

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 INTERROGATORIES OF TIME WARNER INC. ET AL.
TO UNITED STATES POSTAL SERVICE WITNESS TANG
(TW ET AL./USPS-RT2-1-12)
(September 14, 2004)

Pursuant to sections 25, 26 and 27 of the rules of practice, 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 direct the following interrogatories to United States Postal Service witness Tang (USPS-RT-2).

If witness Tang is incapable of providing an answer to any question, it is requested that an answer be provided by the Postal Service as an institution or by another person capable of providing an answer.

Respectfully submitted,

s/ _____
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**FIRST SET OF INTERROGATORIES
FROM TIME WARNER INC. ET AL. TO WITNESS TANG (USPS-RT-2)**

TW et al./USPS-RT2-1. On page 4, line 1, of your testimony, you indicate that some of the publications in your sample “are mailed mostly in skin sacks”.

- a. Please define the term "skin sack" as used here and elsewhere in your testimony.
- b. Please explain whether you agree that the Postal Service’s cost of handling skin sacks (not including transportation, bundle handlings, piece handlings, and carrier costs) is in many cases higher than the total postage for pieces contained in the sacks.
- c. Please explain whether you view it as in any sense businesslike or consistent with an efficient postal system to charge skin-sack mailers postage that fails by a wide margin to cover the costs of handling the mail involved.
- d. When mailers of skin sacks are charged postage that fails by a wide margin to cover the costs of handling the associated mail, please explain who it is that should be required to cover these costs.
- e. Please explain whether it is your position that mailers should be free to make a decision to begin using skin sacks when the additional postal costs caused by that decision are considerably larger than any increase in postage, even when the increase in postage is positive.

TW et al./USPS-RT2-2. The right-hand two columns of Table 1 on page 4 of your testimony contain 11 percentage figures, all except the figure of 1.34% being an

extreme for a category. For each of these 11 percentage figures, please provide the number of sacks and the number of pallets, including the average number of pieces per bundle and the average number of bundles per container.

TW et al./USPS-RT2-3. On page 7, lines 21-22, you indicate that 10 percent of Periodicals volume “could represent more than 20,000 small Periodicals publications, and a large proportion of the editorial content in Periodicals.”

- a. In Postal Fiscal Year 2003, there were just over 8.5 billion Outside County Periodicals pieces. Ten percent of that volume would be 850 million pieces. If these are the pieces of the 20,000 small publications you reference, please describe in detail how you would measure their proportion of the editorial content of the Periodicals subclass.
- b. Do you have any basis for disagreeing that the per-piece and per-pound editorial discounts in the TW et al. proposal give substantial recognition to the editorial content in these 20,000 small publications? Explain any disagreement.
- c. Please explain whether it is your contention that the editorial content in these 20,000 publications should as a rate-setting matter be singled out and given more recognition than the editorial content in the other publications of the subclass. If you so contend, please explain the basis for the additional recognition and how much additional recognition you would give.
- d. If you were asked to measure the extent of the editorial recognition given to these 20,000 small publications, please explain the measures you would use.

TW et al./USPS-RT2-4. On page 8, lines 4-5, you indicate that “considerably more” can be done to advance the efficiency of Periodicals. Please explain the additional steps that you believe should be taken to advance the efficiency of Periodicals.

TW et al./USPS-RT2-5. On page 8, line 8, you refer to "the public policy goals for Periodicals." Please list and explain each public policy goal for the Periodicals subclass that you have in mind.

TW et al./USPS-RT2-6. On page 8, lines 12-14, you say: “This redesign needs to take into account revenue leakage from existing activities to ensure that the revenue target is achieved, especially in subclasses with a lean cost coverage.”

- a. Please explain how you would define a revenue leakage from an existing activity and how it would differ from a revenue leakage from an activity that does not yet exist.
- b. Please explain how the process of accounting for revenue leakages depends on the cost coverage of the subclass.
- c. Are you aware of any revenue leakages that have not been fully accounted for in the TW et al. proposal?

TW et al./USPS-RT2-7. On page 10, lines 2-3, you state that witness Mitchell’s testimony contains a comparison between the CPI-U and the markup index for Periodicals.

- a. Generically, please explain the meaning that would attach to any comparison between the CPI-U and the markup index for Periodicals.

- b. Please point more specifically to any place in Mitchell's testimony where the CPI-U is compared to the markup index for Periodicals.

