

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 MCGRAW-HILL WITNESS SCHAEFER
TO TW et al./MH-T1-12-15)
(October 11, 2004)

Intervenor The McGraw-Hill Companies, Inc. ("McGraw-Hill") hereby provides the responses of witness Schaefer (MH-T-1) to Complainants' interrogatories TW et al./MH-T1- 12 – 15, filed September 27, 2004. Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

/s/

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Response of Witness Schaefer to TW et al./MH – T1 - 12

TW et al./MH-T1-12: Please refer to page 6, ll. 18-20, where you state: "Due largely to their lower circulation, smaller publications already bear a substantially higher cost burden than larger-circulation publications, and would not likely be able to avoid onerous rate increases by changing their mailing practices."

Please confirm that the primary reason that "lower circulation, smaller publications already bear a substantially higher cost burden than larger-circulation publications" is that they have substantially higher costs. If not confirmed, please explain.

RESPONSE:

Confirmed on the basis of my testimony at page 9 line 7-16.

Response of Witness Schaefer to TW et al./MH – T1 - 13

TW et al./MH-T1-13: Please refer to page 7, ll. 1-4, where you state: "We further believe that more efficient mailing practices can be fostered and rewarded as appropriate through rate design changes that are more balanced and equitable than those proposed by Complainants."

- a. Please confirm that by "changes that are . . . equitable" you mean changes that recognize in rates less than the full cost savings realized by the Postal Service due to "the more efficient mailing practices" in question and that distribute a portion of those savings to mailers who do not engage in those "more efficient mailing practices." If not confirmed, please explain.
- b. Please confirm that by "rewarded as appropriate" you mean to *exclude* rewards in the form of rate changes that recognize prospective Postal Service cost savings resulting from the continuation by mailers of "more efficient mailing practices" in which they are already engaging. If not confirmed, please explain.

RESPONSE:

- a. Not confirmed. When I referred in my testimony to "rate design changes that are more balanced and equitable," I particularly had in mind changes that would not have such an adverse impact on smaller-circulation publications that are unable to engage in more efficient mailing practices. See page 6, line 15 through page 7, line 4 of my testimony. I elaborated on the adverse impact and other equitable considerations in parts IV and V of my testimony, and I discussed more balanced and equitable rate design changes, on a general level, in part VI of my testimony. In the passage from my testimony that you quote, I was not focusing narrowly on the type of rate effects that you describe, although I don't think they are necessarily inconsistent with more balanced and equitable rate design changes..
- b. Not confirmed. See my testimony at page 26 line 9 through page 27 line 4.

Response of Witness Schaefer to TW et al./MH – T1 - 14

TW et al./MH-T1-14: Please refer to page 7, ll. 12-14, where you state: "Complainants' proposal in this proceeding to de-average Periodicals costs and rates . . . would result in enormous savings to Complainants (without any change in their mailing practices, or any cost savings to the Postal Service). . . ."

- a. Please confirm that complainants' proposals [sic] are based on differences in Postal Service costs associated with differences in mailing practices. If not confirmed, please explain.
- b. Please confirm that the "enormous savings" to which you refer are predicated on mailing practices of the complainants, adopted by them subsequent to 1970.
- c. If your answer to part b is other than "confirmed," please state your understanding of the extent to which, as of 1970, complainants' Periodicals publications were:
 - (1) entered into the mail on pallets rather than in sacks;
 - (2) presorted to carrier route or 5-digit;
 - (3) dropshipped to destination postal facilities.
- d. Please confirm that your statement at p. 7, ll. 12-14 would have been more accurate if you had said: Complainants' proposal in this proceeding to de-average Periodicals costs and rates . . . would result in enormous savings to Complainants (without any *additional* change in their mailing practices, or any *additional* cost savings to the Postal Service).

RESPONSE:

- a. Not confirmed. I am not a postal cost expert. I do acknowledge that Complainants' proposals *purport* to be based on differences in Postal Service costs associated with different mailing practices.
- b. Not confirmed. I am not familiar with Complainants' mailing practices over time. My statement regarding the potentially enormous savings to Complainants was predicated upon application of current and proposed Periodicals rates to the current mailing profiles of Complainants' publications, as reported by Complainants in response to discovery requests in this proceeding. See page 11 note 4 of my testimony.

- c. I have no knowledge of the mailing practices of Complainants' publications as of 1970.
- d. Not confirmed. The savings that I refer to require no change in the mailing practices of Complainants' publications.

Response of Witness Schaefer to TW et al./MH – T1 - 15

TW et al./MH-T1-15: Please refer to your testimony at p. 15, ll. 12-20, where you state: "Late last August both Brown Printing and Fairrington Transportation announced plans to commence co-palletization programs and associated drop-ship pools by early next year. Further, Quebecor World announced in early August that it would invest in co-mailing technology to be housed in a new facility in Chicago. . . . I note that these developments are occurring under current postal rate incentives, and thus further call into question the need for the type of rate structure proposed by Complainants."

- a. Is it your understanding that the decisions by printers to initiate the programs to which you refer are based exclusively or primarily on "current postal rate incentives," as opposed to expectations regarding future rate changes that move in the direction of "the type of rate structure proposed by Complainants"?
- b. If your answer to part a was yes, please state fully the basis for your understanding. In particular, please state:
 - (1) whether you have heard the opinion expressed by individuals knowledgeable about postal affairs that the Postal Service desires to force Periodicals mailers out of sacks altogether and is likely to include in its next rate filing more fully cost-based Periodicals rates with substantial increases for sacked mail;
 - (2) if you have heard such an opinion expressed, the basis on which you believe that a similar opinion has not played a substantial role in the decisions of printers to initiate the programs to which you refer.

RESPONSE:

- a. That is an inference that I draw from the press releases attached to my direct testimony, which refer to existing discounts and other current advantages of co-palletization or co-mailing.
- b. I have no knowledge of the basis of the decisions by printers other than the press releases attached to my direct testimony. While I have heard from knowledgeable persons that the Postal Service was considering forming an MTAC

workgroup to address elimination of sacks (see my direct testimony at page 13, lines 15-17), and that it is considering higher sack charges, I have no knowledge whether such possibilities have come to the attention of the printers or influenced their decision-making.