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 STRALBERG TO ABM/TW ET AL.-1-8
(December 15, 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 Halstein Stralberg to American Business Media interrogatories ABM/TW et al.-1-8, filed December 10, 2004.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/_____
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ABM/TW et al.-1. In the Response of Time Warner Inc. et al to Notice of Inquiry No. 1, Halstein Stralberg (at page 2) assumes that the 100% editorial Periodicals in witness Tang's sample have the same zone distribution as other Periodicals in their size category. Please state all of the bases for that assumption.

ABM/TW et al.-1. According to Tang's response to Item 9 of NOI No. 1, 18% of Periodicals with circulation under 1,000 either have no advertising or are nonprofit Periodicals with less than 10% advertising, and therefore are not required to specify zone distribution on their mailing statements. It is of course conceivable that the 18% might have a zone distribution that differs from the other 82% in the same size category. However, I find it unlikely that any such difference would be very substantial.

ABM/TW et al.-2. In the Response of Time Warner Inc. et al to Notice of Inquiry No. 1, Halstein Stralberg (at 2) calculates the average pound charge under the proposed rates on a zoned and unzoned basis and concludes that, "collectively," publications with a circulation no greater than 1,000 would pay a lower editorial pound rate if it is zoned. (a) Please provide all calculations underlying this conclusion. (b) Please state how many such publications would pay a lower editorial pound rate if zoned and how many would pay a higher editorial pound rate if zoned. (c) Please state how many such publications would pay a zoned editorial pound rate that is at least 10% higher than they would pay if the rate is flat. .

ABM/TW et al.-2.

a. Please refer to Table 3 in my response to NOI No. 1. It shows my estimate that, for Periodicals with circulation under 1,000, an average editorial pound would pay 11.76 cents in pound charges under the zoned pound rates proposed by witness Mitchell, whereas it would pay 12.95 cents under the corresponding unzoned editorial pound rate described in my rebuttal testimony (TW et al.-RT-2 at 4-5; Tr. 5/1543-44.). My statement referred to above was based on the fact that 11.76 is 9.19% less than 12.95.

To derive the figure 11.76, I did as follows. First I derived, from Tang's data, a set of normalized zone percentages for each size category, as shown in Table 2 of my response to NOI No. 1. I then applied the percentage for each zone to the corresponding per-pound rate in Mitchell's proposal, summed the results over all zones and subtracted the proposed 10.1 cent editorial pound benefit.

b.-c. Since only aggregate zone percentages were provided by Tang, it is impossible to answer these questions on the basis of available data.

ABM/TW et al.-3. In the Response of Time Warner Inc. et al to Notice of Inquiry No. 1, Halstein Stralberg (at 2) states that "[m]ost of these Periodicals have a high percent of editorial content." Please confirm that for a non-local periodical with a high percentage of editorial content, zoning the editorial pound rate will have a higher than average adverse impact

ABM/TW et al.-3. I confirm that a non-local Periodical with high percentage of editorial content, if it currently enters all of its volume at the originating post office, with no dropshipping, and if it continues to enter its volume the same way after establishment of zoned editorial pound rates, would be likely to pay more postage, other factors being equal.

Another way to look at this, however, as discussed in the Complainants' case, is that Periodicals with high editorial content currently have no incentive to pursue the significantly lower transportation costs (compared with Postal Service transportation costs) being offered by various printers and consolidators. Under zoned editorial pound rates such incentives would exist, and one must therefore assume that some non-local, high editorial Periodicals that do no dropshipping today might also be better off in the long run under zoned editorial pound rates. For local Periodicals, as most of those with volume under 1,000 appear to be, the savings from zoned editorial pound rates would be more immediate.

