support separate and distinct rates.

USPS/TW et al.-T2-14.

a. Confirmed. The number of bundle sorts required for a bundle depends primarily on the presort level of the container that the bundle comes in.

b. Please note that the container costs measured in my analysis are all the costs incurred by the container up to the point where it is emptied of its contents and recycled for future use. The bundle costs measured are the costs incurred by the bundle after it has left the container it came in. The costs are therefore distinct. Reflecting both categories of costs in the rates sends more cost-based price signals to the mailers than if they were not considered separately. For example, a sack with three bundles and a sack with one bundle, assuming the sacks have the same presort level and are entered at the same point in the Postal System, will undergo identical processing steps. But the bundle handling costs for the sack with three bundles are three times as large as for the sack with one bundle. Conversely, if three bundles are going to the same location they will incur lower sack costs if they travel in one sack than if they travel in three separate sacks.

c. Confirmed. The per-piece costs per bundle and container presort level and container type, which I presented to Mr. Mitchell for use in his rate design, are shown in Table B3a of my testimony. Please note that piece sorting costs vary far more with bundle presort level and with piece characteristics than with container presort level. In fact, the differences across columns in any given line of table B3a (i.e., the differences due to variation in container type and container presort level) are due entirely to the different impact of bundle breakage. Because those variations are small, witness Mitchell used only the weighted averages across each row in Table B3a, effectively assuming that piece sorting costs vary only with bundle presort level and piece characteristics.

d. Please see my answer to part c. The purpose of computing separate and distinct per-piece, per-bundle and per-container rates is to provide more cost based price signals, as explained in greater detail in Mr. Mitchell's testimony. However, because the impact of container type and container presort level on piece sorting costs are due entirely to the bundle breakage issue, one might perhaps argue that rather than expressing bundle breakage related costs on a per-piece basis as done in my model, those costs should be tied to container type and container presort.

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USPS/TW et al.-T2-15. On page 9 of your testimony you state, "[n]ot recognized is machinability of the mail pieces, even though machinability has become much more important with the advent of the AFSM-100."

(a) Please confirm that machinability is reflected in your cost estimates found in Table B3a. If not confirmed, please explain.

(b) If some mail pieces within a given mailing are assessed rates from one of the "machinable" cells in Table B3a, but those mail pieces are ultimately processed in a postal facility that does not contain an AFSM100, do you believe that the rates for those mail pieces would reflect their costs? Please explain your answer.

USPS/TW et al.-T2-15.

a. Confirmed.

b. Just like many pieces that never will see a sorting machine but nevertheless receive barcode discounts under current rates, a machinable piece without a machine to be processed on will likely incur greater costs, other factors being equal, than it would have if an AFSM-100 were available. The same can be said for a piece destined to a 5-digit zone for which incoming secondary is still only done manually, even if it is done by AFSM-100 for other zones served by the same processing facility.

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USPS/TW et al.-T2-16. On page 10, line 15, through page 11, line 2, you discuss how you treated piece distribution costs that were incurred as a result of bundle breakage. Please describe all assumptions within your models concerning bundle breakage rates, including the sources used for those rates.

USPS/TW et al.-T2-16. Please note that I did not develop the method for analyzing bundle breakage costs that is used in LR-I-332 and which I adopted. In my Docket No. R2000-1 direct testimony I developed a different, but in many ways related method that I presented as an alternative to the grossly misleading and inadequate bundle breakage analysis that had been proposed by the Postal Service in its estimates of presort and automation cost savings. The Commission accepted my methodology and used it as a basis for setting presort and automation flats discounts. PRC Op. R2000-1, November 13, 2000, ¶ 5652.

Because the LR-I-332 model used the same bundle breakage data source and a similar methodology, I simply adopted it, because incorporating my alternative method would have been a difficult and error prone task given the time that was available. The main difference between my R2000-1 method and the LR-I-332 method is that my method attempted to explicitly account for the fact that employees at bundle sorting operations sometimes will re-bundle broken bundles.

