

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 ABM/TW ET AL.-T1-4-90, 92-103
(June 14, 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 Business Media interrogatories ABM/TW et al.-T1-4-90, 92-103, filed May 28, 2004.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

s/ _____
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Response of Witness Mitchell to ABM/TW et al.-T1-4

ABM/TW et al.-T1-4. You state in response to ABM/TW et al.-T1-1 that you read *Folio* and *Mailing Systems Technology*. Please identify at least one website and one internet news group from which the same quality and quantity of information concerning the periodical industry can be obtained.

RESPONSE

Folio maintains a web site of its own, which appears to make its articles available, including from back issues, and also provides search capabilities. *Mailing Systems Technology* maintains a site with a Message Board and a Buyer's Resource. ABM has a web site and allows interested persons to sign up for E-News. MPA has a web site providing multiple opportunities for interaction. I have no reason to believe that any of these are not high in quality, and the quantity of information in the articles I looked at appears to be the same as the quantity in the physical publication.

I wrote one article for *Mailing Systems Technology* that was a summary of a paper that is available in its entirety on the Postal Rate Commission's web site. I have also been a resource to *Folio* for articles on rates. The information I provided them, as well as much of the information apparently provided by others, was available in other places in similar quality and often-greater quantity. The sites of the Association of Postal Commerce, the Alliance of Nonprofit Mailers, and the Postal Rate Commission come to mind. Another site containing a number of papers, speeches, and presentations is www.postalinsight.pb.com; and yet others would be www.postalwatch.org, www.DMNews.com, and www.majormailers.org. In most cases, the quantity of the information in these sources is greater than the quantity that might be reported in a magazine.

Response of Witness Mitchell to ABM/TW et al.-T1-5

ABM/TW et al.-T1-5. Have you ever been an employee of, as opposed to a consultant for, a periodical publishing company? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-6

ABM/TW et al.-T1-6. Have you ever provided services related to the production of a periodical to a publishing company? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-7

ABM/TW et al.-T1-7. Have you ever sold advertising for a periodical publisher? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-8

ABM/TW et al.-T1-8. Have you ever purchased advertising from a periodical publisher? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-9

ABM/TW et al.-T1-9. Have you ever been employed, as an employee or a consultant, in the advertising business? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-10

ABM/TW et al.-T1-10. Have you ever arranged for the printing of a periodical? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-11

ABM/TW et al.-T1-11. Have you ever arranged for the transportation of a periodical? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-12

ABM/TW et al.-T1-12. Have you ever arranged for the distribution of a periodical? If so, provide the details.

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-13

ABM/TW et al.-T1-13. In the speeches and meetings described in your response to ABM/TW et al.-T1-1, did you ever address the zoning of the editorial pound rate or other issues that have been raised by complainants in this proceeding? If so, please make copies of those speeches or notes from those meetings available, if you still have them.

RESPONSE

I have been able to identify two presentations that apply. The first was to a meeting organized by the Envelope Manufacturers Association on May 8, 2003 and the second was to an MPA meeting on June 16, 2003. Slides from both presentations are appended as Attachments A and B. The oral portions of my presentations were not read.

HORSE DESIGNED BY COMMITTEE



A. CHANGE IS ON THE AGENDA

- 1. Activity due to Transformation Plan, Bush Commission, Further Automation, and Network Realignment.**
- 2. Product Redesign will get more emphasis.**
- 3. Considerable attention is being given to issues like Standardization, Worksharing, Downstream Access, Niche Classifications, and Negotiated Service Agreements.**

B. MY BIASES

1. **Rate improvements should be a central part of any strategy for the future.**

2. **USPS will be better able to make these rate changes if it understands its costs.**

3. **Cost based rates serve the markets more effectively than rates that are not cost based, and they contribute to the vitality of the Postal Service.**

4. **Mailers respond to rate signals **MIGHTILY**.**
 - ! Facilitated by high volumes.**
 - ! Facilitated by mailer sophistication.**

C. CURRENT RATE SITUATION

NOT PARTICULARLY GOOD

1. In the past, we have tended to refine certain rate areas but leave major glitches in others.

2. Some worksharing signals are very troublesome.

Principal cause – Rate Averaging.

3. Some recent weaknesses are apparent.

! A Niche Classification case was filed recently with no cost information at all.

! An NSA was filed without firm-specific costs.

D. EXAMPLES – I

1. First-Class Mail

! Almost no separate rate recognition for letters, flats, & parcels.

! Additional postage for additional weight is too high.

! No destination entry discounts.

! Poor signals on postage sales.

24 cents per Dollar of sales at Window

E. EXAMPLES – II

1. Periodicals

! Inadequate recognition of machinability.

! Poor dropship signals.

! Poorly constructed pallet discounts.

2. Standard Mail

! Poor dropship signals.

! Too far from 100% passthrough on worksharing discounts.

! Pound charges too high.

! Minimum-per-piece rate causing difficulties.

F. RATE AVERAGING and WORKSHARING

1. Dropshipping in Standard Mail

From New York to Los Angeles

! 1 Truck of 1-Ounce Pieces

! 6 Trucks of 3-ounce Pieces

Y Same Dropship Discount

Y Adverse Selection

2. More Dropshipping Standard Mail

Two New York Mailers.

! One with mail for Chicago

! Another with mail for Los Angeles

Y Same Dropship Discount

Y Adverse Selection

G. EFFECTS OF IMPROVEMENT

1. More complex rate structures.

! Additional rate elements and zones.

! Could see something like: Charge per sack, charge per pallet, charge per bundle, charge per piece, and charge per pound, plus presortation differences and dropship differences.

**2. Some rates [and some rates **

! But all mailers would see opportunities to make efficient changes in what they are doing.

3. What should mailers do?

! Support changes that make sense.

! Work with the Postal Service on changes that make sense.

H. TO MAKE PROGRESS

1. **USPS must do studies to support changes.**
 - a. **They are under investing in analysis. The needs include mailer-specific costs.**
 - b. **The studies are needed now. They would be needed even more if USPS were fully privatized. The need is not due to the demands of the regulatory framework.**

2. **USPS must play the leadership role.**
 - c. **The changes cannot be made by the Rate Commission.**
 - d. **USPS cannot bow to political pressure.**
 - e. **USPS cannot make the changes needed if it wants full agreement before it proposes them.**
 - f. **Rate Commission must be prepared to make tough decisions.**

**ECSI Value, Binding the Nation,
And the Flat Editorial Pound Rate**

A Little History and a Few Observations

1. **The rate for 2c had been 1 ¢/lb since 1885, regardless of distance or advertising content. There were no piece rates. It was recognized that this rate was highly subsidized by the Government.**
2. **Transportation costs in this period were very large relative to other costs. Many analyses showed that costs were 6-10 ¢/lb, particularly for long distances. Over a period of 20 years, there were many arguments to increase 2c rates.**
3. **In 1917, using the War Revenue Act as a vehicle, the House proposed to zone the full weight of 2c.**
4. **There were arguments that magazines and daily newspapers were our great mediums of exchange, that sectional publishing zones would be created, that 3 distinct zones of thought and feeling would be created. Basically, I think, the argument was that some existing publishers would stop sending to the distant zones. I have not found arguments about publishers going out of business.**
5. **There was concern about private profits being made on the subsidized 2c rates, particularly on advertising. A tax was considered on publisher's profits over \$4,000.**
6. **In a compromise, the Senate created the flat editorial rate. In the final step of the 1917 Bill, editorial became 1.5 ¢/lb and zone 8 became 10**

¢/lb, 6.7 times greater. Still no piece rates, until 1971. Periodicals with 5% or less advertising were treated as though they had no advertising – I don't know when this stopped. Nonprofit rates were created by exempting nonprofits from the new rates and creating a rate for them of 1 1/8 ¢/lb, unzoned. Congress zoned advertising for Nonprofit in 1967.

7. The final 1917 rates had the flat editorial rate set at 75% of the zones 1-2 advertising rate. This specific 75% relationship has been honored until the Postal Service proposal in R2001-1. In that case, it proposed an 81.1% proportion. The settlement changed it to 77.8%.

8. Inherited in 1970, were the following rates: editorial 3.4 ¢/lb and zone 8 advertising 17.0 ¢/lb, 5 times greater, with no piece rates.

9. R71-1, starting with the Temporary rates, piece rates came into existence. In 1971, 2.4% of the volume was in zone 8 and 65.5% was in zones 1-2.

10. Congress amended the Reorganization Act in 1976 to say that ECSI value should be considered in setting rates. Book publishers had gone to court in 1974 to argue that their rates were too high. The judge said their remedy, if there is one, would have to come from Congress. It was understood, but may not be written anywhere, that ECSI value applies to Books and Periodicals.

11. R84-1. The per-piece editorial discount came into existence. The Rate Commission cut it from whole cloth because it felt the role of pound rates was being diminished. This discount has grown since.