ABM/TW et al.-4. In the Response of Time Warner Inc. et al to Notice of Inquiry No. 1, Halstein Stralberg (at 2, note 1) states that he did not compare the effect of zoning the editorial pound rate under the current rate structure, that is, without first shifting revenue recovery out of the pound rate, because "there does not appear to exist a documented alternative rate structure that uses zoned editorial pound rates but is identical to current rates in all other respects." (a) Please confirm that witness Stralberg was able to derive a flat editorial pound rate alternative to the complainants['] zoned editorial pound rate proposal and addressed that alternative in his rebuttal testimony. (b) Please explain why witness Stralberg was unable to develop a zoned editorial pound rate alternate to the present flat editorial pound rate design.

ABM/TW et al.-4.

a. Confirmed

b. My response to NOI No. 1 did not state that I was unable to develop a zoned editorial pound rate alternate to the present flat editorial pound rate design, only that there does not exist a documented version of such a rate design. In fact, developing such an alternative would have been quite easy, for reasons explained below. However, the issues being debated in the present docket concern the need and desirability of substantial Periodicals rate design reform such as proposed by the complainants. In this context, I considered a comparison between the rate design proposed in this docket and a corresponding one with an unzoned editorial pound rate to be the most relevant.

According to witness Mitchell, the 10.1-cents editorial pound rate benefit that he proposes was designed to be equal to the average editorial pound benefit in the current rates. Tr. 3/840, 4/1334-36. Therefore, a set of zoned editorial pound rates that correspond to the current unzoned rate would be, for each zone, the current advertising zone rate minus 10.1 cents. Had I based my comparison on that alternative and the

current rates, my conclusions would have been essentially the same as those described in my response to NOI No. 1, although the numbers would not have been identical.

For example, using the same method of comparison, the average editorial pound rate for publications in the smallest size category would be 17.79 cents, compared with the current 19.3 cents unzoned rate. The difference, 1.51 cents per pound, is numerically larger than the 1.19 cents per pound difference shown for this size category in Table 3 of my response to NOI No. 1. In other words, relative to the current rates, a change to zoned editorial pound rates would be even more favorable for Periodicals in the smallest size category.[1]

[1] On a percentage basis however, the difference in the average editorial pound rate would be 7.82%, less than the 9.19% difference when I based the comparison on Mitchell's proposed rate design. The reason is that the current rates derive more revenues from the pound rates than do the proposed rates. The reason the difference is numerically larger is that the zone differentials for advertising matter in the current rates are considerably steeper than in the proposed rates.

ABM/TW et al.-5. In the Response of Time Warner Inc. et al to Notice of Inquiry No. 1, Halstein Stralberg (at 3) states that for the "next size category," that is, 101-5,000 (see Table 1), the "average" editorial pound rate charge would be 0.67% higher with zoning. (a) Please provide all of the calculations underlying this statement. (b) Please state how many such publications would pay a lower editorial pound rate if zoned and how many would pay a higher editorial pound rate if zoned. (b) Please state how many such publications would pay a zoned editorial pound rate that is at least 10% higher than they would pay if the rate is flat.

ABM/TW et al.-5. Please note that there is no reference to Table 1 in the paragraph on page 3 of my response that you appear to be quoting from. Nor is there any reference to size category 101-5000, which is not one of the categories used in witness Tang's response. The preceding paragraph, which starts on page 2 of my response, does refer to Table 3, where the number 0.67% is shown.

a. The 0.67% figure, found in the last row, second column in Table 3, is obtained by dividing the number immediately above it (0.1304) by the number above it (0.1295), then subtracting one and multiplying by one hundred. The number 0.1295 refers to my estimate of a flat editorial pound rate that would derive the same overall revenues from editorial pound rates as would witness Mitchell's proposed rate design. The number 0.1304 is the average editorial pound rate, under Mitchell's proposed rates, for a mailing with zone distribution equal to that which I estimated for the second size category, using Tang's data. See my response to ABM/TW et al.-2 regarding the method of deriving the figure 0.1304.

b.-c. Since Tang only provided aggregate zone percentages for each size category, these questions cannot be answered on the basis of the available data.

