

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 ROBERT W. MITCHELL TO APWU/TW ET AL.-T1-1-3
(June 28, 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 Mitchell (TW et al.-T-1) to American Postal Workers Union interrogatories APWU/TW et al.-T1-1-3, filed June 14, 2004.

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

s/ _____
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Responses of Witness Mitchell to APWU/TW et al.-T1-1

APWU/TW et al.-T1-1. On page 1 of your testimony you state that you are describing the deficiencies in Periodical rates. Is it your contention that the current rates are not valid because they do not meet the requirements of the Postal Reorganization Act? If this is your contention please provide a precise listing of ways in which the rates fail to meet the PRA requirements.

RESPONSE

The legal validity and compliance of the current rates with the requirements of the Postal Reorganization Act are questions of law on which I am unable to provide an expert opinion. The respects in which I believe the rates fail to fulfill the policies of the Act, from the perspective an expert in rate design and regulatory economics, are described in my testimony.

Responses of Witness Mitchell to APWU/TW et al.-T1-2

APWU/TW et al.-T1-2. The PRC's rules for complaints (§3001.83 (c)) require that all complaints include copies of all correspondence or written communications between the complainant or his/her agent and the Postal Service which relate to the subject matter of the complaint. Your description of your background and your response to ABM/TW et al.-T1-1 show that you have experience and knowledge related to periodicals rates and rate increases over several years and have had discussions on these issues with all parties. Please provide copies of all written communications on these matters of which you are aware. Please include written communications between any of the complainants and the Postal Service as well as communications related to these interactions in a group setting, such as presentations during MTAC or other meetings of the periodicals mailers and the Postal Service.

RESPONSE

I am neither a complainant nor a representative of any complainant. Nor am I aware of any written communications between the complainants and the Postal Service that relate to the subject matter of the complaint. I am generally aware that various of the complainants have participated in public discussions regarding Periodicals issues for many years in a variety of forums, including the Commission, MTAC, ad hoc efforts such as the Periodicals Operations Review Team, congressional testimony, and testimony to the President's Commission on the Postal Service. I do not possess copies of these "communications" or specific knowledge by which I could identify them, other than the generally shared knowledge that they are matters of public record. For my own "communications" to the Postal Service or the complainants regarding Periodicals issues generally, see my responses to ABM/TW-T1-1 and 13.

Responses of Witness Mitchell to APWU/TW et al.-T1-3

APWU/TW et al.-T1-3. To better understand the potential impact of this proposed change in rate structure on smaller mailers, it is helpful to look at publications before and after such a rate structure change and see what the differences would be in the postage. The APWU's bimonthly publication *Postal Worker* is mailed out to its membership. A recent mail.dat file for this publication was analyzed using a program that Time-Warner has made available to mailers to estimate the change in postage that might be experienced using the rate structure proposed in this case. These are summary statistics generated by that program for the "current rates" calculation,

277, 755 pieces
100% editorial content,
0.25 pounds per piece,
mailed to all eight postal zones (90% to zones 3-8)
100% machinable,
88% 5-digit barcoded,
10% 3-digit barcoded,
no drop shipping,
93% received discounts for palletization.

However, the comparative analysis generated by the program indicates that the *Postal Worker* would pay higher postage under the new structure than under the current structure.

A) What would a publication with similar characteristics have to do to avoid increases in postage under this new structure?

B) What could a publication with similar characteristics do to reduce the number of sacks and increase the number of pallets beyond current levels?

C) APWU is more than pleased with the performance of the current printer/mailler for the *Postal Worker*, however, the somewhat flexible publishing schedule of the *Postal Worker* and many other publications handled by this printer/mailler offer little opportunity for co-palletizing and this mailer does little dropshipping. Would APWU be forced to change its publishing schedules and long-time printer/mailler to avoid higher postage under the new rate structure?

D) Are there significant numbers of companies that are currently co-palletizing so that there would even be a viable co-palletizing option?

E) While this publication is mailed from the Washington metro area, would mailers in other areas have similar opportunities to take advantage of the service?

F) Please provide a count of all companies that are currently providing the services needed to achieve fewer sacks and more pallets to small mailers and indicate their general geographic distribution.

RESPONSE

Responses of Witness Mitchell to APWU/TW et al.-T1-3

A) I am not able to provide an expert opinion on what changes you should consider or on what effects they might have. I would note that you appear to have an unusually high zone distribution and that you provided no information on the number of bundles per sack or the number of pieces per bundle. These latter measures are very important in determining rate levels under the proposed rates.

B) Again, I have no experience in schemes to reduce the number of sacks or to convert sacks into pallets. It appears that you are heavily palletized already. It might be that further increases would require co-palletizing or co-mailing, options some printers can offer. With respect to either of these alternatives, the proposed rates provide a continuum of options, aligned with costs.

C) I understand that ties with printers are important and that there is often a preference to avoid disruption. Nevertheless, it is a fact that a widely distributed publication will have a lower average haul if mailed from a central location. Perhaps more important, however, is what the printer is able to offer in the way of coordinating with other mailings. No one will be *forced* to change schedules or printers. On the question of schedules, though, I believe technological change has led to many adjustments over the past few decades and I have no doubt that more are possible. It is also the case that many consultants recommend reexamining them occasionally to see if they are optimal and if the reasons behind them are really good.

D) I do not know how many companies are offering this option, although the issue is being widely discussed. I would note, however, that the experimental rates for co-palletization, existing and proposed, require dropshipment to get the discounts, even though a co-pallet will allow savings without dropshipping. Also, the passthroughs of savings for co-palletization in the current rates are small to the point of providing a

Responses of Witness Mitchell to APWU/TW et al.-T1-3

cash cow for the Postal Service. The proposed rates are neither biased, skewed, nor warped in these regards.

E) I do not understand the question. The rates proposed would apply nationwide, uniformly.

F) I am not able to provide this information. As for changing the number of sacks, however, it is my understanding that all printers face alternatives, particularly in the sense that parameters of various kinds must be input to the mailing software. In addition, the various software vendors will undoubtedly make adjustments to the software as experience under the rates is obtained.