12. **R2000-1, before the modification, zone 8 pound rate = 3.1 times the flat editorial rate. Volume: 2.8% in zone 8 and 60.5% in zones 1-2 & closer.**

13. **The cost coverage on Periodicals was 101%. Note two things. 1) The coverage on editorial was 82.3% and the coverage on advertising was 125.6%. Thus, editorial is being handled well below cost. 2) If the per-piece editorial discount did not exist, the coverage on editorial would have been 92.7% and the coverage on advertising would have been 110.8%. Thus, the per-piece editorial benefit is well over half the total benefit being given to editorial, relative to advertising. Observation: In 1917, all of the editorial benefit was on the pound rates and the benefit was highly skewed toward distance. Now, less than half of the editorial benefit is given in the pound rates, and this limited portion is mildly skewed toward distance.**

14. **In the court case following R90-1 (MOAA or Dow Jones), the Commission's justification for the flat editorial pound rate was reviewed. The court said: it is perfectly obvious that the ECSI value of local (low-zone) publications is just as important as the ECSI value of nationwide (high-zone) publications, so ECSI value cannot be used to support a decision to continue the flat editorial rate. This is very important.**

15. **The court let the Commission's decision stand because the Commission had argued, mostly in earlier decisions, that the flat editorial rate plays an important role in binding the Nation together. The court referred to this as an anti-Balkanization principle. The court repeated a Commission characterization of the choice as being between economic considerations and public policy considerations.**

**Attachment B to Response of Witness Mitchell to ABM/TW et al.-T1-13
Slides for presentation to Magazine Publishers of America, June 16, 2003**

16. **I believe this leaves us in the following situation. 1) ECSI-value considerations support a low cost coverage on periodicals, and further support a relatively lower cost coverage on editorial and a relatively higher cost coverage on advertising (although there is no coverage split built into In-County rates). 2) The justification for the flat editorial rate rests on weight given to any role it plays in binding the Nation together.**

Response of Witness Mitchell to ABM/TW et al.-T1-14

ABM/TW et al.-T1-14. Please explain the nature of your assignments from Time Inc., beginning in November, 2002.

RESPONSE

I have provided advice to Time Inc. on a broad range of postal issues, from rates to legislation, usually in response to a specific request for my opinion from Time Inc. management (although I have commented on some issues on my own initiative), sometimes in writing and sometimes orally only. I have attended and participated in several meetings of Time Inc. and Time Warner managers, postal counsel, and postal consultants concerning postal matters. We began discussing deficiencies in Periodicals rates in the first part of calendar 2003. Much of my work since July, 2003 has been in connection with the instant Complaint case.

Response of Witness Mitchell to ABM/TW et al.-T1-15

ABM/TW et al.-T1-15. Please define “efficient” as you use that word at page 1, line 8.

RESPONSE

The term in question appears in the first sentence of a two-sentence paragraph in a general statement of purpose of testimony. The full sentence is: “I contend that our current understanding of postal costs and mailer capabilities makes it clear that Periodicals rates are at variance with the Act’s guiding background presumption in favor of efficient rates.”

The Act creates an expert Commission and provides certain guidance to the ratesetting process, including that consideration is to be given to the costs, the value of the service provided, the alternatives available, the degree of preparation of the mail, and such other factors as the Commission may wish to consider. I believe Congress expected that the Commission would draw on the literature available in the regulatory area and that the result would be good rates. In other words, I think one would be ill advised to argue that Congress expected less than state-of-the-art work. At this point, “efficient” is synonymous with good rate setting. Given our current understanding of postal costs (including cost drivers) and mailer capabilities, I believe the rates are unacceptably far from being well set.

Response of Witness Mitchell to ABM/TW et al.-T1-16

ABM/TW et al.-T1-16. Is it “efficient,” is it “inefficient,” or is it neither to charge lower postage to a Periodical than to a catalog with identical physical characteristics? Explain.

RESPONSE

At an early stage in the consideration of your question, one would ask about the relative costs involved, which would depend on more than just the “physical characteristics” of the mailpieces, and might be affected by the service provided. Also, some concepts of efficiency would require that consideration be given to the *value* of the service provided, a notion that is more easily considered for a subclass than for a piece. The consideration of externalities can also be important, as Congress seems to have anticipated when it specified that ECSI value should be recognized. If my neighbor’s welfare is improved when I receive a periodical, but not when I receive a catalog, a step to encourage the realization of that welfare could easily involve a lower rate for the periodical, on the grounds that such a rate arrangement is more efficient.

If all periodicals could choose to use the catalog rates, and they can, then, except for considerations of service and maybe prestige, setting Periodicals rates above the applicable catalog rates would result in a Periodicals subclass with no volume, hardly what one would hope to achieve by creating a special and separate subclass for periodicals.

In general, we do not have absolute measures of efficiency, and comparisons of the efficiency levels of different subclasses cannot generally be made. Usually, observations on efficiency are made in the context of a characteristic of a rate structure or a change being considered. One might say that a particular

Response of Witness Mitchell to ABM/TW et al.-T1-16

characteristic is inefficient or that a particular change will improve efficiency. So focused, measures of the effects of a change can sometimes be developed.

Response of Witness Mitchell to ABM/TW et al.-T1-17

ABM/TW et al.-T1-17. When you compare periodicals rates with inflation since the 1980s, at page 3, lines 10-12, are you using average rate per piece or some other measure of periodicals rates?

RESPONSE

Page 3, lines 10-12, to which you refer, is part of a summary section. It summarizes Section III.A., which begins on page 9. As explained further on the latter page, the rate index is a quantity-weighted price index, using base period weights in each omnibus rate case, linked together, and corrected to a constant markup index. Therefore, it is not based on average revenue per piece figures for the subclass, which I take your “average rate per piece” to be. The average revenue per piece is not a “measure of [the level of] periodicals rates,” and cannot be used to develop such a measure.

Response of Witness Mitchell to ABM/TW et al.-T1-18

ABM/TW et al.-T1-18. During the period references at page 3, lines 10-12, did periodicals mailers take steps that should have reduced Postal Service periodicals costs, such as barcoding, palletizing and dropshipping?

RESPONSE

Yes. But note that to the extent that the postage reductions were equal to the cost reductions, these steps would not cause rates to decrease.

Response of Witness Mitchell to ABM/TW et al.-T1-19

ABM/TW et al.-T1-19. What is your explanation for the fact that cost-reducing measures by periodicals mailers do not appear to have reduced periodical processing costs, at least to the extent that they should have?

RESPONSE

Using the results of the cost-avoidance studies and the shifts in billing determinants, one can calculate the reduction in Postal Service costs that should have occurred, *ceteris paribus*. But since we do not know what the costs would have been without the billing determinant shifts, it is not possible to tell whether the cost-reducing measures had the expected effects. However, nothing I am saying here should be taken to detract from my concern that the increases in Periodicals costs have been too large.

Response of Witness Mitchell to ABM/TW et al.-T1-20

ABM/TW et al.-T1-20. Is your reference at page 4, line 2, to “mailers” intended to include all mailers?

RESPONSE

Yes. If the factors that drive costs are reflected more completely in rates, all mailers will face a changed set of signals and will make decisions based on them. This is not to say that all mailers will choose to make changes or that they will make them immediately.

The rationale for improved information in rates is not that the signals involved will bring about some sort of uniformity in behavior. Rather, it is that in all decisions relating to mail preparation and entry attention will be given in appropriate ways to the value received by the mailers and the costs involved, including costs to the mailer and to the Postal Service. If the proposed rates are implemented, all mailers will face a new rate structure and all mailers will see postage differences associated with alternatives that had no (or different) postage differences associated with them before. Were this to occur, I would expect many changes. And note that every change is an efficiency improvement in that the postage savings to the mailer (also equal to the Postal Service savings), including consideration of changes in value (which the mailer knows and the Postal Service does not), is larger than the cost to the mailer of making the change. (Changes involving higher postage are also possible, in which case the postage increase is less than the cost savings to the mailer of making the change.)

Response of Witness Mitchell to ABM/TW et al.-T1-21

ABM/TW et al.-T1-21. Is the First-Class rate inefficient?

RESPONSE

No absolute measure of the efficiency of a subclass is available; and if one were, it would not be possible to specify a level (or range of levels) that is efficient and another level (or range of levels) that is inefficient. Within the context of considering a specific change, one might conclude that making the change would be an efficiency improvement. Similarly, one might conclude that a particular characteristic of a subclass's rate structure is inefficient, due either to agreement that the signals it sends are perverse or in comparison to some alternative.

Based on this reasoning, First-Class rates cannot be called efficient. For example, charging the same rate for a 2-ounce letter and a 2-ounce flat is inefficient by almost any criterion. The signals sent by such a rate arrangement are perverse. I do not mean to suggest, however, that factors such as ease of administration are not important considerations.

Response of Witness Mitchell to ABM/TW et al.-T1-22

ABM/TW et al.-T1-22. Is the Standard rate inefficient?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-21, Standard rates cannot be said to be efficient. For one thing, most of the changes being proposed in this docket would apply well to Standard.

Response of Witness Mitchell to ABM/TW et al.-T1-23

ABM/TW et al.-T1-23. With reference to page 4, lines 10-12, please list the pound-related savings that have been converted into piece rates.

