

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Postal Rate and Fee Changes	:	Docket No. R2006-1
	:	
	:	

TIME WARNER INC. NOTICE OF FILING
REVISED PAGES FOR TESTIMONY OF ROBERT W. MITCHELL
CONCERNING PERIODICALS RATES (ERRATUM)
(September 8, 2006)

In the process of preparing the Testimony Of Robert W. Mitchell
Concerning Periodicals Rates (TW-T-1) for filing, three errors went uncorrected:

- (1) on page 2, lines 19-21, formatting problems caused the 3 lines immediately following a graph to become transposed and garbled;
- (2) on page 3, line 20, an editorial change, replacing the word "costs" with the word "rates," was not entered into the document; and
- (3) in Exhibit A , "Proposed Rate Schedule – Outside County Periodicals," the formatting--but not the content--became distorted.

Time Warner Inc. regrets these errors and hereby submits revised pages 2, 3, and Exhibit A (page 1 of 1), which correct the errors specified but make no other changes to the document. The corrected pages are appended hereto.

Respectfully submitted,

s/_____
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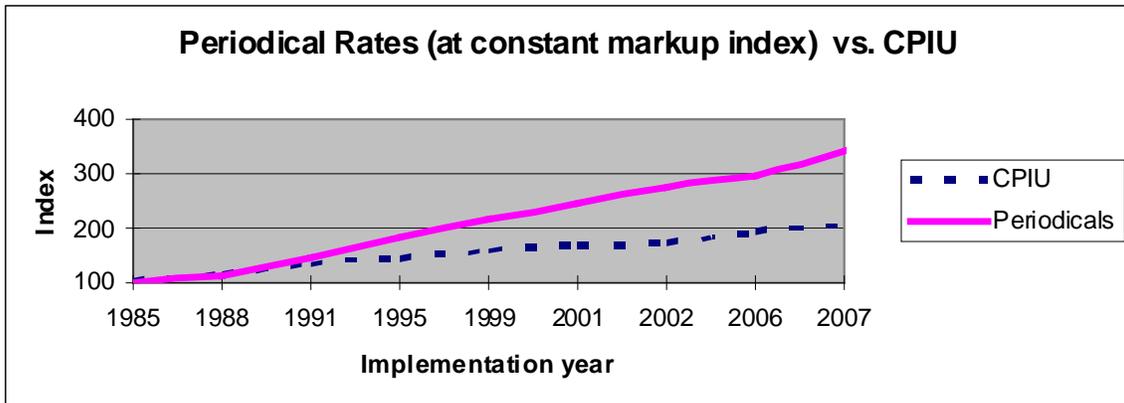
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1 **II. THE STATE OF PERIODICALS MAIL IS NOT GOOD**

2 Although Congress has always made special provisions for periodicals, with
 3 the presumed expectation that the resulting rates will be viewed as low and
 4 attractive, and thereby provide an effective way for news, information, and analysis
 5 of various kinds to be distributed, concern has existed for some time that the costs
 6 of handling and delivering periodicals are not under control and are not well aligned
 7 with the hope that an effective, low-cost mailstream for them should exist.

8 In my testimony in the Time Warner Inc. et al. Complaint,¹ I reviewed cost
 9 trends since the conclusion of Docket No. R84-1, now over 20 years ago. The
 10 following graph is an update of one presented there.

11



12

13 The meaning of the CPIU line is clear; the meaning of the Periodicals line is more
 14 complex. No cost index for Periodicals is available, and, given regular changes in
 15 billing determinants, one would be difficult to construct. Linking percentage
 16 increases in rates presents difficulties as well, because the markups on Periodicals
 17 have varied. As a way around these problems, I constructed a rate index, at a
 18 constant markup index. In effect, the rate development process acts as a filter that

¹ Docket No. C2004-1, Complaint of 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. Concerning Periodicals Rates (hereinafter Complaint), Direct Testimony of Robert W. Mitchell (TW et al.-T-1), Tr. 793-866.

1 accounts for changes in billing determinants (such as weight, percent advertising,
2 presort levels, and zone distribution), and adjusting to a constant markup index
3 corrects for changes in relative coverage.

4 The interpretation, then, is straightforward. Corrected for mix changes and
5 markup, the rate index for Periodicals has risen to a level of 344 while the CPIU has
6 risen to 203. While some part of this outcome is explained by changes in costing
7 procedures, the actual situation raises more questions. This is because:

- 8 1. Since 1985, the Postal Service has introduced substantial amounts of
9 mechanization and automation, all with presumed high returns on
10 investment, which should have allowed lower Periodicals costs.
- 11 2. During the period, Periodicals mailers have changed the way their mail is
12 prepared, and have done so in ways that should have reduced costs. Two
13 such changes stand out. (a) The proportion of Periodicals volume entered
14 on pallets has increased substantially. With only slight recognition in rates
15 for part of the period, this should have lowered costs. (b) The proportion
16 of Periodicals entered in destination offices (generally referred to as
17 dropshipped) has also increased substantially. Since the rates are
18 designed so that the Postal Service savings from dropshipping is much
19 larger than the reduction in postage, this too should have reduced rates,
20 as developed and shown in my graph.

