

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

COMPLAINT OF TIME WARNER INC. et al.  
CONCERNING PERIODICALS RATES

Docket No. C2004-1

**FIRST SET OF DISCOVERY REQUESTS  
DIRECTED BY THE MCGRAW-HILL COMPANIES  
TO COMPLAINANTS' WITNESS MITCHELL  
MH/TW et al. – T1 – 1-18  
(June 7, 2004)**

Pursuant to Rules 25 through 28 of the Commission's Rules of Practice, The McGraw-Hill Companies, Inc. submits the following interrogatories and other discovery requests to Complainants witness Mitchell (TW et al. – T1). To the extent that witness Mitchell may be unable to provide a full response, please provide a response by another witness, employee or representative of Complainants. If the information requested is not available in the precise format or level of detail requested, please provide such information in such format and level of detail as is available. If Complainants would assert any objection to any of these discovery requests, please first contact the undersigned to discuss whether the objection may be resolved informally.

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MH/TW et al. – T1-1: Under the reasoning presented in your testimony at page 16 lines 3-8, please explain whether, assuming cost-based rates, it would be efficient, as you use that term, for the Postal Service to handle 500 one-piece sacks in lieu of one 500-piece pallet.

MH/TW et al. – T1-2: Based on the reasoning presented in your testimony at page 16 lines 3-8, will the Postal Service be efficient under cost-based rates regardless of whether mailers modify their behavior?

MH/TW et al. – T1-3: Please discuss the extent to which unit costs for Postal Service transportation, and its unit costs of handling sacks, can be expected to increase assuming that mailers engage in increased dropshipping and reduce their use of sacks.

MH/TW et al. – T1-4: Does your testimony at page 21 line 19 through page 22 line 1 that the “expectation would certainly be for [local and regional publications] to print near their areas of delivery” assume that postage costs are or should be the primary factor in choosing a printing site? Please explain your answer, including the basis for any such assumption.

MH/TW et al. – T1-5: Does your testimony at pages 23 and 24 regarding “Camp 2” mailers assume that a local or regional publication that is printed at some distance from its delivery area would not have the same incentives as a national publication, with comparable circulation in that area, to dropship into that area? Please explain your answer, including the basis for any such assumption.

MH/TW et al. – T1-6: With reference to your testimony at page 35 lines 14-15 that the current one-cent-per-piece discount for dropshipped pallets “presents an unnatural incentive to remove potentially attractive pallets from the Service’s transportation system,” (a) please explain what you mean by a “potentially attractive pallet” and (b) please explain whether you are suggesting that it would be more beneficial for the Postal Service to transport that pallet than if it were dropshipped, and explain the basis for any such assumption.

MH/TW et al. – T1-7: Based on the rate structure proposed at page 43 of your testimony, please confirm that in lieu of a 3-digit origin entered pallet consisting solely of 5-digit bundles totaling 500 copies and weighing 250 pounds, it would be less costly to (a) the mailer and (b) the Postal Service if the same bundles were mailed in ten 50-copy, 3-digit origin sacks. If you do not confirm, please explain and provide your calculations. If you

do confirm, please explain whether mailing the sacks in lieu of the pallet would be more efficient, as you use that term.

MH/TW et al. – T1-8: Referring to your statement on page 45 note 39 that “Periodicals mailings are to a considerable extent repetitive,” please confirm that weights of publications can vary widely from issue to issue and that under the current and proposed rate structures, such variation can substantially change the way that the mail is prepared and entered. Please explain your answer fully.

MH/TW et al. – T1-9: With reference to your testimony at page 47 lines 12-14, consider two Periodicals mailings by different mailers, one mailing consisting of 20,000 pieces and the other consisting of 2,000,000 pieces, with each mailer using the same presort software parameters and identical piece characteristics. Under the current rate structure the larger mailer pays considerably lower rates due to its higher volume, although an identical effort was undertaken to achieve the presort. Please explain whether and how it would be fair and equitable to widen this gap under the proposed rate structure, given that the mailers are taking identical steps to prepare and ship their mail efficiently, and assuming that the smaller mailer is unable to comail or co-palletize.

MH/TW et al. – T1-10: Referring to your testimony at page 49 note 40, please explain the basis for your confidence that but for the mailbox rule, private operators would be delivering a substantial portion of periodicals.