RESPONSE

A special study of non-transportation bulk handling costs is done in support of each rate case to estimate the savings, relative to zones 1&2 entry, for entry at the DADC, the DSCF, and the DDU. Because the costs at issue are bulk handling costs, they are largely pound oriented. That is, if the weight doubles but the number of pieces remains the same, the costs will approximately double. Similarly, if the number of pieces doubles and the total weight remains the same, the costs will remain roughly the same. The discount should be given on a pound basis. For example, if the savings were 10 cents per pound, the discount (assuming 100 percent passthrough) should be 10 cents per pound. But one-half of the discount is given on a per-piece basis. For example, one-half of 10 cents per pound is 5 cents per pound, and if the average piece-weight were 8 ounces, a discount of 2.5 cents per piece would be given under procedures currently being used. This means pieces weighing less than 8 ounces get a dropship discount that is larger than the Postal Service's savings and pieces weighing over 8 ounces get a dropship discount that is smaller than the Postal Service's savings.

Response of Witness Mitchell to ABM/TW et al.-T1-24

ABM/TW et al.-T1-24. Please explain the term “economical mailing practices” on page 6, lines 1-2.

RESPONSE

In context, a mailing practice becomes more economical if the mailer makes a change such that: (a) the decrease in postage under cost-based rates (which also equals the decrease in the costs of the Postal Service and in the costs of the nation), including the value of any changes in the level of service received, is less than the cost to the mailer of making the change (which could be zero – especially if no information about the effects of the change has ever been given in rates before); or (b) the increase in postage under cost-based rates (which also equals the increase in the costs of the Postal Service and in the costs of the nation), including the value of any changes in the level of service received, is less than the cost savings to the mailer of making the change.

Response of Witness Mitchell to ABM/TW et al.-T1-25

ABM/TW et al.-T1-25. Do the proposed rates provide penalties for those who cannot engage in what you call “more economical mailing practices” as well as incentives for those that do?

RESPONSE

The term *penalty* suggests a burden imposed as punishment for a blameworthy act. It is misleading to apply that term to the proposition that a rate ought to recognize the costs of the mail involved. No penalties are contained in the proposed rates. You may be confused by the fact that in moving from the current rates (which are not cost based) to the proposed rates (which are cost based in substantially greater degree), some mailers will see rate increases.

It is irrational not to assume that all mailers have made decisions concerning what is best for them under the current rate structure. That is, they have considered a wide range of alternatives, focused on their interests, their capabilities, and the rates associated with those alternatives, and have selected what is optimal. When all of these rates change, and new alternatives are introduced as well, it is virtually inconceivable that no changes will be made. But if there are mailers who see the optimal solution as unaffected by changes in virtually all of the inputs and “cannot” see that changes are indicated, they would be under no obligation to reconsider. Their rates would be fairly based on the costs their mail incurs and their mail should be delivered effectively.

Do not be deceived into believing that mailing practices do not evolve over time. Even if changes are not made immediately, the new rate structure will inform decisions made in the future, such as those involving basic business models, mechanization, and printing locations. All of these take time and all should be made in full view of the cost implications involved. And don't forget that the future we all

Response of Witness Mitchell to ABM/TW et al.-T1-25

look forward to is influenced substantially by the innovative spirit of businesses and entrepreneurs. Predictions of future paths are often wrong. It is important that we allow this process to occur within a framework that not only reveals opportunities but also reflects the costs involved.

Response of Witness Mitchell to ABM/TW et al.-T1-26

ABM/TW et al.-T1-26. With reference to your testimony on page 6, lines 11-12, that the effects of your proposed rates on mailers “have been carefully considered,” please state in detail (a) by whom they have been considered, (b) when they have been considered, and (c) how they have been considered?

RESPONSE

I considered them. Witness Stralberg considered them. Jim O'Brien considered them. We discussed them in limited ways with others, including counsel.

Consideration began in early calendar 2003. Detailed consideration began in July of 2003. We considered and refined the proportion of the revenue to get from the piece rates. We considered the pound rates and whether pound-related costs were in the bundle costs. We considered the structure for the rates. We calculated rate increases for mailings with various characteristics. We looked at the rate differences and compared them to existing rate differences. We looked at the effect of changing the number of pieces per bundle and the number of bundles per sack and the weight and makeup of the pallets. We considered whether the signals were at the appropriate level to send information to mailers about what the cost implications of their decisions really are.

Response of Witness Mitchell to ABM/TW et al.-T1-27

TW et al.-T1-27. Why is it important or beneficial that periodicals rates move closer to those that would be generated by a competitive market, as you imply at page 6, lines 12-13?

RESPONSE

It is generally accepted that rates that would be generated by competitive markets are appropriately cost-based and send signals to buyers and potential buyers that lead to efficient resource allocation and the maximization of consumer utility.

Response of Witness Mitchell to ABM/TW et al.-T1-28

ABM/TW et al.-T1-28. Why isn't there a competitive market?

RESPONSE

The reason is not that the current rates are low and efficient or that appropriate signals are being sent in the rates. Rather, the reason competitors do not exist today is that the mailbox rule prevents effective delivery. If it were not for the mailbox rule, there would be competitors for periodicals delivery today, and they would be carrying, I believe, virtually all of the well-prepared, machinable pieces with barcodes.

Response of Witness Mitchell to ABM/TW et al.-T1-29

ABM/TW et al.-T1-29. Are the postage rates paid now by Time Warner and the other complainants higher or lower than they would be in a competitive market?

RESPONSE

I believe they are higher. Please see my response to ABM/TW et al.-T1-28.

Response of Witness Mitchell to ABM/TW et al.-T1-30

ABM/TW et al.-T1-30. Please explain how your proposed rates move “at a measured pace,” as stated on page 6, line 13.

RESPONSE

The question of how to go about moving to improved rates is always a difficult one. If the rate differences were only a portion of the cost differences, the information sent to mailers in the rates would not be a reflection of the cost differences and would not allow appropriate comparisons to be made of current and alternative positions. Under such conditions, movement toward preferred positions can be slow or non-existent. Mailers who could make efficient changes might not, mailers making such changes might do so in an incomplete or unbalanced way, and mailers planning for the future would not have the guidance they need.

Further discussion of the movement of the proposed rates can be found in the section beginning on line 9 of page 54 of my testimony. For a discussion of certain aspects of the outcome of Docket No. R84-1, which changed the proportion of revenue obtained from the piece rates, see paragraph 6 of my response to ABM/TW et al.-T1-1. A similar situation occurred in Docket No. R90-1, in which some of the Standard rates increased 42 percent, and some Standard Nonprofit rates increased 51 percent.

Response of Witness Mitchell to ABM/TW et al.-T1-31

ABM/TW et al.-T1-31. You state at page 6, lines 16-21, that the impact of your proposal is tempered by the fact that there are no markups for the new rate elements. (a) Markups over what? (b) What markups are proposed for the other rate elements?

RESPONSE

(a) Markup over cost. (b) Since there are no markups for the new rate elements, the contribution of the subclass is obtained from the piece and pound rates, which leaves the markups where they are now, thus minimizing the effects of the change.

Response of Witness Mitchell to ABM/TW et al.-T1-32

ABM/TW et al.-T1-32. Will all small publications be helped by what you describe at page 6, line 22 to page 7, line 1 as “recognition of machinability”?

RESPONSE

One cannot say that all small mailers will be helped by the recognition of machinability. I believe, however, that the publications of many small mailers are machinable. Also, I believe all mailers should be provided information relating to the cost differences associated with machinability. No pieces should be non-machinable if the extra value associated with sending such pieces is less than the value of the extra resources drawn by the Postal Service from the nation in order to handle those pieces. Pieces seeing an increase due to this recognition are those that are now being provided below-cost rates, corrected for ECSI value.

Response of Witness Mitchell to ABM/TW et al.-T1-33

ABM/TW et al.-T1-33. How will small publications be helped by what you describe at page 7, line 1, as “improvements in the pallet/sack differential”?

RESPONSE

The current pallet/sack differential is biased in the direction of dropshipping – if you don’t dropship, you don’t get the pallet discount, even though the savings are there. The proposed rates are not infirm in this regard. Also, under the proposed rates, sacks get dropship discounts that are fairly based on costs, just as do pallets, and the pallet/sack differential becomes small or non-existent when sacks are used effectively. Sacks should not be discouraged unnecessarily or unfairly.

Response of Witness Mitchell to ABM/TW et al.-T1-34

ABM/TW et al.-T1-34. Will all small publications be helped by what you describe at page 7, line 2, as “improved dropship discounts for sacks”?

RESPONSE

Blanket and all-inclusive statements such as the one you suggest cannot generally be made. I see no reason, however, to exclude sacks from dropship discounts, especially since some mailers dropship them by air. They certainly deserve rates that recognize their costs. Also, many sacks are entered near their destination, quite naturally, because the mailers reside there. I see no reason not to give them fair rates.

Response of Witness Mitchell to ABM/TW et al.-T1-35

ABM/TW et al.-T1-35. Please provide your understanding of the extent that sacks are drop shipped and the reasons underlying that understanding.

RESPONSE

A sack entered at a destination facility could have been dropshipped (i.e., transported some distance by the mailer or his agent) or could be entered there because the mail was printed there. The Postal Service does not interrogate mailers to see how far they may have driven. Whatever the reason for a sack being entered at a destination office, I believe it should be provided a fair rate.

I do not know the extent to which sacks are dropshipped. It is well known that some sacks are dropshipped by small and large mailers, by air, for service reasons, using aircraft that cannot handle pallets. It should not be necessary for the volume of these sacks to reach some critical mass in order for them to receive fair rates. Further, this volume might grow under improved rates.