TW et al./USPS-RT2-8. On page 10, in the paragraph beginning on line 6, you discuss per-piece revenue indexes and say specifically, at lines 8-10: "In this context, the relevant data are the actual postage paid by the mailers as reflected in revenue per piece for the Outside County subclass." In Table 6 on page 11, you compare a per-piece revenue index with the CPI price index.

- a. Please explain whether you contend that a per-piece revenue index is a price index. If you do, please provide a reference to the literature on price indexes that shows the construction (i.e., variables involved and weighting schemes) of a per-piece revenue index and that explains the sense in which it is a price index.
- b. Do you agree that a number of factors affect per-piece revenue that would not or should not affect a price index? Explain any disagreement.
- c. Within the framework of a fixed schedule of postal rates, such as the schedules shown in the Recommended Decisions of the Postal Rate Commission, suppose a mailer began to dropship and his per-piece postage declined. Would you contend that this mailer had experienced a rate reduction?
- d. Would you contend that a reduction in per-piece revenue is a good indication that the Postal Service has been successful in controlling its costs?

- e. Suppose over the course of a given year the rate of inflation is 6 percent, the Postal Service's costs increase 10 percent, and there are no changes in the level of volume or in the qualitative characteristics of the service provided. At the end of the year, the Postal Service increases each rate cell by 10 percent, in order to maintain a cost coverage of 113 percent. Just after the rate increase, mailers begin to dropship to such an extent that their average per-piece postage, after factoring in the rate increase, increases just 4 percent. Please explain whether you would contend that the Postal Service has been successful in controlling its costs, that mailers should not be concerned about the relation between inflation and rates, and that mailers should be pleased with the level of their postage bills.
- f. Assume the same situation as in the previous part of this question except: at the end of the year, no changes in postal rates are made and it is accepted by the Rate Commission that a cost coverage of 103 percent is suitable. If mailers make the same dropship decisions and their average per-piece postage declines 6 percent, please explain whether you would contend that the Postal Service has been successful in controlling its costs, that mailers should not be concerned about the relation between inflation and rates, and that mailers should be pleased with the level of their postage bills.

TW et al./USPS-RT2-9. At page 3, line 20, and page 7, line 14, you refer to 29,979 publications.

- a. Please confirm that this number refers to the universe of Outside County Periodicals. If not confirmed, please explain what it refers to.

If the number includes In-County Periodicals, then please state how many of this total are Outside County. If it does not include In-County Periodicals, then state how many additional Periodicals are In-County.

- b. How do you know that there are 29,979 publications?
- c. Please describe the database that the Postal Service maintains that enables it to keep a count of the number of Periodicals currently being published. Describe also the procedures by which this database is updated and how frequently such updates occur.
- d. Assume that a given Periodical stops publishing. By what method(s) is this fact ascertained and transmitted to those responsible for maintaining the list of active Periodicals? Does it depend on notification by the publisher that he has stopped publishing? Does it depend on the Postal Service discovering that mail from this particular Periodical is no longer being entered into the system? Please explain fully.

TW et al./USPS-RT2-10.

- a. Please describe the nature of the information the Postal Service has about each of the 29,979 Periodicals referred to in your testimony. In particular, please include in your answer whether the following characteristics are known:
 - (1) subclass (regular, science of agriculture, nonprofit, classroom);
 - (2) whether or not a publication is a requester publication;
 - (3) publication frequency;
 - (4) approximate annual volume;
 - (5) percent editorial content;

- (6) shape;
- (7) any other characteristics (please list).

- b. To the extent that these facts are known, how are they updated on a regular basis?

TW et al./USPS-RT2-11. Does the Postal Service make use of any non-postal data sources in order to keep track of the number of active Periodicals? If yes, please identify all such sources and explain how they are used.

TW et al./USPS-RT2-12.

- a. Please provide an estimate of the number of Periodicals, corresponding to your current estimate of 29,979, for each year from 1970 forward (or as far back toward 1970 as data are available).
- b. For each year for which such an estimate is available, please provide a breakdown of the total number by subclass, by subscriber versus requester status (controlled circulation), and by publication frequency (daily, weekly, etc.).
- c. Additionally, please provide similarly disaggregated estimates, for each year for which data are available, of the number of new Periodicals permits granted in that particular year and, to the extent available, of the number of Periodicals that ceased to exist in that year.