

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

Postal Rate Commission
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POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF TIME WARNER INC.
WITNESS STRALBERG (TW-T-2) TO INTERROGATORIES
OF MCGRAW-HILL (MH/TW-T2-1-6)
(October 19, 2006)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Halstein Stralberg (TW-T-2) to interrogatories of the McGraw-Hill Companies, Inc. (McGraw-Hill) MH/TW-T2-1-6 (filed October 4, 2006).

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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
tel/(202) 965-4555
fax/(202) 965-4432
burziomclaughlin@covad.net

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
MCGRAW-HILL COMPANIES**

MH/TW-T2-1 With respect to your testimony at page 36 line 15 through page 38 line 17:

(a) Please confirm that in this case you estimate unit container costs that are some 78% higher, in the case of sacks, than you had estimated in Docket No. C2004-1, and some 69% higher in the case of 5-digit pallets. If you do not confirm, please explain fully.

(b) Please confirm that these higher unit container cost estimates are largely based on a special “web-based survey” conducted by the Postal Service during this case for the purpose of estimating, for each container type, presort level and entry point type, the number of facilities that a container will pass through. If you do not conform, please explain fully.

(c) Please explain fully the extent to which the special web-based survey may or may not be reliable, in your view, and the extent to which you believe it to be statistically valid or invalid.

MH/TW-T2-1.

a. Not confirmed. Regarding 5-digit pallets, the percent increase you indicate applies to 5-digit pallets entered at the originating SCF. However, relatively few 5-digit pallets are entered at the originating SCF. For 5-digit pallets entered at the destinating SCF, for example, my current estimate is 5.87% higher than my C2004-1 estimate. For 5-digit pallets entered at the destinating ADC the increase is 56%.

In the case of sacks, the part of my testimony that you refer to indicates that the most expensive sack category (carrier routes sacks entered at the originating SCF) costs \$6.23 according to my current model. The equivalent cost estimate in my C2004-1 model was \$2.44, which indicates a 155% increase. Note, however, that neither that percentage, nor the one you suggest, applies to all sacks. For example, in the case of mixed ADC sacks entered at the originating SCF (a sack category used extensively by very small publications), the increase is 14.9%.

b. Use of the web-based survey increased the estimated costs of containers entered far from their destination, not of dropshipped containers. It is not the only reason for higher costs.

As pointed out in my testimony, at 36, the mail processing TY08 wage rate is 23% higher than the corresponding TY03 rate underlying my C2004-1 estimates. That is one major factor contributing to the generally higher container costs.

Please note also that in this case, as in Docket No. C2004-1, the results I present have been subject to a CRA adjustment, i.e., a comparison with CRA mail processing costs actually attributed to Outside County Periodicals. In this docket, the CRA adjustment indicated that the CRA costs of handling bundles and containers (excluding piece sorting) were 95.1% of my modeled costs. I consequently reduced the modeled costs by a factor of 0.951.

c. The results of the web based survey were provided by the Postal Service, to which inquiries about its reliability would have to be directed. Note, however, as explained in my testimony, at 37-38, that because the Postal Service indicated, in response to a Time Warner interrogatory, that there had been few samples of pallets entered at the originating BMC and those results therefore might not be reliable, I did not use its OBMC estimates.

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MH/TW-T2-2. With respect to your testimony at page 8 lines 12-16 that “Mr. Glick and I had noticed many of the same problems with the Miller model” and “[o]ur ideas for correcting those problems converge in some cases and differ in others,” please specify all issues in this case on which you have taken an approach that differed from the approach of Mr. Glick, and summarize the differing approaches to each such issue.

MH/TW-T2-2. For a full description of the issues addressed by Mr. Glick and the positions he takes on those issues, please read his testimony and interrogatory responses in this docket.

While I address issues not addressed by Mr. Glick and vice versa, we both address the following shortcomings in witness Miller’s Periodicals flats mail flow model:

- (1) the failure to account for the substantial volume of flats that are diverted to manual sorting, even in facilities equipped with machines that could have been used to sort them;
- (2) a too narrowly defined CRA adjustment; and
- (3) the failure to recognize flats preparation costs as important for the correct determination of cost differentials between rate categories.

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MH/TW-T2-3. With respect to your testimony at page 37 lines 1-5, expressing concern that in your view, the Postal Service in this case is “proposing to weaken and even eliminate some of the existing dropship discounts,” please specify each element of the rate design and rates proposed by the Postal Service in this case that in your view weakens or eliminates existing dropship discounts, and specify each element of that rate design and those rates that in your view strengthens or adds to the number of dropship discounts.

MH/TW-T2-3. The Postal Service proposes to eliminate the extra one cent per piece discount for pallets that are dropshipped. That particular discount, introduced in Docket R2001-1, has in my opinion been a major factor in encouraging increased dropshipping by many Periodicals mailers in recent years.

Additionally, the Postal Service is proposing to eliminate the special co-palletization discounts. I don't know how much dropshipping those discounts have generated, but clearly it is some.

On the other hand, the Postal Service is proposing to include in the pound rates some dropship incentives for editorial matter.