The bundle breakage rates assumed are the same as those listed on page 48 of my R2000-1 direct testimony. Those rates were developed from an MTAC sponsored data collection in which I participated and whose results are presented in LR-I-297.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-17. On page 17, lines 27-29, you state "[b]ecause of the rapid growth in Periodicals processing costs since the previous rate case, on top of years of large, unexplained increases before that, another large increase seemed inevitable." According to the Postal Service version of the CRA, the marginal Periodicals unit costs over the past 10 years are as follows:

YEAR	OUTSIDE COUNTY UNIT COSTS	PERCENT INCREASE FROM PREVIOUS FY
FY1994	17.3 cents	---
FY1995	18.2 cents	5.2%
FY1996	19.4 cents	6.7%
FY1997	20.1 cents	3.4%
FY1998	21.3 cents	6.0%
FY1999	23.4 cents	10.0%
FY2000	23.2 cents	(0.9%)
FY2001	24.0 cents	3.5%
FY2002	24.4 cents	1.7%
FY2003	24.0 cents	(1.6%)

(a) Please confirm that these figures are correct. If not confirmed, please provide what you feel are the correct figures.

(b) Please confirm that Periodicals Outside County marginal unit costs have leveled off since FY 1999. If not confirmed, please explain.

(c) In Docket No. R2001-1, Postal Service operations witness Kingsley stated that the AFSM100 Phase I deployments had been completed at the time the case was filed (September 2001) and that Phase II deployments would be completed by April 2002 (please see USPS-T-39 p. 15 at 21-23). Given this statement, as well as the fact that wages generally increase over time, isn't it possible that the AFSM100 deployments, as well as other recent cost containment measures, may have had a positive impact when it comes to containing Periodicals costs? Please explain your answer.

USPS/TW et al.-T2-17.

a. Confirmed for FY1994-96 and FY2000-2003. For FY97-99, my records give the numbers 19.8, 21.0 and 23.2. I assume the difference in those years may be due to different definitions of "the Postal Service version of the CRA." I have checked my hardcopy printouts of the FY97-99 CRA, and they appear to support my numbers.

b. It would appear to be so, at least from the numbers presented above. I think, however, that before concluding that the problem of rising Periodicals costs has been resolved, there are several factors that need to be considered, including:

(1) The largest increase in Periodicals costs occurred before the period you have focused on. See my direct testimony TW-T-1 in R2000-1, particularly Exhibit 1. Because Periodicals costs increased so much between 1986 and 1991 from the level they had been at for years when almost all processing was done manually, one might have expected costs to come down again from the abnormally high levels that they reached in the early 1990's, especially with sharply improved technology and increased worksharing. That does not appear to have happened.

(2) Comparisons of this kind should make adjustments for changes in costing methodology. I think, for example, that in FY2003 there has been introduced a new methodology for attribution of Segment 7 (carrier street time) costs that attributes less costs to Periodicals, although it attributes at least as high costs overall. That change, which I believe explains the cost reduction shown for FY2003, may be good news for Periodicals mailers if the Commission agrees with the new methodology. But it is not an indication of improvements in the way Periodicals are handled. Additionally, I believe the above cost figures from FY94 and FY95 reflect an assumption that mail processing costs are 100% volume variable, unlike the cost figures from more recent years.

(3) Comparisons of this kind should make adjustments for changes in worksharing, dropshipping and mail piece characteristics. For example, there has been a substantial increase in dropshipping by Periodicals mailers in recent years, and that has resulted in reduced transportation costs. Segment 14 purchased transportation costs attributed to Periodicals were $355 million in FY2000 but only $278 million in FY2003. At the same time, there was a significant decrease in the average piece weight of periodicals from FY2000 to FY2003. Weight does affect cost, and so reduced weight should also have produced lower costs.

c. I have no doubt that the deployment of AFSM-100 machines, which are technologically far superior to earlier flats sorting machines, has helped reduce or at least contain the increase in Periodicals costs. I also have no doubt that the Postal Service's recent cost containment efforts such as work force reduction have had a positive impact. On the other hand, given repeated claims by postal officials that flats processing productivity had increased almost 100% in just a couple of years, I think one must conclude that the small gains actually observed are very modest indeed.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-18. Within the TW et al. LR-1 "cost_variables.xls" workbook on the "Productivities" spreadsheet, you rely on a productivity of 428.16 pieces per hour for the "Sack Sorter (PIRS 98)." This figure measured sack sorting costs at BMCs only. Did you measure a productivity figure for mechanized sack sorters housed at Processing and Distribution Centers / Facilities (P&DC/F) and, if so, did you incorporate that into your model as well? If so, please discuss where this information is located and how it was incorporated into the model.