Response of Witness Mitchell to ABM/TW et al.-T1-36

ABM/TW et al.-T1-36. You testify at page 8, lines 2-7, that Congress initially set periodicals rates to be “extremely attractive.” Is it still important that periodicals rates be attractive, and if so why?

RESPONSE

Congress still thinks it is important, and so do I. It has singled out periodicals for separate and special rate treatment by specifying that their ECSI value must be recognized. It is not clear to me how this provision would be honored if Periodicals class rates were to come out higher than some other applicable rates.

Response of Witness Mitchell to ABM/TW et al.-T1-37

ABM/TW et al.-T1-37. You refer at page 8, lines 12-15 to congressional recognition of the ECSI value of periodicals. (a) Do improvements in printing and information technology, along with the availability of cable television and the internet, substantially diminish the need to recognize the ECSI value of periodicals? (b) If not, why not?

RESPONSE

(a) I do not see why they would. (b) In my mind, the most appropriate way to think about the recognition of ECSI value is to consider the externalities involved. I do not see how these would be affected by printing technology or cable television.

Response of Witness Mitchell to ABM/TW et al.-T1-38

ABM/TW et al.-T1-38. What percentage of the periodicals mailed today have circulations less than 250,000?

RESPONSE

I have no way of knowing.

Response of Witness Mitchell to ABM/TW et al.-T1-39

ABM/TW et al.-T1-39. What percentage of the periodicals mailed today have circulations less than 100,000?

RESPONSE

Please see my response to ABM/TW et al.-T1-38.

Response of Witness Mitchell to ABM/TW et al.-T1-40

ABM/TW et al.-T1-40. If your proposed rates increase rates for most periodicals, would that make the periodicals rate less attractive?

RESPONSE

No. The level of attractiveness would seem most likely to be taken as some kind of summation over volume of the difference between an applicable alternative rate and the Periodicals rate. Since the rates being proposed are revenue neutral, I don't see why this would change. Or, in the alternative, one might look at the difference between a representative alternative rate and a representative Periodicals rate.

The focus on alternatives is in order because it is difficult to evaluate a rate in isolation. Corrected for their proportions of editorial content, a finding that the rates for some periodicals are more attractive than the rates for others (i.e., some are further below the alternative rates than others) would seem to imply that something is out of balance. Were this imbalance to be corrected, it is difficult to see that any attractiveness measure would be affected in a meaningful way.

Response of Witness Mitchell to ABM/TW et al.-T1-41

ABM/TW et al.-T1-41. You state at page 11, line 12, that periodicals rates are not cost based. Are they market based?

RESPONSE

The term “market-based” has no generally accepted meaning. Accordingly, I have no idea what it is that you want to know. However, I usually think of the term in one of two ways. The first relates to whether demand is recognized when the rates are set, which might lead in the extreme to different rates for each mailer, depending on his willingness (or ability) to pay. This is not done in Periodicals. The second relates to whether the rates are structured similarly to rates that would be generated by a competitive market or in a way that would be competitive in such a market. As discussed further in my response to ABM/TW et al.-T1-28, I do not believe that Periodicals rates are market-based in this sense either.

Response of Witness Mitchell to ABM/TW et al.-T1-42

ABM/TW et al.-T1-42. Are First-Class rates cost based?

RESPONSE

The term “cost-based” has no generally accepted meaning and is used to mean different, sometimes mutually contradictory, things. Occasionally, the context is helpful. I use the term to mean that the costs of the mail in question are known and acknowledged, and that a decision on some defensible basis is made on what the markup over that cost should be. Defined in this way, I do not find First-Class rates to be cost based.

Response of Witness Mitchell to ABM/TW et al.-T1-43

ABM/TW et al.-T1-43. Are Standard mail rates cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is no.

Response of Witness Mitchell to ABM/TW et al.-T1-44

ABM/TW et al.-T1-44. Are parcel rates cost based?

RESPONSE

Please see my response to ABM/TW et al.-T1-42. Numerous changes have been made in recent years in parcel post rates, and substantial cost evidence was developed and relied on in support of each change. However, I am not prepared to evaluate whether all relevant costs have been recognized or whether the markups are defensible.

Response of Witness Mitchell to ABM/TW et al.-T1-45

ABM/TW et al.-T1-45. Is the existing periodicals pallet discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is no.

Response of Witness Mitchell to ABM/TW et al.-T1-46

ABM/TW et al.-T1-46. Is the existing periodicals drop shipped pallet discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is no.

Response of Witness Mitchell to ABM/TW et al.-T1-47

ABM/TW et al.-T1-47. Are the periodicals advertising pound rates cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that the *differences* in the advertising pound rates (which are in principle preserved in the proposed rates) are cost-based in degree, since they recognize transportation costs but not non-transportation costs, but that the *levels* of the advertising pound rates are not well related to costs.

Response of Witness Mitchell to ABM/TW et al.-T1-48

ABM/TW et al.-T1-48 Are the periodicals carrier route discounts cost-based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-49

ABM/TW et al.-T1-49 Is the periodicals 3-digit presort discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-50

ABM/TW et al.-T1-50 Is the periodicals barcode discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-51

ABM/TW et al.-T1-51 Is the periodicals DDU entry discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that it is cost-based in limited degree, due to the circumstances discussed in my response to ABM/TW et al.-T1-23 and to the flat editorial pound rate.

Response of Witness Mitchell to ABM/TW et al.-T1-52

ABM/TW et al.-T1-52 Is the periodicals DSCF entry discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that it is cost based in limited degree, due to the circumstances discussed in my response to ABM/TW et al.-T1-23 and to the flat editorial pound rate.

Response of Witness Mitchell to ABM/TW et al.-T1-53

ABM/TW et al.-T1-53 Is the periodicals DADC entry discount cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is that it is cost based in limited degree, due to the circumstances discussed in my response to ABM/TW et al.-T1-23 and to the flat editorial pound rate.

Response of Witness Mitchell to ABM/TW et al.-T1-54

ABM/TW et al.-T1-54. Is the periodicals letter/flat differential cost based?

RESPONSE

The Periodicals rate structure does not have a letter/flat differential.

Response of Witness Mitchell to ABM/TW et al.-T1-55

ABM/TW et al.-T1-55. In your proposal, are the editorial pound rates cost based?

RESPONSE

Based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-56

ABM/TW et al.-T1-56. In your proposal, is the differential between the editorial pound rates and the advertising pound rates cost based?

RESPONSE

There is no differential between the editorial pound rates and the advertising pound rates in my proposal. See the "Proposed Rate Schedule" on page 43 of my testimony. Since there is certainly no difference in the cost of handling editorial and advertising matter, based on the reasoning provided in my response to ABM/TW et al.-T1-42, my answer is yes.

Response of Witness Mitchell to ABM/TW et al.-T1-57

ABM/TW et al.-T1-57 (corrected). Please confirm that, based upon your statement at page 11, lines 19-22, that pound rates play a “substantially lesser role” than they did prior to reorganization, the contribution to “inefficiency” of a flat editorial rate has also declined substantially. If you cannot confirm, please explain why.

RESPONSE

Not confirmed. The importance of pound rates playing a lesser role is that there is no longer a need to subsidize higher-zone distribution, because charging rates that cover costs will not affect that distribution.

Neither the absolute level of the pound rates nor their proportion of total postage (both of which have been reduced by the evolution of the piece rates) is as important to efficiency as are the differences of the pound rates across zones. In 1970, the zone-8 rate was 17.0 cents (per pound) and the zones-1&2 rate was 5.2 cents, differing by 11.8 cents. In the current rates, the corresponding difference is 30.0 cents. Moreover, mailers now are much more responsive to signals in rates than they were in the past. Part of the gain resulting from improved signals lies in the response of mailers.

Response of Witness Mitchell to ABM/TW et al.-T1-58

ABM/TW et al.-T1-58. With reference to your testimony at page 16, lines 3-6, please give the details, and an example, of when a mailer has a choice between preparing one 24-piece bundle and 24 sacks containing one piece each, and state the frequency with which mailers actually choose to mail one-piece sacks.

RESPONSE

I do not know the frequency of one choice vs. another and have no idea what the volume of single-piece (or meager-piece) sacks might be; but given the level and behavior in recent years of Periodicals costs, I am concerned that they might occur all too often. The problem is that mailers are given no information in rates that might help them focus on the cost implications of their decisions or on the alternatives available.

The classic situation might be a supplemental mailing of 24 pieces going to widely dispersed addresses. The pieces could be prepared in a 24-piece mixed ADC bundle and placed in a mixed ADC sack, or they could be placed in 24 5-digit sacks that would travel unopened to the respective DDUs. Supplemental mailings (including special-edition mailings) tend to be frequent and expensive. It seems likely that they all pay rates that are substantially below costs. Mailers should consider whether alternatives are available, including the possibility of integrating such mailings with a main file. Without appropriate signals, they will not do so.

Response of Witness Mitchell to ABM/TW et al.-T1-59

ABM/TW et al.-T1-59. You state at page 16, line 8, that if a mailer is willing to pay the cost of handling 24 sacks with one piece, "the outcome is not inconsistent with efficiency." Is it consistent with efficiency?

