

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

Experimental Periodicals :  
Co-Palletization Dropship Discounts : Docket No. MC2004-1  
For High Editorial Publications :  
:

INTERROGATORIES OF TIME WARNER INC.  
TO WITNESS TAUFIQUE (TW/USPS-T1-1-13)  
(March 24, 2001)

Pursuant to sections 25 and 26 of the Rules of Practice, Time Warner Inc. (Time Warner) directs the following interrogatories to United States Postal Service witness Taufique (USPS-T-1). If witness Taufique is unable to respond to any interrogatory, Time Warner requests that a response be provided by an appropriate person capable of providing an answer.

Respectfully submitted,

s/ \_\_\_\_\_  
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## INTERROGATORIES TO WITNESS TAUFIQUE (USPS-T-1)

TW/USPS-T1-1 Your testimony proposes a two-year experimental classification for certain Periodicals.

- a. At the end of the two-year period, what criteria will be applied to determine whether the experiment was a success?
- b. At the end of the two-year period, what criteria will be applied to determine whether the experiment was a failure?
- c. What subsequent steps, such as modification to the criteria for qualification, passthrough of savings, etc. will the Postal Service propose at the end of the two-year period if the experiment is deemed to be (1) a success or (2) a failure?

TW/USPS-T1-2 Please describe the reasoning you employed to select the specific qualification criteria presented in your proposal. Include in your description the empirical data you relied on and all analytical methods used to determine the numerical values of these criteria. Specifically:

- a. Why did you decide to limit eligibility for the experimental incentives to circulations of 75,000 and under, rather than for example 50,000 or 100,000?
- b. Why did you decide to limit eligibility for the experimental incentives to Periodicals with no more than 15% advertising content, rather than for example 10%, or 20%?
- c. Why did you decide to limit eligibility for the experimental incentives to pieces weighing no less than 9 ounces, rather than for example 8 ounces, or 10 ounces?
- d. Why did you decide to limit eligibility for the experimental incentives to mailings with less than 250 pounds to a given ADC, rather than for example any volume that currently is sacked?
- e. Why did you decide to limit the passthrough of postal transportation costs saved to 30%, rather than for example 35%?

TW/USPS-T1-3 At page 16 you list three goals that you say motivated the conservative approach chosen by the Postal Service. For each of the three goals, and for each of the hypothetical design changes listed below, please state whether such a modification would (1) jeopardize your ability to achieve the given goal; (2) enhance your ability to achieve the given goal; or (3) not affect the given goal one way or the other. Please explain the reasoning that leads to each answer.

a. How would it affect your ability to achieve goals 1, 2 and 3 respectively if instead of limiting eligibility to circulations below 75,000 per issue, you were to extend eligibility to circulations below 100,000? Please answer the same question for the case that eligibility were extended to all circulations below 200,000.

b. How would it affect your ability to achieve goals 1, 2 and 3 respectively if instead of limiting eligibility to pieces weighing over nine ounces, you were to extend eligibility to pieces weighing over eight ounces?

c. How would it affect your ability to achieve goals 1, 2 and 3 respectively if instead of limiting eligibility to pieces with less than 15% advertising content, you were to extend eligibility to pieces with advertising content less than 20%?

d. How would it affect your ability to achieve goals 1, 2 and 3 respectively if instead of limiting eligibility to volumes below 250 pounds to a given ADC, you were to extend eligibility to any weight to a given ADC, as long as the volume is currently sacked and entered at origin?

e. How would it affect your ability to achieve goals 1, 2 and 3 respectively if instead of limiting eligibility to volumes below 250 pounds to a given ADC, you were to extend eligibility to pieces that already are being placed on pallets, as long as those pallets currently are entered at origin?

f. How would it affect your ability to achieve goals 1, 2 and 3 respectively if instead of requiring co-palletization, you were to also offer 30% of what the Postal Service

would save on transportation costs to sacked, high editorial pieces when those sacks are entered at the DADC or DSCF rather than at origin?

g. How would it affect your ability to achieve goals 1, 2 and 3 respectively if instead of passing through only 30% of the Postal Service's avoided transportation costs, you were to pass through 40percent?.

