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

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

COMMENTS OF TIME WARNER INC.
ON SETTLEMENT AGREEMENT
(June 15, 2004)

Pursuant to 39 U.S.C. section 3624, section 20 of the rules of practice, and Presiding Officer's Ruling No. MC2004-1/5, issued May 27, 2004, Time Warner Inc. (Time Warner) hereby submits its comments on the Motion of the United States Postal Service for Consideration of the Stipulation and Agreement as the Basis for Recommended Decision ("Motion"), filed June 8, 2004, in the above-captioned proceeding. Time Warner, which has been an active participant in this proceeding, is not a signatory to the proposed Stipulation and Agreement.

Time Warner has grave doubts that the experimental classification proposed by the Postal Service represents a sound approach to rate design, is well conceived, or has been carefully thought out. The Postal Service appears not to know what results it either expects or desires the experiment to have, or what significance any particular results might have for further action or inaction.[1] Its generalizations regarding the principles and purposes justifying the proposed discount are encompassing in tone, but the actual proposal is so modest in scope, so burdened with arbitrary restrictions, and so puny in its incentives, whether negative (none) or positive (only 30 percent of avoided transportation costs), that it may well have little impact.

[1] See Responses to TW/USPS-T1-1, 7, 11(d).

The pound discounts proposed would apply to the editorial portion of publications with less than 15% advertising; less than 75,000 circulation; more than 9 oz piece weight; that are co-palletized and dropshipped to either DSCF or DADC; when it can be documented through "before and after" mail.dat files that they used to be in sacks and entered in far zones and could not meet the 250 lb. pallet minimum without co-palletization; and the mailer is not also claiming the co-palletization piece discounts provided in Docket No. MC2002-3. It is unclear what purpose is served by these restrictions, other than to maintain the polite fiction that the unzoned editorial pound rate will remain intact.

The many artificial restrictions placed on this experiment can only increase the likelihood of ultimate failure. To organize an efficient pool shipment operation, a printer/consolidator needs volume. Including more Periodicals (e.g., those weighing less than 9 ounces, those with more than 75,000 circulation, those with more than 15% advertising, those that might have contributed 250 lb to some pallets) would improve the chances of success.

As it is, the majority of publications that meet all the specified criteria will change nothing at all.[2] The proposed classification has no stick, and its carrot--just 30% of the avoided transportation costs--is anything but plump. A publication with 100% editorial content would have to justify the decision to dropship based on a discount of only 30% of USPS transportation costs. To realize that savings, the publication would need to employ a consolidator and to meet the burden of proving that it qualifies.

In addition, the justifications advanced by the Postal Service for its proposal diverge markedly from sound principles of rate design. The discounts would create rates that depend, not on what it costs the Postal Service to handle and transport the mail, but on what it might have cost. If qualifying editorial pounds are entered

[2] See Response to TW/USPS-T1-8.

into the postal system on the DSCF platform, they will get a discount which is larger the longer they had to travel to get there. If the mailer has hauled them all the way from Zone 8, they will pay the editorial pound rate (19.3 cents) minus a 13.1 cents discount, or 6.2 cents per pound. That is 14.1 cents less than a similar advertising pound would pay when entered at the DSCF.

Witness Taufique states that "bas[ing] the discounts on the zones skipped . . . provides a fair and equitable way to provide discounts based on the actual worksharing." USPS-T-1 at 16. Time Warner cannot make sense of either end of that statement. "Actual worksharing" is, we believe, a term previously unknown in ratemaking, but by inference it is apparent that, as the Postal Service uses the term, "actual worksharing" occurs only when a mailer ceases using a service provided by the Postal Service in order to obtain an identical or nearly identical service from another source. That definition is not consistent with any known variation of the theoretical model employed by the Commission, Efficient Component Pricing (ECP).[3] Nor does ECP or any other concept of efficient or competitive ratemaking known to Time Warner 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 on the Postal Service's costs and the elasticity characteristics of the mail).

Equally mysterious is the basis for the Postal Service's view that it is "fair and equitable" to provide a discount to a small, select, highly restricted group of publications based on "zones skipped" but to deny a similar discount to other publications that "skip" the same zones but either: (a) do so by a means other than

[3] See, e.g., PRC Op. MC 2002-2, May 15, 2003, ¶ 8007 ("This focus is consistent with the Efficient Component Pricing Standards that the Commission applies in setting rate discount levels"); and PRC Op. MC95-1, January 26, 1996, ¶ 3074 ("From the inception of worksharing discounts, the Commission has been concerned with both equity and economic efficiency. It set the first such discount at clearly capturable avoided costs. This provided a rate incentive to mailers which would allow cost-based decisions on whether to engage in the worksharing activity. If effect, the Commission was setting discounts in conformity with what later became known as efficient component pricing. The discount approach led to the lowest cost producer providing the service. This, in turn, minimized the cost of the workshare activity to society as a whole.").

the direct substitution of private transportation for USPS transportation (e.g., by using a less distant printing plant); or (b) fall outside the eligibility restrictions (e.g., weigh only 8 ounces, or have a circulation of 80,000, or contain 19% advertising content, or just happen to be in a sack). It may be, however, that the fault here lies in Time Warner's vision. The Postal Service states, "Superficially, an argument could be made that the Postal Service is offering a discount on only some of the mail that is palletized and dropshipped to destination facilities." USPS-T-1, at 21. If it were possible to understand the sense in which such an argument is "superficial," perhaps the mystery of how the proposal embodies fairness and equity would also be resolved.

Much about the Postal Service's proposal, therefore, warrants skepticism or outright disapproval. Much about it suggests that it is destined for failure. The proposal does not remotely justify the Postal Service's grandiose claims that it will help to create a "structure [that] provides a fair and equitable way to provide discounts based on the actual worksharing," to "ensure that nonparticipants . . . receive the benefit of substantial additional cost reductions," to "improve[ ] the preparation of mail for the whole class," to "drive costs out of the Periodicals class," or to "contribute to the long-term viability of the postal system."[4] It does not, in Time Warner's view, amount to consequential classification reform,[5] much less the serious, far-ranging reform that we believe necessary.[6]

Nonetheless, even so small, risk-averse, and unpromising an experiment in the efficacy of cost-based rate incentives in promoting more economical mailing practices may prove to be better than nothing. The experiment is really about

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[4] USPS-T-1 at 16, 21 (footnotes omitted); USPS Request for a Recommended Decision, February 25, 2004, at 2, 6.

[5] The Postal Service concedes as much. See Responses to TW/USPS-T1-25(f) and 26 and to APWU/USPS-T1-1 ("The proposal is not designed to change any element in the existing rate design for Periodicals").

[6] See Docket No. C2004-1, Complaint of Time Warner Inc. et al. Concerning Periodicals Rates, filed January 12, 2004.

whether one or more printers that serve high-editorial, low-volume Periodicals can organize an efficient co-palletization and dropship operation that will get the mail to the DSCF or DADC at a cost much lower than what it would cost the Postal Service. If this turns out to be the case, then it will have been proven that a full zoning of editorial pound rates, with an appropriate per-pound editorial benefit, would not destroy small-volume, high-editorial publications but would benefit them and the postal system. In other words, it will have been proven that this experiment was primarily a diversion from adopting a real solution (cost-based rates) to the problem of high Periodicals costs.

For that reason, while its many defects prevent Time Warner from supporting the Postal Service's proposal, neither does it oppose the adoption of that proposal.

Respectfully submitted,

s/ _____
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