USPS/TW et al.-T2-18. I did not measure any productivity figure. I used those available from Postal Service data. My model (and LR-I-332) assumes sacks to be sorted manually at non-BMC (non-transfer hub) facilities. A planning guidelines (PGL) productivity figure of 192.42 sacks per workhour is used. This figure is referred to in the PGL as representing "Sort sacks/Mos from RLR table/swth to container." The assumption is that instead of sorting sacks that arrive at a roller (RLR) table or sawtooth (swth), sacks are sorted from the container in which they have arrived into other containers. The operation is always preceded in the model by an operation called "get OWC," which refers to bringing to the sack sort area the container into which a particular sack will be sorted. It is followed by a move OWC operation that takes the container into which sacks have been sorted either to a bundle sorting operation or the platform area from which the sacks will be dispatched.

It has been my understanding that there are not many mechanized sack sorters left in non-BMC facilities. It has also been my understanding that such systems do not eliminate manual sack sorting even in the facilities where they remain but are mainly conveyor belt systems on which sacks are moved around a facility. For example, a sack sorter in an SCF might send outbound sacks to a sawtooth area, where the sacks still need the manual operation described above before they can be dispatched to the outbound truck.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-19. On page 22 lines 13-16 of your testimony, you state, "[b]ut having measured overall productivity rates at these operations is not sufficient for our purposes, because those productivity rates represent other work besides the actual bundle sorting, such as opening sacks and shaking out their contents onto a moving belt, disposing of the sacks, dumping pallets, etc."

(a) Please confirm that postal data collection systems, such as MODS, only collect information pertaining to the "overall productivities" that you describe. If not confirmed, please explain.

(b) On page 23, lines 18-19, you state, "[a]nalysis by the LR-I-332 team, based on LR-I-88, indicated that 43.41% of mechanized bundle sorting hours are spent actually sorting bundles." Please describe how that figure was developed.

(c) If the rates proposed by witness Mitchell (TW et al.-T-1, page 43) were implemented, presumably the cost studies upon which the rates were based would have to be updated periodically. Given that data such as the 43.41% from LR-I-88 and manual bundle sorting productivities you describe could not be obtained directly from normal postal data collection systems, it is also assumed that special studies would have to be conducted periodically as well. Please describe how you propose these data would be collected, including the sample sizes involved and the frequency with which these figures should be updated.

USPS/TW et al.-T2-19.

a. Confirmed.

b. The calculation is performed in a spreadsheet called machines.xls, included in LR-I-332. It appears to be a weighted percentage, over various facilities, of keying personnel relative to total employee complements at SPBS operations.

c. I am not prepared to propose a plan for such a data collection or to estimate required sample sizes. One would first need to identify precisely what data one wanted such a study to produce and how the data would be used. I do not believe it would be necessary to repeat such a study with any great frequency. However, in composite operations such as an SPBS bundle sorting operation, where as you point out MODS data only produce aggregate estimates of bundles sorted per workhour, there obviously is a need to analyze in more depth, whether by industrial engineering or some other method, the productivity that can be expected at sub operations such as dumping of

sacks, dumping of pallets, removal of containers with sorted bundles, etc. One goal of such an analysis, which I believe also needs to be done at manual bundle sorting operations, would be precisely what I have tried to do based on the data I had available, namely to develop per-bundle, per-sack and per-pallet unit costs. Such information should be useful not only in the development of cost-based rates but for facilities to plan their manpower needs at different operations in response to varying volumes.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-20. In footnote 17 of your testimony you state, "[i]n manual sorting from a pallet, the bundles are not dumped onto a belt but lifted from the pallet and thrown directly into the containers for which they are intended."