TW/USPS-T1-4 At page 18 you state:

“Given the advertising, circulation, and copy weight limits, we estimate that approximately 20 million pieces per year would be able to take advantage of these experimental discounts, removing over 400,000 sacks from postal operations.”

Please clarify which of the following is the most correct interpretation of the above statement:

- (1) your estimate refers to outside county Periodicals pieces that meet your specified eligibility criteria with regard to advertising, circulation, and copy weight limits;
- (2) your estimate refers to pieces that meet all eligibility criteria and in addition you believe that printers/consolidators, in spite of being rewarded only 30% of what the Postal Service would have spent on transportation and none of what the Postal Service would have spent on transshipping in intermediate facilities, will be able to co-palletize those pieces, transport them to the DADC/DSCF and develop the additional documentation such as before- and after mail.dat files, while earning a reasonable profit for themselves and providing a net reduction in overall mailing costs to their clients; or
- (3) any other interpretation (please explain).

In either case, please explain fully how the estimate of 20 million pieces was derived.

TW/USPS-T1-5 Please confirm that your eligibility requirements will apply separately to each mailing. In particular, confirm that if a participating Periodical in a given issue should have slightly more than 75,000 pieces, or slightly more than 15% advertising content, or weigh slightly less than nine ounces per piece, it would not receive the experimental discount for that particular issue. If not confirmed, please clarify.

TW/USPS-T1-6 What percentage of the potentially qualifying pieces do you expect will actually participate in the proposed experimental program? Please explain the basis for your estimate.

TW/USPS-T1-7 Please assume that at the end of the two-year experimental period, a significant portion of the pieces that qualify under the proposed eligibility criteria are being entered on pallets at the DADC or DSCF, even with only the proposed 30% passthrough of savings in postal transportation costs. Please state whether you agree that one then would be justified in drawing each of the conclusions listed below. If you disagree with some of them, please explain.

- (1) Relaxing the eligibility criteria would give printers/consolidators more volume to work with and therefore more opportunities to create economic loads to destinating facilities. This would increase participation also among mailings that meet the original eligibility criteria.
- (2) Increasing the passthrough of avoided Postal Service transportation costs would likely increase participation even further, by making it worthwhile for printers/consolidators to offer dropshipping to more destinating facilities.
- (3) It will have been proven that even the lowest volume, highest editorial content publications can be brought to the destinating facility more economically through co-palletization and pool dropshipping by private contractors than by being entered at origin and traveling through the postal system. As a corollary, the

publications the flat editorial pound rate was supposed to protect would in fact be better off with zoned editorial rates, combined with a flat per-pound editorial discount.

TW/USPS-T1-8 Please state, for each of the contingencies listed below, whether it was considered by the Postal Service in developing the proposed experimental classification. For contingencies that were considered, please explain how they were considered and what was concluded.

a. A participating mailer sees that in a given issue he will have 80,000 pieces. In order to maintain his eligibility he either (1) reduces his volume to 75,000 pieces; or (2) puts 5,000 pieces in sacks in a separate mailing.

b. A participating mailer sees that in a given issue he could have 18% advertising content. In order to maintain eligibility he turns away some sponsors so that his advertising content will drop below 15%.

c. A participating mailer sees that due to a higher than normal piece weight in a given issue he has more than 250 pounds going to a given ADC area. In order to maintain his eligibility he puts some pieces to that ADC area in sacks which he enters in a separate mailing at origin, so that he will have no more than 250 pounds represented in the co-pallet(s) to that ADC.

d. A participating mailer sees that for a given issue he has only eight ounces per piece of material that meets his normal criteria for high quality material. But to bring the weight up to nine ounces and maintain his eligibility, he includes extra material that normally would not meet his criteria for high quality content.