Note that I am not opposed to replacing the per-piece based incentives mentioned above with more cost based incentives, such as those proposed by witness Mitchell. Nor am I opposed to the changes proposed for the editorial pound rates.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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MH/TW-T2-4 With respect to your testimony at page 31 lines 7-16: (a) Please explain why, in your view, skin sacks would decline from approximately 50 million to 32 million in the 2004-2005 time period; (b) Please explain why, in your view, the volume of Outside-County Periodicals sacks would decline from 84 million to 67 million over the 2004-2005 time period.

MH/TW-T2-4.

a. There could be several reasons. The extensive use of skin sacks was in my opinion a bad habit that had developed over many years, sometimes even encouraged by Postal Service officials who could think of no other way to respond to complaints about poor service and whose culture often is not to think about costs, at least not Periodicals costs. In Docket No. C2004-1 the costs that this habit imposed on the Periodicals class were highlighted. As was also pointed out in that docket, the habit of using skin sacks is one that is very easy to change; in fact it can often be changed by changing a single parameter in whatever fulfillment program a publication uses. See Docket No. C2004-1, Surrebuttal Testimony of James O'Brien (TW et al.-RT-1) at 8 (Tr. 5/1432). Additionally, not using skin sacks reduces the costs of mail preparation by the printer.

It is not unreasonable to think that the bad publicity skin sacks received in Docket C2004-1, and the subsequent announcement by the Postal Service that it would prohibit them, may have motivated many mailers to reduce or eliminate their use of skin sacks long before the regulation eliminating skin sacks took effect. That in fact was the case with many of Time Warner's publications.

b. Again, there could be several reasons. One obvious reason is that there appears to have been an increase in the volume that is palletized. Since there is less volume in sacks one would expect fewer sacks. Additionally, the reduction in skin sacks means that there are more pieces per sack and therefore fewer sacks.

As to why palletization has increased, I believe it could be a combination of the pallet discounts in effect since R2001-1, which the Postal Service now proposes to eliminate,

the copalletization discounts that were added later, also now proposed to be eliminated, and increased availability of comailing and copalletization services from printers and consolidators.

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MH/TW-T2-5. With respect to your testimony at page 29 lines 20-27, please state whether you calculated container, bundle and piece volumes on a test-year after-rates basis, and if so, please provide the calculations and volumes, and if not, please explain why such after-rates volumes were not estimated and presented in your testimony.

MH/TW-T2-5. My task in this case was to provide test year before rates volume estimates of all relevant categories of pieces, bundles, sacks and pallets, along with unit mail processing costs, which were then used as input to witness Mitchell's rate design.

See, however, the responses by myself and witness Mitchell to POIR 18, filed October 17, 2006.

**RESPONSE OF WITNESS HALSTEIN STRALBERG TO INTERROGATORY OF
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MH/TW-T2-6. In response to ABM/TW-T1-8, you state that it was not possible to provide rate impact information for Time Warner publications that are co-mailed or copalletized because the printer does not release necessary data to the participants.

(a) Please state whether Time Warner asked its printer(s) of co-mailed or copalletized publications to release the information so that this analysis could be performed and/or asked the other participants in the programs to agree to the release of the information for this purpose.

(b) Since Time Warner is apparently unable to assess the impact of its proposal on even its own co-mailed or co-palletized publications, is it possible for Time Warner to calculate the impact on other co-mailed or co-palletized publications? If so, how?

(c) Please provide any suggestion you might have as to how the Commission can assess the impact of Tim Warner's proposed rates on co-mailed and co-palletized publications?

MH/TW-T2-6.

a. Time Warner became aware during Docket No. C2004-1 that it was the policy of printers who offer comailing and/or co-palletizing, in order to protect the confidentiality of their clients, not to release data for mailings that include periodicals from more than one publisher. Early in this docket, Time Warner was informed by another party that had made efforts to secure data (or, alternatively, to arrange for a neutral third party to analyze data) for co-mailed and co-palletized publications, that the policy of the printers had not changed. However, after receiving this interrogatory Time Warner contacted the printer that currently performs all comailing of Time Warner publications, as well as the company that co-palletizes some of its publications, in order to see if some method could be worked out that would protect the privacy of publishers but that would permit an assessment of the impact of proposed rates on comailed and co-palletized publications. The printer is developing the ability to analyze the impact of Time Warner's proposed rates on comailed pools as well as individual members of comailed pools. The co-palletizer is working on developing a similar capability.

b. It is not yet possible for Time Warner to calculate the impact of proposed rates on the comailed or co-palletized publications of other publishers. Time Warner is working with a software developer to be able to simulate the impact of Time Warner's

proposed rates as well as the Postal Service's proposed rates for any group of publications defined by their address lists, both when the publications are comailed, when they are co-palletized and when they are mailed individually. For the reasons stated in part c below, however, there is no reason to suppose that the impact of Time Warner's proposed rates on comailed and co-palletized publications would be anything but favorable.

c. Comailing and copalletization means that publications share some resources. Consequently they will use fewer resources in total than if they were mailed individually. Since Time Warner's proposed rates are based on charging for each resource used by each mailing, it follows that these rates will be favorable for comailed publications. See also my answers to parts a and b above.