(a) When is the last time you observed bundle sorting operations in postal facilities, and in which facility(ies) did this occur?

(b) Are you aware that some facilities dump pallets onto non-SPBS conveyors (e.g., "model 89" conveyors), which are staffed with employees that sort the bundles into nearby rolling stock?

USPS/TW et al.-T2-20.

a. My most recent visits to postal facilities in which I had opportunity to observe bundle sorting operations were to the DVD (Northern New Jersey) and Queens (New York) plants on January 29, 2003, and to the Carol Stream and Palatine (Illinois) facilities on February 11, 2003.

b. I do not recall observing pallets being dumped on that type of conveyor.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-21. On page 25, lines 7-9 of your testimony, you state, "[w]hen a bundle breaks prematurely, it spends less time in the system as a bundle, leading to lower per-bundle costs, as well as higher per-piece costs."

(a) Please confirm that in some facilities, during some bundle sorting operations, whether mechanized or manual, employees have been instructed to rebundle mail pieces from broken bundles, when it is possible to maintain the integrity of the original bundle. If not confirmed, please explain.

(b) How did your analysis of bundle breakage account for the fact that postal employees will, on occasion, attempt to rebundle mail pieces from bundles that have broken?

USPS/TW et al.-T2-21.

a. Confirmed.

b. Please refer to my response to USPS/TW et al.-T2-16.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-22. On page 26, line 7 of your testimony, you describe a conversion factor which assumes that 52.45 bundles can be placed in an OWC.

(a) How do you define an OWC? Does this term refer to a 1042 hamper, u-cart, APC/GPMC, or some other container?

(b) Does “OWC” represent an average of the many types of rolling stock used throughout postal facilities?

(c) Please explain how the 52.45 bundle per OWC figure was developed.

(d) On page 26, lines 8-9, you state, "[i]n reality, of course, the number of bundles in a full container depends on the number of pieces per bundle and on the size of those pieces." Please confirm that it would be possible to develop such container conversion factors for ranges of bundle sizes and/or mail piece sizes. If not confirmed, please explain.

(e) Please confirm that it would also be possible to develop these conversion factors for the many types of rolling stock relied upon to process mail at postal facilities? If not confirmed, please explain.

(f) In the type of cost study which you have conducted, where do you think it is safe to draw the line when it comes to the de-averaging of container conversion inputs, without jeopardizing the results of that study? Is it safe to just use an average number of bundles per average container, or should container conversion factors be developed for all possible bundle sizes/shapes and postal rolling stock combinations?

(g) Given that container conversion factors could not be obtained directly from normal postal data collection systems, presumably special studies would have to be conducted periodically to collect this information. Please describe how you propose these data be collected, including the sample sizes involved and the frequency with which these figures should be updated.

USPS/TW et al.-T2-22.

a-b. I simply adopted the term OWC from the LR-I-332 spreadsheets. There does not appear to be an explicit definition of the term in the documentation I have seen on LR-I-332. One theory is that it means ‘Other Wheeled Container.’ In my model, however, it refers to large rolling containers used to carry sacks, bundles or flats trays in postal facilities and on postal trucks. Inasmuch as the number of sacks per OWC is assumed to be equal to the number of sacks per IHC (in-house container) as estimated in LR-H-111, Appendix F, and that estimate also is employed to derive the 52.45 bundles per OWC, you might say that an OWC is the same as an IHC.

c. The 52.45 figure is derived as the number of sacks per OWC (26.5) multiplied by the number of pieces per sack and divided by the number of pieces per bundle, where the last two numbers are averages for regular rate and nonprofit Periodicals, as determined by the mail characteristics study described in LR-I-87.

d. Yes, I believe that it would be possible.

e. Obviously, if one can establish the size (cubic feet) of each container type, one should be able to estimate the number of bundles of a given size that such a container would hold. In order for such information to be useful one might also need an inventory of the types of containers that in fact are being used as receptacles for bundles in mechanized and manual bundle sorting operations. Some allowance would also need to be made for the fact that some containers at such operations tend to receive far more bundles than others.