TW/USPS-T1-9 Please describe all data collection efforts and analytical studies performed by the Postal Service since January 2001 that concern the Postal Service's unit costs of handling sacks, pallets and bundles of Periodicals and/or Standard flats, and the impact of container presort level and entry point (DDU, DSCF, DADC, etc.) on

such unit costs. Please describe both the methodology used and results obtained from any such studies and indicate whether, and if so how, you took those results into account when preparing your present testimony.

TW/USPS-T1-10 The Excel file in your Exhibit A contains a table that appears to represent the number of pounds going to each zone for 49 magazines.

- a. Please explain how the 49 magazines were selected and the population of Periodicals that they are supposed to be a statistically valid sample of.
- b. How many of the 49 publications have less than 10% advertising content? How many have less than 15%?
- c. How many of the 49 publications weigh more than nine ounces per piece?
- d. How many of the 49 publications have circulation less than 75,000?
- e. How many of the 49 publications are nationally distributed, rather than predominantly local or regional publications?
- f. How many of the 49 publications are currently entered in sacks only and at origin?

TW/USPS-T1-11 Under your proposal, qualifying editorial matter entered at the DSCF or DADC will get a larger discount, thereby paying less overall, if it has been brought from a remote location (e.g., zone 8) than if it has been printed near the destinating facility, requiring only a short haul by the mailer.

- a. Is there any current postal rate element, in any class, that depends on mailer costs incurred before the mail is turned over to the Postal Service? Please list all instances where this occurs.
- b. Is this approach to discount design consistent with the theoretical model approved by the Commission, Efficient Component Pricing (ECP)? If not, what special facts or circumstances justify this departure from ECP?
- c. Does any other known theory of efficient or competitive ratemaking support basing rates on costs the mailer may have incurred to print, make up, or transport the

mail to the Postal Service (rather than solely to the Postal Service's costs and the elasticity characteristics of the mail)? If yes, please provide appropriate references.

d. Do you envision making this characteristic of the proposed rates a permanent feature in the Periodicals class? If yes, do you see it being extended beyond the narrow group of Periodicals defined as eligible in your testimony? If no, how do you envision weaning Periodicals that will have become dependent on the Zone 8 discount in the future?

TW/USPS-T1-12 At page 2 you refer to some results from the experimental rates established under MC2003-2. In particular you mention 9 million pieces removed from 180,000 sacks as a result of those rates. Please provide annualized estimates in responding to the following, and explain how data collected from MC2003-2 support those estimates.

a. How many sacks per year does the Postal Service estimate the MC2003-2 incentives will help remove from the postal system? How many pieces and how many pounds will be moved from those sacks onto pallets?

b. How many pieces and how many pounds does the Postal Service estimate will be removed from each zone (Zones 1-2 through Zone 8) to DSCF and DADC entry as a result of the MC2003-2 rates?

c. How many new pallets does the Postal Service estimate will be generated as a result of the MC2003-2 rates?

d. How many Periodicals, how many printers and how many agents/consolidators are currently participating in the MC2003-2 experiment?

TW/USPS-T1-13 Please answer the following based on the Postal Service's best available estimates, and indicate what those estimates are based on.

a. How many outside county Periodicals have less than 10% advertising content?

b. How many outside county Periodicals have less than 15% advertising content?

- c. How many outside county Periodicals have less than 15% advertising content and circulation no larger than 75,000?
- d. How many outside county Periodicals have less than 15% advertising content and weigh at least 9 ounces per piece?
- e. How many outside county Periodicals have less than 15% advertising content, weigh at least 9 ounces and have circulation no larger than 75,000?
- f. How many of the Outside County Periodicals in your answers to b through e above are published monthly or less frequently?
- g. How many of the Outside County Periodicals in your answers to b through f above have a national, rather than predominantly local or regional, distribution?