

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

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Experimental Periodicals  
Co-Palletization Dropship Discounts  
For High Editorial Publications

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Docket No. MC2004-1

COMMENTS OF TIME WARNER INC.  
ON THE NEED FOR A HEARING  
(March 22, 2004)

Pursuant to 39 U.S.C. section 3624, section 20 of the rules of practice, and Orders No. 1392 (February 27, 2004) and 1395 (March 11, 2004), Time Warner Inc. (Time Warner) hereby submits the following comments on the need for a hearing in the above-captioned proceeding.

Time Warner has not at this time determined what position it will take respecting the discount requested by the Postal Service. It intends to participate actively in the settlement discussions. However, the Request for a Recommended Decision (Request) and accompanying testimony of witness Taufique (USPS-T-1) submitted by the Postal Service (February 25, 2004) leave unanswered a number of questions about the rationale for the discount, its consistency with the ratemaking factors of § 3622(b) of the Act, and the basis for believing that it will benefit the subclass as a whole. In Time Warner's view, some further elaboration on and clarification of these issues is needed in order to make possible an adequately informed assessment of the proposal.

The following are among the questions of concern to Time Warner.

The Request states (at p. 2):

The goal is to drive costs out of the Periodicals class by encouraging low-density publications to combine with other

publications. Through such combinations, Periodicals mail will migrate from more costly sacks to less costly pallets, and will be dropshipped, saving additional costs.

Time Warner fully supports the stated goals but questions whether the Postal Service has submitted sufficient evidence that the proposed discount will make a significant contribution to their advancement. In a similar vein, witness Taufique states (USPS-T-1 at 16) that it is a goal of the proposal:

to ensure that non-participants not only avoid any rate increases, but also receive the benefit of substantial additional cost reductions that may accrue to Periodicals resulting from the proposed discounts.

Again, Time Warner applauds the objective. However, in view of the highly restrictive eligibility criteria for the discount and the passing through of only 30% of avoided editorial pound transportation costs, it questions the basis for the Postal Service's belief that a substantial number of publications that meet the eligibility requirements will find the discount large enough to cause a change their mailing practices, without which "substantial additional cost reductions" for the subclass as a whole appear unlikely.

The Postal Service's submissions also leave unanswered a number of more specific questions about the assumptions and methodology underlying its expectations for this discount. For example, did the Postal Service anywhere take into account the costs of the additional administrative bureaucracy that will be needed to oversee compliance with the discount's elaborate conditions of eligibility?

Under the Postal Service's proposal, the size of the discounts received will be "based . . . on zones skipped" (USPS-T-1 at 16); that is, the further that qualifying editorial pounds have to travel to be entered into the postal system at the DSCF, the larger the discount they will receive. The size of the discount received will therefore depend not on what it costs the Postal Service to handle and transport the mail but on what it might have cost had mailers not changed their mailing practices in order to avail

themselves of the discounts. This approach to discount design raises a number of concerns. It is not apparent that it is consistent with the theoretical model approved by the Commission, Efficient Component Pricing (ECP).<sup>1</sup> Nor, if it is not, is it apparent whether the Postal Service believes that special facts or circumstances justify departing from the Commission's approved model in this case, or believes that some alternative theory of efficient or competitive ratemaking supports basing rates on the mailer's costs to print, make up, or transport the mail to the Postal Service (rather than on the Postal Service's costs and the elasticity characteristics of the mail).

Nor has the Postal Service clearly explained the basis for its conclusion that it is "fair and equitable" (USPS-T-1 at 21) to provide a discount to a small, select, highly restricted group of publications based on "zones skipped" but to deny a similar discount to other publications that "skip" the same zones but: (1) do so by a means other than the direct substitution of private transportation for USPS transportation (e.g., by using a less distant printing plant); or (2) fall outside the eligibility restrictions (e.g. weigh only 8 ounces, or have a circulation of 80,000, or contain 19% advertising content, or are not on co-pallets, or have 265 pounds to the destinating area).

Time Warner believes that it may be possible for these issues to be explored adequately through written discovery, without oral cross-examination of the Postal Service's witness or the submission of rebuttal testimony. It therefore does not at this time request a full hearing. Rather, reserving the right to request a full hearing, Time Warner respectfully requests that the Commission schedule a period of 60 days from the date of this filing for written discovery directed to the Postal Service and that it defer a decision on whether to conduct a full hearing until the period for written discovery has expired and the participants have had an opportunity to evaluate the results.

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<sup>1</sup> See, e.g., PRC Op. MC95-1 at III-29, ¶ 3074 ("From the inception of worksharing discounts, the Commission . . . was setting discounts in conformity with what later became known as efficient component pricing"); and PRC Op. MC2002-2 at 146, ¶ 8007 ("This focus is consistent with the Efficient Component Pricing standards that the Commission applies in setting rate discount levels").

Respectfully submitted,

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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