

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

Periodic Reporting

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Docket No. RM2008-2

**REPLY COMMENTS
OF
AMERICAN BUSINESS MEDIA
(September 15, 2008)**

In accordance with the procedural schedule adopted by the Commission in Order No. 99, American Business Media hereby submits these comments in response to the Initial Comments of Time Warner, Inc.

This proceeding was established by the Commission to provide a forum for the consideration of the "eight relatively minor changes in costing methodology" that the Postal Service proposed in its August 11, 2008, request for a Commission order amending the established costing methodologies that are to underlie the Postal Service's FY 2008 Annual Compliance Report. On September 8, 2008, Time Warner submitted ten pages of comments, five of which address USPS proposals 6, 7 and 9. American Business Media has no response to that portion of the Time Warner initial comments.

Time Warner's Initial Comments, however, go beyond the subject of this docket and address, as well, the Commission's Order No. 104, issued on August 22, 2008, in Docket No. RM2008-4, in which initial comments are due October 16. Supporting (at 5) what it calls the Commission's desire for an "open and cooperative process" for dealing with analytical issues underlying postal costing and reporting issues, Time Warner

concludes that such a process will be advanced by the making public “for scrutiny and comment” exchanges of “information or opinion” between interested parties and the Postal Service. To this end, Time Warner attaches and thus makes public for the first time 35 pages of costing and ratemaking recommendations of its postal consultant, Halstein Stralberg, that Time Warner presented to the Postal Service last month.

Having done, so, Time Warner has created something of a procedural enigma, inasmuch as Mr. Stralberg’s views appear to be relevant, if at all, only to Docket No. RM2008-4 and not to the eight changes that are the subject of this rulemaking. Nevertheless, notwithstanding the usual complexity of Mr. Stralberg’s analysis, American Business Media does not believe it appropriate to remain silent in this docket, as this is where Time Warner has chosen to reveal the recommendations and proposals it offered to the Postal Service in mid-August.

Time Warner’s paper presents a combination of costing and ratemaking analyses and recommendations, some of which are arguably within the scope of the Commission’s broad oversight authority, and some of which are not. For example, Time Warner begins with an “urgent recommendation” that incentives to drop ship should be “improved,” meaning enlarged. American Business Media does not here disagree that rising fuel costs that have caused increased transportation costs and that their impact on the Postal Service—which cannot impose fuel surcharges—should be considered by the Postal Service in establishing rates for May, 2009. Yet much of the support Time Warner offers for increased drop ship incentives consists of what amounts to a *sub silentio* attack on the flat editorial rate. Time Warner’s views on this subject and on the need for greater drop ship incentives are well known, and it clearly has every right to

present those views to the Postal Service. Further, American Business Media agrees that Time Warner's views in this regard should be subject to public "scrutiny and comment" prior to their adoption or rejection by the Postal Service, a practice that is consistent with the transparency goals of the Postal Accountability and Enhancement Act.¹ What is not clear is why Time Warner has chosen to submit those views in this proceeding.

Because Time Warner's recommendations to the Postal Service are not in American Business Media's opinion properly before the Commission, American Business Media will not comment in detail on those recommendations. But because they in fact have been presented here, a brief response is in order.

Apart from its "urgent recommendations" that dropship incentives should increase, that the flats mail flow model should accurately reflect the cost of flat piece sorting and that restrictions on the preparation of pallets should be relaxed to permit more Periodicals flats to be entered on pallets, Time Warner describes its additional recommendations as likely to produce reduced Periodicals costs and Periodicals rates that are better aligned with "actual cost incurrence." All Periodicals mailers, of course, support the goal of reduced Periodicals costs; many reject the procrustean notion that Periodicals rates perfectly aligned with costs is or ought to be an overriding Postal Service goal.²

¹ American Business Media believes that the Postal Service should make such communications public, for comment, as a matter of course, particularly rate design proposals presented by mailers.

² American Business Media recognizes that, if cost reduction is the only goal, a perfect alignment of rates with costs might well be productive. But such perfect alignment has never been the sole guiding principle of postal rates, especially within the Periodicals class, the basis of which is content, not cost. "Flat" rates for both letter mail and Periodicals' editorial weight are sufficient to prove this point, but other non-cost rate characteristics are important as well.

It is appropriate to stress that American Business Media does not oppose a thorough Postal Service study of its costs for all classes, and if Time Warner's suggestions assist in that endeavor, so much the better. What American Business Media does oppose is Time Warner's sometimes explicit, sometimes implicit suggestion that rates must rigidly follow costs regardless of other statutory ratemaking factors. Trite as it is, the slogan that ratemaking is part art, part science is certainly applicable to postal rates and is especially applicable to Periodicals postal rates. Indeed, last year Time Warner itself has decried the "totalitarian nature" of an approach that "subordinates every other possible consideration to a single narrow principle" of "pricing all products in the Periodicals class at no less than the product's attributable costs," which Time Warner recognizes "might depend on driving some thousands of magazines out of the mails and out of business."³

Postal rates in general and Periodicals rates in particular must be designed to accomplish goals beyond the alignment of rates with costs. Throughout the more than two centuries of postal ratemaking, Congress, the Postal Service and the Commission have recognized that Periodicals rates must be designed in such a way as to promote diversity in editorial content and to "bind the nation together."

All Periodicals mailers, including Time Warner, have relied on this notion (in part) to justify small or nonexistent Periodicals contributions to institutional costs. Surely, Periodicals rates substantially below the rates applied to catalogs with precisely the same cost-causing characteristics do not reflect an alignment of rates with costs, but

³ Reply Comments of Time Warner Inc. in Response to Initial Comments on Commission Order No. 26, pp. 18-19, filed October 9, 2007 in Postal Regulatory Commission Docket No. RM2007-1.

only some Periodicals mailers—those that would benefit financially—refuse to recognize the applicability the same principles when it comes to rates within the Periodicals class.

American Business Media has long sought to reconcile the conflicts produced by the significant interplay among cost-based rates, total class costs and impact on mailers. In the early days of postal ratemaking, before the Congress and the Postal Rate Commission, American Business Media opposed a number of rate design changes that would have proven costly to its members. As costs continued to increase beyond rational explanation, however, and as technology (such as co-mailing) permitted smaller-circulation mailers to mail more like larger- circulation mailers, American Business Media moderated its views and supported such cost-reflecting changes as pallet discounts and editorial drop ship rates. In Docket No. R2006-1, American Business Media reported substantial increases in co-mailing and drop shipping by its members, but it also warned that many of its members, and a great deal more smaller-circulation mailers not represented in the case, were unable through no fault of their own to change their mailing patterns to enable the Postal Service to process their mail at lower cost. That situation is changing, albeit slowly, but it remains true that following all of Time Warner's current recommendations could result in a large number of publications, if not a large amount of total Periodicals volume, being driven from the mail and thus from existence.

American Business Media understands that Time Warner does not seek that result in its quest for lower, cost-based rates for itself. Yet in its 35-page recommendation to the Postal Service and, ostensibly, to the Postal Regulatory Commission, not once does Time Warner mention the need to temper cost-based rate

changes in order to protect the breadth and diversity of the Periodicals class. Doing so requires a delicate balance, especially as Periodicals costs continue to escalate and as the Postal Service struggles to cover the costs attributable to Periodicals. Time Warner, which clearly has analytical assets unavailable to others in the class (and perhaps even to the Postal Service) would perform a more useful function if it factored these considerations into its analysis and recommendations.

Respectfully submitted,

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