RESPONSE

To the extent that *postal rates* can have an effect on efficiency, which I believe is the only issue of efficiency before the Commission, "if a mailer is willing to pay the cost," it is consistent with efficiency for 24 pieces of mail to be handled in 24 sacks, or to be carried by 24 couriers in 24 chauffeured limousines. The point is that there is nothing wrong with preferring to use a sack, even one that is virtually empty, as long as the mailer pays rates that recognize the associated costs.

The problem is that, under the current rate structure, a mailer could choose a high-cost (to the Postal Service and the nation) service when the value (to the mailer) of the service is less than the cost imposed. Further, the mailer might do this without being aware of the costs being imposed and without knowing that a burden is thereby being placed on someone else.

Response of Witness Mitchell to ABM/TW et al.-T1-60

ABM/TW et al.-T1-60. You state at page 16, lines 18-19, that there was an “enormous waste of resources” resulting from the fact that 14.6% of Standard mail was dropshipped before 1990, but 73.3% is now. (a) What resources were wasted? (b) In each situation, didn’t the mail have to be transported by someone? (c) Is it your testimony that Postal Service transportation is inherently less efficient than private transportation? (d) If so, why? (e) If not, why is it necessarily less efficient for mailers to pay the Postal Service to transport their mail than it is for them to pay private carriers to transport their mail?

RESPONSE

One of the reasons, of course, for proposing the dropship discounts in Standard (then third-class) mail was to give fair and competitive rates to mailers whose mail was destination-entered naturally, because the mail was printed in the destination city. It certainly didn’t make sense for such a mailer to have the option of having the mail printed in a distant city and turned over to the Postal Service to carry back at no additional charge. But when I developed those dropship discounts, neither I nor anyone I talked to at the Postal Service had any idea how much mail would become dropshipped, though some of it involved little more than shifting control of a plant-load contract to the mailer.

The general idea in worksharing is to give a discount equal to the Postal Service’s savings and to let the mailer decide who should do the work. There is no reason for the Postal Service to want to get out of the transportation business. Indeed, part of its assignment and part of the concept of a national postal service relates to its ability to amass large volumes of mail and to provide efficient transportation. Nevertheless, the rates need to reflect the costs of this provision.

When the mailer chooses to do the transporting, it is generally because he can do it at a lower cost than the Postal Service, understanding as well that there could be value in any improvement in service. This value, plus the difference between the

Response of Witness Mitchell to ABM/TW et al.-T1-60

cost to the Postal Service and the cost to the mailer is net gain, much like stemming the waste of resources. It is important to keep in mind that once the mailer takes control, he has options that the Postal Service does not have and he has incentives to innovate and to do things that he will not do for the Postal Service. For example, he might coordinate various mailings, schedule production in a different way, handle risk in a different way, and work with the trucking companies in a different way. Also, the value of any improved service is not realizable at all under Postal Service transportation.

Response of Witness Mitchell to ABM/TW et al.-T1-61

ABM/TW et al.-T1-61 (corrected). (a) Please state the basis for your assumption at page 17, footnote 8, that postage costs “are included in printer’s [sic: printers’] bids.” (b) did you ask witness Schick, from QuadGraphics, or any other printer if this assumption is correct? (c) If so, what was the response?

RESPONSE

I made the assumption because, whether the postage is in the printer’s bid or not, I think it highly likely that the burden of paying the postage falls on the publisher instead of the printer. I have not discussed this with witness Schick or any other printer, at least not in recent years.

The point is very simple. Suppose you live in Cleveland and are the publisher of *Cleveland Supercity* magazine. And suppose further that nearly all of the copies go to subscribers who reside in the general vicinity of Cleveland. Now consider getting your magazine printed and mailed. Suppose a printer nearby will print it for 20 cents (per copy) and a printer at a distant location will print it for 19, neither including postage. The postage if printed and entered nearby is 30.0 cents (per piece), and the postage if printed and entered at the distant location is 30.6 cents. You will gain 0.4 cents (per piece) by having it printed at the distant location. But if the extra cost to the Postal Service of having your publication entered at the distant location is 2 cents, allowing you to have it printed and entered there is a really bad deal for other mailers and for the nation, and wastes energy besides. The rates need to reflect the Postal Service’s costs. Without that information in the rates, you cannot and will not make the correct decision.

Response of Witness Mitchell to ABM/TW et al.-T1-62

ABM/TW et al.-T1-62. Who were the “beneficiaries of the existing rate” to whom you refer at page 19, line 13.

RESPONSE

The publishers mailing publications for 1 cent per pound or fraction thereof, regardless of distance or editorial content. The term “beneficiary” seems in order since that rate, close and even more-so far, was way below cost. The likelihood of a zoned rate structure that lowered their total postage bill was zero. One cannot blame them for clinging to a low local rate and for wanting it to apply to all distances, regardless of the cost to what was then, in effect, the Federal Government.

Response of Witness Mitchell to ABM/TW et al.-T1-63

ABM/TW et al.-T1-63. Please explain the role of the complainants in the “negotiations and compromise” to which you refer at page 19, line 15, through page 20, line 3.

RESPONSE

The negotiations at issue took place in 1917. I do not know whether any of the complainants even existed at that time.

Response of Witness Mitchell to ABM/TW et al.-T1-64

ABM/TW et al.-T1-64. Do you believe that if periodicals rates were established without regard to their ECSI value, and if as a result the markup over attributable costs were to increase to the average system markup, there would be any effect on the flow or availability of information in the United States?

RESPONSE

In Docket No. R2001-1, Postal Service witness Tolley estimated the own-price elasticity of Regular Periodicals to be -0.17 , substantially lower in absolute value than most other categories. This means that a 10 percent increase in rates would be estimated to cause a reduction in volume of 1.7 percent, *ceteris paribus*. This is a market relationship and would not apply to individual publications or groups of publications. Elasticities probably say more about quantities than about availability. Anyone placing a meaningful value on the information in a periodical would not likely be one to see the effects of any volume decline.

Asking about the effects of an increase in the average rate for Periodicals, however, is quite different from asking about the effects of changing to the rates in our proposal. The proposed rates are revenue neutral and with any mailer response at all, the average postage paid by mailers will decline. This is equivalent to a rate decrease. Also, it is a general presumption that cost-based rates serve markets more effectively than other rates, as the MOAA court apparently had in mind when it said that “the divergence from cost principles has the probable tendency of increasing overall costs of distribution, and thereby reducing the market-clearing level of distribution.” (2 F.3d 408, 436 (D.C. Cir. 1993))

Response of Witness Mitchell to ABM/TW et al.-T1-65

ABM/TW et al.-T1-65. You testify at page 21, lines 4-5, that publishers should not find it profitable to drop subscribers in distant zones. Might publishers in that situation tend to devote more of their marketing resources on the less costly zones?

RESPONSE

Persons desirous of obtaining subscriptions are not affected by solicitation practices; they see the publications at a newsstand, they hear about them from a friend, they hear about them through an agent (including national promotions of large groups of magazines and the promotion packages I get continually in my credit card statements), and they seek them out in other ways. Also, persons on well-suited or high-quality lists will be profitable targets no matter where they reside. The question you raise might apply at the margin to low-quality lists. If a publisher had a list (or some other channel) that was viewed as likely to draw a low response, he might decide that a return exists for using the list in a low-postage area but not in a high-postage area, although this may represent a level of fine-tuning not achievable. But the more likely situation would probably involve deciding whether to mail to the same list a second or third time. It is relatively common to mail again to the same list, particularly if a prior solicitation yielded an encouraging response. In this case, a potential subscriber in a distant zone might be solicited twice and then not called again. It is difficult to argue that such a potential subscriber has not been given ample opportunity to subscribe.

Part of the solicitation process involves securing renewals. At a spring 2004 IDEAlliance meeting, the Director of Postal Affairs of Reiman Publications said that Reiman makes 13 attempts to obtain renewals. She didn't say so, but if she had said that she makes only 12 attempts in high-zone areas, I would have understood. But the situation here, should it exist, is not troubling. After 6 or 8 attempts by the

Response of Witness Mitchell to ABM/TW et al.-T1-65

publisher, it would seem that the subscriber has had every reasonable opportunity to re-subscribe, and that the publication is as available to him as anyone could desire. Further, if the value placed by him on the publication is at any meaningful level whatever, he would have re-subscribed long ago.

Response of Witness Mitchell to ABM/TW et al.-T1-66

ABM/TW et al.-T1-66. You testify at page 21, lines 5-9, that even if zoning the editorial rate caused some areas to be disfavored, "it is hard to see," given all of the "other sources of information and avenues of communication now available," that there would be adverse consequences. Please examine the list of American Business Media member publications provided as an attachment to American Business Media's first interrogatories to witness John Steele Gordon and identify those whose content is available in reasonably equivalent depth and reliability from "other sources of information and avenues of communication."

RESPONSE

Your question misrepresents my testimony. I did not state that " 'it is hard to see,' given all of the 'other sources of information and avenues of communication now available,' that there would be adverse consequences." I stated that "it is hard to see how, given all of the other sources of information and avenues of communication now available, *the effect on the unity or cohesion of the nation could be significant*" (emphasis added).

I am not competent to identify the member publications of American Business Media whose content is currently available from other sources. I assume, however, that if their content is *valuable*, potential recipients should be willing to cover the costs of sending it. Many if not most of the publications on your list are apparently sent to profit-making businesses that would be expected to use the information to make more profit, sometimes by putting competitors out of business. I do not see why the transportation and delivery of magazines to them should be subsidized.