MH/TW et al. – T1-11: With reference to your testimony on page 40 lines 3-7 that “[t]o build these non-transportation costs into the pound rates, as well as to recover the revenue loss associated with the unzoned editorial pound rate, the usual procedure has been to develop first-cut pound rates based on transportation costs alone, and then to add an additional amount (23.8 cents per pound in PRC LR-8, R2001-1) onto each zoned rate:”

- (a) Please specify what portion of the additional amount of 23 cents is attributable to the revenue leakage associated with the unzoned editorial pound rate, what portion is attributable to pound-oriented non-transportation costs, what portion is attributable to non-distance-related transportation costs, what portion is attributable mark-up for institutional costs, and what portions are attributable to any other factors (please specify any and all such other factors and the portion attributable to each). If necessary, please provide your best estimate. Please specify the precise source for your answers, and for the 23.8 cents per pound figure, and explain any necessary calculations.
- (b) Please specify which of such portions, if any, of the referenced additional amount of 23.8 cents is incorporated in the pound charges for DDU, DSCF and DADC, respectively, and the extent to which each is so incorporated. If necessary, please provide your best estimate. Please specify the precise source for you answers and explain any necessary calculations.

MH/TW et al. – T1-12: With reference to your testimony at page 40 lines 3-7 that an additional amount (some undefined portion of 23.8 cents per pound) is incorporated in each of the current zoned advertising pound charges to recover the revenue leakage associated with the unzoned editorial pound charge:

- (a) Please confirm that a Periodical comprised of 100% editorial content would not pay any portion of such additional amount, regardless if it were mailed a relatively short distance or a relatively long distance. If you are unable to confirm, please explain fully.
- (b) Please confirm that only a Periodical comprised of 100% advertising content would pay such additional amount in full, and would do so regardless of the distance it was mailed. If you are unable to confirm, please explain fully.
- (c) Please confirm that under the Domestic Mail Classification Schedule (e.g., sections 412.4 and 413.3), Periodicals are generally required to have no more than 75% advertising content. If you are unable to confirm, please explain fully.
- (d) Please confirm that a Periodical mailed from zone 8, and containing 60% advertising content, would pay more – 50% more – of the referenced additional amount than a Periodical mailed from zone 1&2 and containing 60% editorial content, assuming that each Periodical mailed the same number of pounds. If you are unable to confirm, please explain fully.
- (e) Please confirm that a Periodical mailed from zone 8 will always pay more of such additional amount for each pound mailed than will a Periodical mailed from zone 1&2 so long as the Periodical mailed from zone 8 contains a higher percentage of advertising content than the Periodical mailed from zone 1&2. If you are unable to confirm, please explain fully.
- (f) Please confirm that Periodicals with identical percentages of advertising content will always pay an identical portion of such additional amount for each pound mailed, regardless of whether such a Periodical is mailed from zone 8 or zone 1&2. If you are unable to confirm, please explain fully.
- (g) Please confirm that the extent to which a Periodicals mailer pays an additional amount to recover the revenue leakage associated with the unzoned editorial pound charge is determined solely by the number of advertising pounds mailed by the Periodical, and not by the distance mailed (with the possible exception that the advertising pound charge for short hauls such as DDU entry may not contain any such additional amount at all). If you are unable to confirm, please explain fully.

MH/TW et al. – T1-13: With regard to your testimony at page 37 lines 19-21 that the proposed rate structure “does not favor some (longer-distance) editorial matter over other (shorter distance) editorial matter”, please confirm that under the current rate structure, (a) all editorial matter pays the same flat pound charge (or, for DDU entry, a lower charge), (b) no editorial matter pays any additional amount to recover for revenue leakage associated with the flat editorial pound charge, (c) only advertising matter pays such an additional amount, and (d) it does so without regard to the distance that it is mailed (with the possible exception that the advertising pound charge for short hauls such as DDU entry may not contain any such additional amount at all). If you are unable to confirm, please explain fully.

MH/TW et al. – T1-14: Referring to your testimony at page 23 lines 17-22 that so-called “Camp 1” local and regional publications “have short hauls and relatively high cost coverages” while so-called “Camp 2” local and regional publications “have a substantial haul and relatively low cost coverages,” please confirm that a “Camp 1” publication with a high editorial percentage may have a cost coverage that is below 100%, and lower than the cost coverage of a “Camp 2” publication with a high advertising percentage. If you are unable to confirm, please explain fully.