21 In view of these developments, along with other cost-reducing efforts, the
22 Postal Service should have been able to support real wage increases equivalent to
23 those averaged in the economy at large and still keep rates (as measured in my
24 graph) from rising faster than the CPIU. This clearly has not occurred, and there is
25 no suggestion in the graph of improvement.

26 It is not as though these matters have not received attention. Pursuant to
27 questions raised before and during Docket No. R97-1, a joint USPS-Periodicals
28 Industry Operations Review Team invested heavily in reviewing operations and
29 developing recommendations for improvement. When some of these were not part
30 of the initial filing in the R2000-1 rate case, mailers worked to identify desirable
31 changes, the Postal Service agreed to implement them, and the Commission

EXHIBIT A

Proposed Rate Schedule – Outside County Periodicals

PERIODICALS RATES

Per Piece		Per Bundle		Per Sack		Per Pallet		Per Pound	
Bundle Level	Piece Description	Container Level	Bundle Level	Sack Level	Entry Point	Pallet Level	Entry Point	Distance (Zone)	From Entry Point
Bundle/ Piece	\$/Pc	Container/ Bundle	\$/Bundle	Sack/ Entry Pt.	\$/Sack	Pallet/ Entry Pt.	\$/Pallet	Entry Zone	\$/Pound
Mx ADC		Mx ADC		Mx ADC					
Non	0.580	MADC	0.162	OSCF	1.26			ADV.	
Mach	0.411	ADC	0.209	OADC	1.26			DDU	0.173
Auto-Non	0.530	3-D/SCF	0.219					DSCF	0.228
Auto-Mach	0.382	5-D	0.261					DADC	0.237
Auto-Ltr	0.307	Firm	0.251					Z 1&2	0.256
ADC		ADC		ADC		ADC		Zone 3	0.272
Non	0.484	ADC	0.063	OSCF	2.70	OSCF	27.64	Zone-4	0.315
Mach	0.353	3D/SCF	0.102	OADC	2.70	OADC	27.64	Zone-5	0.380
Auto-Non	0.444	5-D	0.151	OBMC	2.70	OBMC	27.64	Zone-6	0.449
Auto-Mach	0.331	CR	0.165	DBMC	1.70	DBMC	19.30	Zone-7	0.532
Auto-Ltr	0.269	Firm	0.154	DADC	0.90	DADC	13.20	Zone-8	0.602
SCF/3-D		3-D/SCF		3-D/SCF		3-D/SCF			
Non	0.421	3-D/SCF	0.064	OSCF	2.85			Editorial	
Mach	0.328	5-D	0.134	OADC	2.85	OSCF	34.13	DDU	0.144
Auto-Non	0.389	CR	0.149	OBMC	2.85	OADC	34.13	DSCF	0.190
Auto-Mach	0.309	Firm	0.145	DBMC	1.80	OBMC	34.13	DADC	0.197
Auto-Ltr	0.255			DADC	1.50	DBMC	21.40	Z1-2 up	0.213
5-D		5-D/CR		DSCF	0.90	DADC	18.10		
Non	0.259	5-D	0.012			DSCF	9.90		
Mach	0.244	CR	0.061					SoA	
Auto-Non	0.273	Firm	0.086	5-D/CR		5-D		DDU	0.13
Auto-Mach	0.242			OSCF	3.36	OSCF	40.02	DSCF	0.171
Auto-Ltr	0.191			OADC	3.36	OADC	40.02	DADC	0.178
CR Basic	0.148			OBMC	3.36	OBMC	40.02	Z 1&2	0.192
High-D	0.124			DBMC	2.20	DBMC	26.00		
Sat	0.093			DADC	1.90	DADC	23.00		
Firm	0.148			DSCF	1.40	DSCF	11.90		
				DDU	1.00	DDU	1.70		
Piece Sorting Delivery		Bundle Sorting		Sack Handling/Sorting Sack Opening Sack Return		Pallet Handling Pallet Opening Pallet return		Transportation Bulk Handling Some Piece Sorting Delivery	

Per piece editorial discount, cents times editorial percent 8.9
 Per-piece charge for qualified Ride-Along pieces, cents 15.5