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

RESPONSE OF TIME WARNER INC. ET AL.
WITNESS STRALBERG TO QUESTION POSED AT HEARING
(December 1, 2004)

Time Warner Inc., Condé Nast Publications, a Division of Advance Magazine Publishers Inc., Newsweek, Inc., The Reader's Digest Association, Inc., and TV Guide Magazine Group, Inc. (collectively, Time Warner Inc. et al.) hereby provide the response of witness Stralberg (TW et al.-RT-2) to a question posed by counsel for the McGraw-Hill Companies, Inc. (McGraw-Hill) at the hearing on November 17, 2004 (Tr. 5/1623-29).

Respectfully submitted,

s/
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Response of Time Warner Inc. et al. Witness Stralberg to Question Posed at Hearing (Tr. 5/1623-29)

Comparison of the Impact of Proposed Rates on Two ABM Publications

On November 17th, near the end of my oral cross-examination regarding my surrebuttal testimony (TW et al.-RT-2), I was asked by Mr. Bergin, counsel for McGraw-Hill, to compare my estimates of the impact of the proposed rates on two ABM publications, called respectively Publication 99 and Publication 15 (hereafter P99 and P15) in Exhibit C of my testimony.[1]

Mr. Bergin asked why P99, with an average of 12.45 pieces per sack, would experience a rate increase of 82.41% under the proposed rates or 82.05% under the flat editorial pound rate alternative described in my testimony, while P15, with an average of 11.92 pieces per sack would get an increase of "only" 13.25% (6.87% with the flat editorial pound rate). I pointed out that the precise impact on a given publication is influenced by many variables beyond the few shown in the exhibit. But Mr. Bergin expressed great interest in knowing more about the difference between these two publications. Since I did not have in front of me all the information needed to give a full explanation, and the hearing was running late and most of those present seemed eager to go to lunch, I offered to provide some comments in writing rather than take the extra time during the hearing to find all the relevant data on my computer. The promised comments are provided below.

[1] Due the protective conditions under which ABM provided the mail.dat files whose analysis is summarized in my Exhibit C, I cannot refer to these publications by their real name. However, their names as well as all other information cited here can be seen and verified in library references TW et al.-LR-9 and TW et al.-LR-10, filed under protective conditions on November 16th and 12th respectively.

Briefly, the sacks used by these two publications really cannot be compared, even though they happen to have approximately the same number of pieces. Since a P15 piece weighs 2.8 pounds, an average P15 sack contains 2.8*11.92 = 33.38 pounds. A P99 piece, on the other hand, weights only 0.136 pounds, so that an average P99 sack contains only 12.45*0.136 = 1.69 pounds, only 5% of the contents of a P15 sack. Furthermore, while both publications are entered at origin only and both are distributed nation-wide, the P99 sacks are predominantly 5-digit sacks that travel a considerable distance through the system and receive considerable handling, while the P15 sacks are mostly mixed ADC sacks that are opened at the originating SCF/ADC and receive much less postal handling. Below are some further comments on these two publications.

P15 is actually a mail.dat file for a mailing of 143 pieces, weighing 2.8 pounds each. Frequency of publication was not specified, nor was percent editorial content, which I assumed to be 50%. Because of its weight, most of the postage for this publication consists of pound rates, both under current and proposed rates. Because most of the volume is destined to higher zones, this publication's postage will obviously increase with zoning of the editorial pound rate.

There are a total of 12 sacks, including six MADC, four ADC and two 3-digit sacks. The four ADC sacks each contain exactly one ADC bundle with six pieces in each bundle. The MADC sacks contain MADC bundles only.

Under current rates, P15 would pay $110.64 in pound rates and $41.01 in piece rates, for a total of $151.65. Under the proposed rates, the pound rates would decline to $91.42, or to $81.75 under a flat editorial rate. The piece rates would also decline. However, there would be a combined sack charge of $28.63 and a bundle charge of $5.52, for a combined postage of $171.75, or $162.07 with the flat editorial rate.

This publication could reduce its postage under the proposed rates by using fewer sacks. Assume, for example, that the four ADC sacks, which have only six pieces each, were combined into two MADC sacks. Postage under the proposed rates would then be $162.69, or $153.01, only 0.9% more than under current rates, with the flat editorial rate.

P99 is shown in its 2001 mail.dat file as having 34,078 pieces per issue, weighing 0.136 pounds per piece and being mailed in low-volume sacks entered at origin. There were 2,950 bundles mailed in 2,738 sacks. Most of the sacks were 5-digit, including 376 carrier routes sacks. Percent editorial content is shown in the mail.dat as exactly 50%. The publication was mailed to all zones, but with most of the volume going to zones 4 and 5.

Unlike P15, P99 postage consisted mostly of piece rates. The piece rates totaled $7,102 and the pound rates $1,170. Under the proposed rates, both the piece and pound charges would be reduced, but the charge for the large number of sacks ($3.30 for each 5-digit sack entered at origin) would become the dominant part of the postage. Total sack charges would be $8,426, leading to a high increase in total postage.

According to its web site, the print version of this publication is today issued quarterly. However, it also appears that it may have been published with higher frequency in 2001. It seems unlikely that a quarterly publication would resort to such extreme use of low-volume sacks as that described above, especially if the rates proposed by complainants were implemented. It therefore is also very unlikely that the potential 82.41% postage increase indicated in my Exhibit C would actually occur.[2]

[2] The 82.41% increase for P99 was the highest for any of the ABM publications I analyzed. The second highest was a 69.25% increase, for another light weight publication using many low-volume sacks.