ABM/TW et al.-6. In the Response of Time Warner Inc. et al to Notice of Inquiry No. 1, Halstein Stralberg (at 3-4) states that many of the smallest circulation periodicals identified by witness Tang represent the outside county portion of publications that are primarily in-county. (a) Please confirm that *at least* 5,538 such publications (15,152 - 9,614) do not have any circulation at in-county rates. (b) Please confirm that the 9,614 Periodicals "identified as having some in-county as well as some outside-county volume" includes some that have a large part of their volume outside county as well some that have "only a small part of their total volume" outside county. (c) If you can, please state what percentage of the 9,614 publications have more than half of their volume in-county. (d) Please reconcile this statement with witness Tang's response to the NOI, item 4, where she shows that only 27.4% of the publications with circulation of 1,000 or less are published weekly or more frequently, which means that at least the remaining 72.6% are not newspapers with in-county distribution.

ABM/TW et al.-6. Please note that I did not state or imply that all, or even most, of the 15,152 Periodicals with outside county circulation less than 1,000 also have an in-county component, only that many of them do. Please note also that while my comments in response to NOI No. 1 referred specifically to in-county newspapers, in-county rates are not limited to newspapers. Section E217.4.1 of the DMM defines eligibility for in-county rates as follows:

> In-County rates apply to subscriber copies of any issue of a Periodicals publication (except a requester publication) when they are entered within the county in which the post office of original entry is located for delivery to addresses within that county, if one of the following is met:
>
> a. The total paid circulation of such issue is less than 10,000 copies.
>
> b. The number of paid copies of such issue distributed within the county of publication is more than 50% of the total paid circulation of such issue.

a. Confirmed

b. It is impossible to either confirm or deny this assertion based on the information available. Note, however, that in order for a publication to have most of its volume

outside the county of original entry and still be eligible for in-county rates, its total circulation cannot exceed 10,000. The in-county periodicals with which I have some familiarity, such as the typical newspapers described by NNA witnesses, appear to mail most of their volume at in-county rates.

c. it is not possible to answer this question on the basis of available data.

d. Eligibility for in-county rates is not limited to Periodicals that are published weekly or more frequently, and 27.4%, or 4,152, of 15,152 publications, does constitute "many" of them. Thus there is no mutual inconsistency between the two statements to reconcile.

ABM/TW et al.-7. With Response of Time Warner Inc. et al to Notice of Inquiry No. 1 at 4-5, please explain why "low density" Periodicals with circulation below 1,000 would appear to be less adversely impacted under the proposed rates than "high density" periodicals with circulation below 1,000.

ABM/TW et al.-7. I don't know. This appearance could be due simply to the small number of sampled publications in each category (thirteen "low density" and eight "high density"). It could, for example, be just a coincidence that five of the eight "high density" Periodicals with circulation below 1,000 that Tang sampled have a non-machinable format, while all the thirteen with "low density" are machinable, or that six of the eight with "high density" use sacks that carry just one bundle or less, whereas most of the thirteen with "low density" use much fuller sacks. See Table A below.

As I explained in detail in my rebuttal testimony, the publications that currently use many low-volume sacks could reduce substantially what they would pay under the proposed rates, simply by making more economic use of sacks.

Table A below is extracted from Tables A-1 and A-2 in my rebuttal testimony. It shows the high and low density Periodicals sampled by Tang with circulation less than 1,000 and some of the relevant characteristics of those publications. Please note that I do not have any more information about these Periodicals than that made available by Tang in USPS LR-1.