f. I think that depends on what you intend to do with the information. For the type of analysis that is described in my testimony and development of the type of rate structure that is proposed by Mr. Mitchell, one average for outside county Periodicals would probably be sufficient. Of course, the Postal Service may have other uses of the data in mind. With regard to disaggregating by bundle size, it seems to me that that would be a rather trivial exercise once you know the number of cubic feet that a type of container can hold. The Postal Service and its individual facilities may have interests in disaggregating such data by container type in order to analyze the effectiveness of using alternative container types in different situations.

g. I am not prepared to propose a detailed plan for the type of data collection indicated. The first step in developing such a plan would be to determine precisely what kind of data one expects to obtain and what the data are going to be used for. The Postal Service appears, for example, to have a strong interest in developing data that are disaggregated by bundle size.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-23. Due to the space requirements associated with bundle sorting operations (including the SPBS), the 035 prep operation, and flats sorting equipment, some postal facilities have relocated those operations to annexes. How are postal annexes incorporated into your analysis?

USPS/TW et al.-T2-23. There is no explicit accounting for the use of annexes in my analysis.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-24. On page 28, lines 23-25 of your testimony, you state, "[g]enerally, mailings entered at SCF's or BMC's are unloaded onto the platform by USPS employees, adding to their costs. At delivery units (AO's, stations and branches) unloading is generally done by the mailers." What is your basis for these statements? Did you attempt to conduct a survey or analysis in order to determine the percentage of mailings that are unloaded by postal employees by facility type? If so, please provide the results of that analysis.

USPS/TW et al.-T2-24. With regard to unloading at delivery units, please refer to:

(1) pages 56-58 of my direct testimony, TW-T-1, in Docket No. R2000-1;

(2) LR-I-296 titled "Drop Shipment Procedures For Destination Entry; and

(3) Acknowledgement by witness Mayes (USPS-T-23 at page 7) in Docket No. R2001-1 of the correctness of my observations in the previous rate case.

I did not conduct a survey of unloading methods at SCF's and BMC's. My impression is, however, that mailers generally do not do the unloading onto the platform at such facilities. The Postal Service's present models to determine DSCF, DADC and DBMC entry discounts do not appear to leave room for the possibility that unloading at those facilities might be done by mailers. Plant loads, for obvious reasons, are not unloaded by mailers. There may be exceptions in the case of small mailings entered at the originating office, especially if a mailing consists of just a few sacks.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-25. On page 29, lines 2-3 of your testimony, you state, "[b]ut this is based on BMC data, BMC's being large facilities with large distances between inbound and outbound docks." Are you aware that many BMC's have had expansions in recent years, in some cases to specifically accommodate cross docking operations? If so, please explain how these changes have been incorporated into your analysis.

USPS/TW et al.-T2-25. Yes, I am aware that many BMC's have made efforts to expand in order to accommodate cross-docking operations. Please note that the paragraph in my testimony from which you quote explains why, in choosing which Postal Service estimate of pallet cross-docking productivity to use for cross docking at SCF/ADC's I chose the higher estimate that was based on measurements taken at an SCF/ADC (namely the Buffalo SCF) over the lower estimate that originated in measurements at a BMC.

For obvious reasons, it was not possible for me to obtain an up-to-date estimate of BMC pallet cross-docking productivity reflecting all recent platform modifications. If the Postal Service has such updated information, including it would clearly make the model I have presented more accurate.

RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF THE UNITED STATES POSTAL SERVICE

USPS/TW et al.-T2-26. On page 30, lines 21-25 of your testimony, you state, "[f]or this reason, I may have underestimated the cost of operations such as shaking out a sack. …. On the other hand, I may have overestimated the costs of some pallet operations at non-BMC facilities, particularly cross docking." Please confirm that the impact of the underestimation and overestimation examples that you describe do not cancel themselves out in terms of how they affect witness Mitchell's proposed rate schedule (TW et al.-T-1, page 43), as the former example affects the sack rate cells, while the latter affects the pallet rate cells. If not confirmed, please explain.

USPS/TW et al.-T2-26. Confirmed.