MH/TW et al. – T1-15: Referring to your testimony at page 24 lines 12-14 that “[t]hose who decide to print locally should not be required to pay elevated postal rates to help support publishers who make different decisions or who mail more broadly,” (a) please explain whether your reference to publications printed locally was intended to include only so-called “Camp 1” local and regional publications, and not national publications that have the ability to print in multiple locations, and if so please explain the distinction; (b) please confirm publications printed locally pay no more per pound, if they pay anything at all, to support publishers who mail more broadly than do any other publications that have the same percentage of advertising content. If you are unable to confirm, please explain fully.

MH/TW et al. – T1-16: With reference to your testimony at page 25 lines 6-9 that “[p]ublications whose subscribers are concentrated in limited geographic areas .... are not part of some kind of continuum that warrants averaging for rate purposes:”

- (a) Please state whether you believe that separate subclass status may be warranted for such publications, and explain your answer;
- (b) Please confirm that under established law and practice, the rate design for a single subclass may properly include a range of varying cost coverages, including cost coverages below 100% so long as the subclass as a whole recovers its costs. If you do not confirm, please explain fully.
- (c) Please confirm that the current pound-oriented editorial benefit for outside county Periodicals depends upon where a mailer falls on the continuum of editorial percentages and on the continuum of distance mailed. If you do not confirm, please explain fully.

- (d) Please confirm that local and regional publications do not constitute a distinct group in this regard inasmuch as “Camp 2” local and regional publications may be printed at some distance from their delivery area, while national publications may have shorter hauls to many delivery areas due to their ability to print in multiple locations and to engage in dropshipping. If you do not confirm, please explain fully.
- (e) Please confirm that the extent, if any, to which a mailer helps pay for the revenue leakage associated with the current flat editorial pound charge depends only (or at least primarily) on where the mailer falls on the continuum of advertising percentages. If you do not confirm, please explain fully.
- (f) Please confirm that the revenue leakage associated with the current flat editorial pound charge is recovered in a manner that reflects cost averaging for rate purposes, i.e., solely from a uniform component of each of the zoned advertising rates (with the possible exception that the advertising rates for short hauls such as DDU entry may not contain any such component). If you do not confirm, please explain fully.

MH/TW et al. – T1-17: Referring to your testimony at page 53 lines 15-20 that “the rate for DSCF-entered In-County publications is an at cost-rate,” and that “if Outside County rates were cost based, the rate for DSCF entered Outside County pieces would be near the corresponding In-County rate,” but that “the Outside County rate is in the neighborhood of twice the In-County rate.”

- (a) Please confirm that the current rate structure for Within County Periodicals contains only two pound charges: a “Delivery Unit” charge of 11.2 cents per pound and an “All Other Zones” charge of 14.6 cents per pound. If you do not confirm, please explain fully.
- (b) Please explain what you are referring to when you refer to “the rate for DSCF entered In-County publications.”
- (c) Please explain what you are referring to when you refer to an In-County rate corresponding to the rate for DSCF entered Outside County pieces (20.3 cents per pound) that is “in the neighborhood of twice the In-County rate.”
- (d) Please specify and quantify each of the cost components that make up each of the two pound charges for Within County Periodicals, e.g., distance-related transportation costs, non-distance-related transportation costs, distance-related non-transportation costs, non-distance-related non-transportation costs, mark-up for institutional costs, etc. If necessary, please provide your best estimate. Please specify the precise source for your answers, and explain any necessary calculations.

- (e) Please address whether the assumed fact that the DSCF pound charge for Outside County Periodicals is substantially higher than the “corresponding In-County rate” could be explained by a combination of such factors as those referred to you at page 13 lines 9-11 and 15-17 of your testimony (various pound-oriented savings or portions thereof reflected in piece discounts for Outside County Periodicals), by the lower mark-up for Within County Periodicals, by the effect of changes in mail volume on the unit costs of transportation, and/or any other potentially relevant factors.

MH/TW et al. – T1-18: Referring to your testimony at page 53 lines 22-23 that “higher zone periodicals have rates that are substantially below costs:”

- (a) Please confirm that this assertion depends on the percentages of advertising and editorial content of higher zone Periodicals. If you do not confirm, please explain fully.
- (b) Please confirm that under your proposed rate structure, as under the current rate structure, a 100% editorial publication could have a cost coverage of approximately 85% -- substantially below costs. If you do not confirm, please explain fully.