Table A : Impact of Proposed Rates On Publications With Circulation under 1,000 With and Without Zoned Editorial Pound Rates

Publication ID	Editorial Content	Pounds per piece	Issues/ Year	Machinable?	Bundles per sack	Pieces per sack	Percent Postage Change		Circ./ Issue	Density
							Zoned Edit Rates	Flat Edit Rates		
154	68%	0.16	309	M	0.89	10.18	80.00%	80.54%	399	High
155	47%	0.19	260	NM	2.13	21.28	50.80%	52.35%	305	High
197	100%	0.64	24	M	1.00	12.18	52.11%	48.78%	446	High
157	71%	0.41	255	NM	1.00	14.04	32.64%	39.92%	825	High
188	82%	0.26	52	NM	1.00	14.02	31.09%	36.66%	770	High
203	100%	0.91	24	M	1.00	12.86	55.45%	32.99%	503	High
194	100%	1.55	24	NM	1.00	11.76	19.87%	27.07%	385	High
164	26%	1.90	308	NM	2.17	9.42	4.10%	9.04%	199	High
244	100%	0.24	12	M	1.00	10.00	89.96%	81.18%	263	Low
227	58%	0.33	365	M	1.00	11.44	32.78%	32.94%	230	Low
160	98%	0.46	52	M	1.87	27.93	11.99%	16.12%	512	Low
243	54%	0.23	365	M	1.00	16.89	14.76%	14.73%	192	Low
230	28%	0.12	4	M	3.34	41.24	6.70%	6.03%	824	Low
175	100%	0.20	12	M	1.00	35.50	1.27%	-2.10%	98	Low
215	92%	0.63	22	M	2.00	29.20	-2.06%	-9.41%	192	Low
240	47%	0.35	365	M	3.14	41.71	-9.15%	-9.58%	314	Low
233	70%	0.13	48	M	3.00	62.83	-10.89%	-12.11%	472	Low
219	76%	0.13	22	M	5.20	71.60	-12.62%	-14.56%	395	Low
222	44%	0.08	50	M	5.00	88.00	-15.64%	-15.64%	978	Low
221	75%	0.12	23	M	11.67	143.33	-15.87%	-17.46%	756	Low
238	83%	0.11	22	M	17.33	193.00	-14.62%	-17.47%	404	Low

ABM/TW et al.-8. In the Response of Time Warner Inc. et al To Notice of Inquiry No. 1, Halstein Stralberg (at 5) states that small Periodicals "would have the opportunity to avoid high sack charges simply by avoiding the excessive use of low-volume sacks. . . ." Please provide the detail of all studies done by or on behalf of the complainants before the date of the Time Warner et al. response that detail the cost savings achieved by modifying the presort parameters on specific publications from low sack minimums to higher sack minimums.

ABM/TW et al.-8. What I demonstrated in my rebuttal testimony was that, among the various types of Periodicals on which I had data, those that would experience high increase under the proposed rates are precisely the same publications that use large numbers of low-volume sacks, whereas those that use fuller sacks, (even if they do not use pallets), including some Periodicals with circulation below 1,000 per issue, generally would do much better and in many cases would pay lower postage under the proposed rates than under the current rates.

Your question seems to refer to a type of experiment where the fulfillment process for a given publication is first run using a set of parameters that produces many low volume sacks and then using a different set of parameters that produces many fewer sacks. I know of only one such experiment conducted by or in behalf of the complainants, and it has already been documented in this proceeding. The testimony of witness Schick (TW et al.-T-3) describes how a change in fulfillment program parameters for In Style magazine led to approximately 4,000 fewer sacks per issue. See TW et al.-T-4 at 3-4: Tr. 2/340-41; and responses to ABM/TW et al.-T4-11-13 and 54: Tr. 2/383-85, 429.

Regarding the very small Periodicals that were the focus of my comments in response to NOI No. 1, it would not be possible to do a study of the type suggested without access to: (1) the list of addresses to which a given publication is to be mailed; (2) all

other relevant characteristics of copies of the publication; and (3) the software program or criteria of selection currently used to prepare mailings of the Periodical. Furthermore, as suggested in my response to ABM/TW et al.-7, it might be necessary to perform the analysis for more than just a few samples of such publications in order to draw any conclusions about the precise impact of such parameter changes on small Periodicals in general. The complainants have not, to my knowledge, carried out a study of this kind.[2]

[2] Please see also the answers by witness O'Brien and myself during cross examination, when both were asked essentially the same question by ABM counsel. Tr. 5/1455-57, 1588-89.