Response of Witness Mitchell to ABM/TW et al.-T1-67

ABM/TW et al.-T1-67. What mailers now pay the institutional costs that periodicals mailers would pay if their rates were not restrained to reflect their ECSI value?

RESPONSE

If the contribution to institutional costs of the Periodicals subclass were to increase, it is not possible to say which rates would decrease. Similarly, if the contribution to institutional costs of the same subclass were to decrease, whether due to a decision to recognize ECSI value or some other reason, it is not possible to say which rates would increase.

Response of Witness Mitchell to ABM/TW et al.-T1-68

ABM/TW et al.-T1-68. (a) Are you opposed to the low, single-digit cost coverage that Periodicals have enjoyed for several years? (b) If so, why? (c) If not, why not?

RESPONSE

I am not opposed to the cost coverage about which you ask. I view it as selected in part in response to a troubling situation surrounding Periodicals costs. This situation is addressed in my testimony and undergirds the need for the changes being proposed.

Response of Witness Mitchell to ABM/TW et al.-T1-69

ABM/TW et al.-T1-69. Where are the publications listed at page 22, lines 17-20, printed?

RESPONSE

I do not know.

Response of Witness Mitchell to ABM/TW et al.-T1-70

ABM/TW et al.-T1-70. Please identify the city magazine discussed at page 23, lines 11-13, and state where it is printed and whether it is drop shipped.

RESPONSE

When I worked for the Postal Service, I found myself able to obtain mailing statements quite easily, either through the Postal Service or from mailers. I recall one printer handing me consolidated mailing statements for 50 publications. Since then, it has not been so easy. In the summer of 2003, before I began to outline or develop my testimony, I did a number of Internet searches for local and regional publications. I was already familiar with the *Washingtonian* and the *Baltimore Magazine*. I found that there are quite a large number of similar magazines. I then inquired to see if I could get a mailing profile for any of the city magazines. One source referred me to another source, who was willing to satisfy my curiosity on the condition that I not use the name of the magazine or the printer. I can tell you, however, that it is entered into the Postal Service at a point not substantially distant from where it is printed.

Response of Witness Mitchell to ABM/TW et al.-T1-71

ABM/TW et al.-T1-71. You say at page 24, line 22, through page 23, line 1, that the present periodicals rate structure amounts to the Postal Service saying to a local publication with little or no advertising that it will transport it for free and that all of the freight will be paid by other mailers. (a) Please identify ten such publications. (b) what other mailers will pay the freight costs? (c) Does the Postal Service give the same message to, for example, Capital One with respect to its First-Class credit card solicitations?

RESPONSE

I have no way of identifying publications that might fit subject model. But identifying such publications would not make less troublesome the situation surrounding the signals being sent. The signals are real, and the opportunity exists to have other mailers pay the costs thus caused. Within the framework of a fixed cost coverage and fixed billing determinants, the costs are covered by *other* Periodicals mailers. When a mailer shifts toward being printed further away, the Postal Service's costs increase more than its revenues, with the implication that the rates for *all* Periodicals will have to be increased in the next rate case. The situation is undesirable.

I do not know how Capital One selects its printing locations for its First-Class solicitations. To the extent that it is a national mailer from one printing location, however, the opportunity to increase its average haul is substantial. That is, the First-Class rate structure gives such mailers the option of increasing their average haul and having their mail transported the greater distance at no apparent additional charge, by air. It is difficult to argue that the signals involved are anything but inefficient, and it seems doubtful that ease of administration and use are important issues for the bulk categories of First Class.

Response of Witness Mitchell to ABM/TW et al.-T1-72

ABM/TW et al.-T1-72. (a) Please identify each periodical published by the complainants that have “subscribers in limited geographic areas,” as you use that phrase at page 25, line 6. (b) How many subscribers in limited geographic areas receive those periodicals? (c) what percentage do such copies represent of the total copies of all of the publications of the complainants?

RESPONSE

The discussion on page 25 relates to local and regional publications whose entire print-run would be distributed predominantly in a specific geographic area. The *Indianapolis Monthly* would be an example. It does not refer to broadly distributed magazines that may prepare local editions by selective binding, such as *Time's* Chicago Metro edition or *TV Guide's* 150 local editions. None of the complainants publish local or regional publications.

Response of Witness Mitchell to ABM/TW et al.-T1-73

ABM/TW et al.-T1-73. (a) Have you been retained in this case to represent the interests of regional or local publications? (b) If so, provide the details.

RESPONSE

No. I have been retained in this case to provide expert testimony on matters of rate design, not as a representative of any interest or party.

Response of Witness Mitchell to ABM/TW et al.-T1-74

ABM/TW et al.-T1-74. Please estimate the percentage of periodical pieces entered in zones 1 and 2 today that are drop shipped into those zones.

RESPONSE

I have no way of developing such an estimate for today or for any representative period, even if it were clear how to define dropshipment. Since I do not believe the Postal Service interrogates mailers concerning how far they may have driven their trucks, I would think that a special survey might be needed to approach the question.

Note that the attractiveness of zones 1&2 as a dropship point might increase under the proposed rates, since the pallet discounts implicit in the proposed Rate Schedule do not require DADC/DSCF entry. This feature could be of interest to smaller mailers.

Response of Witness Mitchell to ABM/TW et al.-T1-75

ABM/TW et al.-T1-75. Why have you chosen not to zone the Ride-Along rate?

RESPONSE

I have not given any consideration to zoning the Ride-Along rate, possibly because the revenues from it are handled as an appendage to the billing determinants.

However, I would not be opposed to considering it. The first step might be to see if any supporting data are available.

Response of Witness Mitchell to ABM/TW et al.-T1-76

ABM/TW et al.-T1-76. You state at page 28, lines 8-11, that you are not suggesting that all mailers can make the changes that would enable them to avoid large rate increases if the proposed rates were adopted. Please identify the types of mailer that would not be able to make such changes.

RESPONSE

I don't believe one can identify types that would not be able to make changes.

Virtually all mailers face alternatives surrounding sack makeup, sack weight, bundle makeup, bundle thickness, pallet makeup, minimum pallet weight, and entry points.

They also face questions about how to handle supplemental mailings and special editions, whether to barcode, and whether to make their pieces machinable. On many of these questions, the current rates send mailers inadequate information and leave them in the dark.

Response of Witness Mitchell to ABM/TW et al.-T1-77

ABM/TW et al.-T1-77. Why do you assert at page 29, lines 1-3, that pieces processed on a machine—the FSM-1000—are not machinable?

RESPONSE

My statement does not qualify as an assertion. There is a substantial cost difference between pieces processed on the AFSM-100 and those processed on the FSM-1000, and the costs for the FSM-1000 are near the costs for manual processing. It makes sense to provide lower rates to the AFSM-100 pieces, and witness Stralberg and I have accordingly denominated those pieces "machinable."

Response of Witness Mitchell to ABM/TW et al.-T1-78

ABM/TW et al.-T1-78. What are the characteristics of pieces that can be processed on an FSM-1000 but not an AFSM-100?

RESPONSE

Please see the response of witness Stralberg to ABM/TW et al.-T2-9.

Response of Witness Mitchell to ABM/TW et al.-T1-79

ABM/TW et al.-T1-79. What percentage of the pieces produced by the complainants cannot be processed on an AFSM 100?

RESPONSE

No records exist that would allow calculation of the percentage of complainants' pieces that can or cannot be processed on an AFSM-100. Machinability sometimes varies from issue to issue, depending on weight and other factors, and the decision on what goes on the AFSM-100 is normally made by Postal Service machine operators.

However, for the purposes of the analysis performed by witness Stralberg in response to ABM/TW et al.-T1-3, the following publications were assumed to be non-machinable on the AFSM-100: *Time for Kids*, *In Style*, *Vanity Fair*, and *Modern Bride*.

Response of Witness Mitchell to ABM/TW et al.-T1-80

ABM/TW et al.-T1-80. Please explain why you propose dropship discounts for mail deposited at a destination BMC.

RESPONSE

Some background on this question is provided in footnote 27 on page 31 of my testimony. It appears that the term “transfer hub” is no longer being used and that facilities once so designated are now referred to as BMCs. The notion is reasonably simple. A BMC is positioned and connected to serve a broad territory efficiently, a territory that would generally receive substantial volumes of mail. Even a relatively small mailer could have a great deal of volume for such a large area. It seems likely that many mailers might find it effective to take mail to DBMCs and that the Postal Service could process it from there quite well. Costs and volumes are available for DBMC-entered mail. We believe that DBMC entry is an option that should be available.

The general idea behind the Postal Service’s plant loading program is that mail can be taken directly to a downstream facility, avoiding as much local handling as possible. DBMCs would seem to be an important option in this program. If the Postal Service is not reaching them, I believe it should be. Our proposal is to bring this same option to mailers.

Response of Witness Mitchell to ABM/TW et al.-T1-81

ABM/TW et al.-T1-81. Please explain why DSCF entry pieces would pay no distance-related transportation costs under your proposal.

RESPONSE

DSCF-entered pieces pay no distance-related transportation costs now. I have made no changes in this regard but have simply followed current practice. The intra-SCF portion of segment 14 transportation costs is not large and is not treated as distance-related. It is paid equally by all mail since all mail originates and destines in some SCF. No attempt is made to charge mail according the number of miles it travels within an SCF area on contract transportation.

Response of Witness Mitchell to ABM/TW et al.-T1-82

ABM/TW et al.-T1-82. (a) What types of periodical mail benefit from the adjustment at page 33, lines 16-20, to increase the passthrough of DSCF pound-related costs to 10%? (b) what types of periodical mail would pay more as a result of this adjustment?

RESPONSE

No passthrough has been increased to 10 percent. The effects of the adjustments discussed on page 33 are outlined in my response to Question 4 of POIR No. 1.

Response of Witness Mitchell to ABM/TW et al.-T1-83

ABM/TW et al.-T1-83. What percentage of the complainants mail is entered at the DSCF and what percentage is entered at the DSCF or DDU?

RESPONSE

The percentages of mail entered at the DSCF and the DDU, in order, by complainant are: Time Warner 69.17 percent and 0.03 percent; TV Guide 88.28 percent and 1.32 percent; Newsweek 72.44 percent and 0.74 percent; Condé Nast 66.50 percent and 0.94 percent; and Reader's Digest 65.05 percent and 0.00 percent.

Response of Witness Mitchell to ABM/TW et al.-T1-84

ABM/TW et al.-T1-84. (a) Should all Postal Service workshare discounts be equal to avoided costs? (b) If not, under what circumstances should the discounts depart from avoided costs?

RESPONSE

Consistent with the Reorganization Act, a broad range of factors is considered when rates are set. Blanket rules are dangerous and can be counterproductive.

Generally, at least in situations where externalities do not exist, economic efficiency requires that costs be acknowledged and that markups be consistent with the elasticities and cross elasticities. Setting rates in this way has been shown to be equivalent to a breakeven version of rates that would be generated by a competitive market.

In some cases, mailers move from one rate to another by worksharing, which means they do a piece of work that the Postal Service would otherwise do. Then the Postal Service integrates the pieces into the mailstream at what is often referred to as further downstream. For example, a mailer (or an agent of a mailer) might sort pieces into trays or transport them to a destination area. In other cases, moving from one rate to another involves altering Postal Service costs by doing something that may be different from what the Postal Service would otherwise do, such as by sorting addresses on a computer, using an address file to spray on a barcode, changing the shape or processing category of a piece, adjusting the weight of a piece, or printing a piece near its destination (whether or not the mailer resides near the destination). Mail entered near the destination is often referred to as dropshipped, even when no special transportation activities have been performed. Some of these matters are discussed in more detail in my paper: "Postal Worksharing: Welfare, Technical Efficiency, and Pareto Optimality," in *Emerging*

Response of Witness Mitchell to ABM/TW et al.-T1-84

Competition In Postal and Delivery Services, edited by Michael A. Crew and Paul R. Kleindorfer, Boston, Kluwer Academic Publishers, 1999, which is available on the Commission's website.

In situations where mailers have the option of taking steps that reduce the Postal Service's costs, including worksharing activities, interest sometimes centers on setting the rates so that the mailer performs those steps in cases where the cost to the mailer (less any concomitant increase in the value of the service received) is less than the cost savings to the Postal Service. The goal here would be one of technical efficiency or lowest combined cost, adjusted for value. Setting rates in this way is generally taken to require setting the difference between the two rates, which is sometimes referred to or displayed as a discount, equal to the unit incremental cost avoided when the mailers move from one rate to the other, although the change in cost for pieces at the margin can also be important.

But there is more to ratesetting than notions of technical efficiency and lowest combined cost. Reality may not fit the scheme contemplated by the worksharing concept. Avoided costs can be difficult to estimate. Interest can center on a desire to deaverage rates in order to meet competition, reflect costs, and improve the allocation of resources. Concepts of fairness can be important. The economic efficiency of the rates may receive attention. Mailer sensitivity to the rate differences can vary, causing differences in the cross elasticities. In addition, the behavior of rates and costs over time can raise questions of continuity and the effects on mailers.

The avoided cost guideline about which you ask has been important in the past and will undoubtedly be so in the future. But many other factors can also be important. Furthermore, there are definitional problems that would influence where the rule

Response of Witness Mitchell to ABM/TW et al.-T1-84

would be applied, such as what worksharing really is and how avoided costs should be defined.

Response of Witness Mitchell to ABM/TW et al.-T1-85

ABM/TW et al.-T1-85. At page 39, lines 7-9, you state that higher zone publications would pay only the additional costs associated with distant entry and no additional fixed costs. (a) By “fixed costs,” are you referring to institutional costs? (b) If not, to what are you referring?

RESPONSE

Yes. Fixed costs are a residual found by subtracting the attributable costs from the total costs, and are sometimes referred to in postal parlance as institutional costs.

Response of Witness Mitchell to ABM/TW et al.-T1-86

ABM/TW et al.-T1-86. Do the rates you propose produce “equal implicit markups,” as you refer to that term at page 47, line 28 to page 48, line 1 (quoting from the Commission)?

RESPONSE

If equal implicit markups is taken to mean equal implicit percentage markups over costs, no, consistent with the further explanation provided by the Commission in the same passage. To the extent that the rate structure being proposed is aligned with the important cost drivers, and if account is taken of the benefit given to editorial matter, the rates being proposed produce equal per-piece markups.

Response of Witness Mitchell to ABM/TW et al.-T1-87

ABM/TW et al.-T1-87. If the Postal Service were to begin delivery point sequencing of all flats, and if as a result the value of carrier route presort were to disappear, should the carrier route discount be immediately and completely eliminated?

RESPONSE

If the Postal Service sees an acceptable ROI for delivery point sequencing of all flats, one would expect the cost of 5-digit flats, which would cost the mailer less to prepare than carrier route flats, to be lower than the cost of carrier route flats.

Under these conditions, the rates for 5-digit flats should decline to the point of being lower than the rates for carrier route flats (without the carrier route rates rising), and mailers would move voluntarily to the 5-digit category. It would not matter whether the carrier route discount were eliminated.

Response of Witness Mitchell to ABM/TW et al.-T1-88

ABM/TW et al.-T1-88. At page 49, lines 5-6, you state that periodicals mailers find themselves with the motivation but not the tools to change the way they prepare and present mail. Did you mean to say that they have the tools but not the motivation?

RESPONSE

It is clear that the signals and the information in the rates are deficient, which detracts from incentives that could be provided. But I see mailer motivation more broadly; I see mailers saying: "I want to be involved; I am willing to help; we are all in this together; just point me in the right direction."

Response of Witness Mitchell to ABM/TW et al.-T1-89

ABM/TW et al.-T1-89. (a) In setting rates, if the Commission should find that, for example, publishers of small weekly periodicals have no choice but to mail their product in 5-digit sacks in order to obtain reasonable service, and that such sacks tend to be low volume, should the Commission take that finding into consideration in assessing your proposal? (b) If so, how?

RESPONSE

What we have is a mailer saying: "If I prepare my mail in a way that imposes extra costs on the Postal Service and the nation, I believe I can achieve in some cases a one-day improvement in service levels, which is of considerable value to me, but I should receive a subsidy for doing this, and the extra costs I cause should be paid by some other publishers." Even if there were evidence that the other publishers had excess profits, or at least higher profits than the publisher causing the extra costs, and there is not, it is difficult to see that rates should be skewed in favor of the cost-causing mailer.

Periodicals should be processed on the evening received by the sectional centers and taken out the next day for delivery. If the behavior of the Postal Service is inconsistent with operating guidelines and with the service standards for the subclasses, the situation needs to be fixed. At the present time, however, I believe many mailers see 5-digit sacks as providing a degree of service improvement that they do not really provide. Additional testing needs to be done.

Response of Witness Mitchell to ABM/TW et al.-T1-90

ABM/TW et al.-T1-90. If the Commission should find that some of the higher costs of what complainants deem “inefficient” mail result from Postal Service concentration on efficient processing of the remainder of the mail, such as, for example, added costs that result from the elimination of sack sorters, should the Commission take that finding into consideration in assessing your proposal? (b) If so, how?

RESPONSE

The question of whether mail is inefficient does not hinge on the characteristics of the mail *per se*, the way the Postal Service processes it, or how productive the mailer is in preparing it. Rather, it hinges on its postage relative to its costs (with associated implications for efficient resource allocation) and on whether there are changes that could be made in the way the mail is prepared that would allow cost savings (to the Postal Service and the nation) that are greater than the cost to the mailer of making the changes, including the value of service changes. Of course, there could also be changes that increase Postal Service costs and decrease mailer costs more. Therefore, there is no particular sense in which inefficient mail has higher costs than any other mail.

To deal with your question, assume there are two categories of mail, *A* and *B*. In the first case, *A* is entered upstream and *B* is entered downstream, and let's follow your suggestion that *A* is on some basis inefficient. Your suggestion is that the Postal Service concentrates on and lowers the costs of *B* but does nothing unique to *A*, possibly causing the cost of *B* to decline 10 percent. As I see it, *A* also receives downstream processing. Accordingly, in view of its upstream processing, its costs might decline 5 percent, and the absolute magnitudes of the cost reductions would be the same. These costs should be recognized in ratesetting. The fact that the cost of processing *A* is higher than you might wish is no different from any other

Response of Witness Mitchell to ABM/TW et al.-T1-90

area or product in the Postal Service whose costs someone feels should be lower, but are not.

In the second case, assume that *A* is in sacks and *B* is on pallets, that they are processed in parallel, and that the cost of *A* is 10 cents and the cost of *B* is 7 cents. As I understand your question, you posit that the Postal Service might concentrate on processing pallets and remove the sack sorters, and that the cost of *A* might increase to 12 cents. The reality of the 12-cent cost does not depend on where the Postal Service was concentrating when it occurred. Unless sack sorters are no longer the lowest-cost way to handle sacks, it does not seem in order that they be removed. Nevertheless, the 12-cent cost, should it exist, should be recognized, the characteristics of the situation at hand should be studied, and a decision should be made whether elimination of the sack sorters is consistent with efficient and economical management. The decision cannot be made until the homework is done.

Response of Witness Mitchell to ABM/TW et al.-T1-91

ABM/TW et al.-T1-91. (a) Do you agree with the manner in which the Commission treats the Alaska air costs? (b) If so, why? (c) If not, why not?

RESPONSE

An objection to this question has been filed.

Response of Witness Mitchell to ABM/TW et al.-T1-92

ABM/TW et al.-T1-92. (a) Assume that some machinable periodicals are sometimes processed manually so that greater volumes of Standard mail can be processed on machines and that, as a result, Standard mail costs in a facility are reduced by \$2,000,000 while periodical costs are increased by \$1,000,000. Would you make any attributable cost or rate modification to reflect this situation? (b) If so, why? (c) If not, why not?

RESPONSE

The situation you posit appears due to capacity limitations and could be the result of poor planning or flawed investment decisions. Whatever the cause, the first step is to perform the cost analysis. If it is the case that the rate of utilization of capacity is 100 percent, the marginal cost of Standard involves processing a piece manually just as does the marginal cost of Periodicals. Therefore, proper costing does not generate the dilemma that appears to exist in your question.

In the end, the costs of the Postal Service are what the costs of the Postal Service are. One cannot pretend that the resource implications of one volume vs. another are different from reality. If fairness adjustments are to be made, it is better to make them in the markups than in the costs, the latter being a relatively unexplored area.

Response of Witness Mitchell to ABM/TW et al.-T1-93

ABM/TW et al.-T1-93. You state at page 54, lines 13-15, that the rates you propose will adversely affect some, but that “the impact is limited.” To support this assertion, you state that “only” 21% of the revenue is from bundle, sack and pallet charges and that “no markup is proposed from these charges.” (a) Please describe in detail and provide the results of any analysis you have made to examine the impact of your proposed rates on individual publications. (b) Please confirm that, under your proposed rates (and without any change in mailing), the postage costs for some publications would increase by more than 50%.

RESPONSE

Without billing determinants for individual publications, the approach I used is to study representative situations. I can give you some examples.

Virtually all publications have a zone distribution, the final postage being a weighted average. Accordingly, select zone 5 as being representative of non-dropshipped publications. Further, assume 10 percent advertising, in sacks, machinable, barcoded, ADC presort, in an ADC container, origin-office entry, 3 ounces, 7 pieces per bundle, and 3 bundles per sack. The pieces in this situation receive an increase of 28.36 percent. If the number of pieces per bundle is changed to 12, the increase becomes 4.74 percent, and if a further change is made to 5 bundles per sack, the increase becomes negative, the postage declining 7.37 percent. I found the number of pieces per bundle and the number of bundles per sack to be quite important.

Increases of the magnitude you cite can occur for mail that is heavily subsidized currently and that makes no changes to its mailing practices. If, in the example just given, the pieces are changed to nonmachinable, nonbarcoded, 14 ounces, 4 pieces per bundle, and 3 bundles per sack (implying 12 pieces per sack), the increase becomes 49.07 percent.

Response of Witness Mitchell to ABM/TW et al.-T1-94

ABM/TW et al.-T1-94. With respect to the quotation in footnote 41, has worksharing of periodicals helped the Postal Service improve its productivity?

RESPONSE

Worksharing generally involves the mailer purchasing a different mix of services from the Postal Service than was purchased before. Except for scale effects, which would be long-term and second order, and for the possibility that the marginal cost curves might not be completely horizontal, the productivity of no potential service should change and, accordingly, neither should any measure of the Postal Service's overall productivity. However, it should be noted that worksharing can allow a mailer to avoid purchasing a service that is of lesser value, that is unproductive, or that the mailer can produce more efficiently.

Response of Witness Mitchell to ABM/TW et al.-T1-95

ABM/TW et al.-T1-95. Do you agree that, for some publications, the cost of obtaining a *new* subscriber exceeds the incremental revenue associated with that subscriber in the first year?

RESPONSE

Yes, that is relatively common. The hope is that renewals under more favorable circumstances will be achieved. The reasoning in my testimony deals with equilibrium tendencies.

Response of Witness Mitchell to ABM/TW et al.-T1-96

ABM/TW et al.-T1-96. Do publishers have sources of revenue associated with their publications—such as, for example, rental of mailing lists and ancillary products—other than subscription and advertising revenue?

RESPONSE

Yes, including revenue associated with conventions, the provision of training, databases, and library services, in addition to those you cite.

Response of Witness Mitchell to ABM/TW et al.-T1-97

ABM/TW et al.-T1-97. With respect to the formula on page 61, line 19, does inclusion of the “V” term mean that advertising revenue is directly proportional to the number of subscribers?

RESPONSE

On a long-term equilibrium basis, yes. Keep in mind that publishers can make changes in what might fashionably be called their basic business model, which might change the proportionality. But such changes are second-order in nature and would not generally be a response to rate changes. For example, *Forbes* magazine might find it in order to reduce its advertising rates if the average income of its readership declines. In terms of ECSI value and any interest in making the editorial content available to all who desire it, the implications of restricting readership to higher-income individuals are not clear.

Response of Witness Mitchell to ABM/TW et al.-T1-98

ABM/TW et al.-T1-98. Please provide the advertising rates for Time, Motocross, Field & Stream, Bon Appetit, In Furniture, and Reader's Digest, all of which are published by one of the complainants.

RESPONSE

The published advertising rates for these publications are being filed simultaneously with this response as TW et al. Library Reference-3.

Response of Witness Mitchell to ABM/TW et al.-T1-99

ABM/TW et al.-T1-99. What is the source for your statement at page 65, line 11, that the marginal cost of printing “is estimated” to be \$0.17 per copy.

RESPONSE

Information of this kind is difficult to obtain, since publishers do not generally supply the details of their contracts with printers and printers do not supply details of their contracts with specific customers.

In order to obtain my estimate, I worked with production people at Time Inc. I asked them to use their general knowledge of how the printing industry works and to prepare an educated guess. They went to a newsstand and a library to obtain copies of the publication. They measured the trim width, the trim length, the paper stock used for the cover, the paper stock used for the body, the number of pages, and evaluated the colors used. The physical information was adjusted to be consistent with a copy weighing 3.3 ounces. They used a print order of 70,000 and 90,000. They built printing costs with estimates of plate preparation costs, running costs, ink costs, paper costs, binding costs, binding operation costs, inkjet supplies, inkjet operating costs, and packaging and handling costs. The fixed costs were separated from the marginal costs. The cost of 17 cents resulted. I agreed not to reveal details of the analytical process, but only to use final estimate as a ballpark figure.

The opportunity to go further exists. Any publication believing that more refined inputs would change my analysis can supply actual costs from its printing contract. If this is done, care should be taken to prepare marginal costs and not to focus on any kind of average. This is important because common bookkeeping practices sometimes do not focus on marginal costs.

Response of Witness Mitchell to ABM/TW et al.-T1-100

ABM/TW et al.-T1-100. (a) Have you asked the publisher of The New Republic whether it earns \$49.55 less the cost of account maintenance for each zone 8 subscriber? (b) If so, what was the response?

RESPONSE

No.

Response of Witness Mitchell to ABM/TW et al.-T1-101

ABM/TW et al.-T1-101. What is the source for your marginal cost of printing of 31 cents for Pit & Quarry, cited at page 66, line 10?

RESPONSE

Based primarily on differences in publication weight, I made a rough adjustment to the estimate I had for *TNR*, as explained in my response to ABM/TW et al.-T1-99.

Response of Witness Mitchell to ABM/TW et al.-T1-102

ABM/TW et al.-T1-102. At page 66, line 12, you cite 46.63 cents as the postage cost of a zone 8 copy of Pit & Quarry. What would that postage cost be under your proposal?

RESPONSE

Based on the assumptions made in my response to Question 1 of POIR No. 1, along with the specific information for *Pit & Quarry*, the corresponding postage under the proposed rates would be 43.07 cents.

Response of Witness Mitchell to ABM/TW et al.-T1-103

ABM/TW et al.-T1-103. What is your understanding of the profit level, from the periodicals themselves, in the periodicals industry today?

RESPONSE

I cannot provide expert testimony on profit levels in the publications industry. It is generally true, however, that profit levels vary substantially among competitors and among firms in industries. I doubt if rates of return are correlated with circulation. It is also generally true that competition tends to keep the profit levels from being substantially above or substantially below the normal level. An exception can involve firms that are perpetually innovative and efficient.