

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

COMPLAINT OF TIME WARNER INC. ET AL.
CONCERNING PERIODICALS RATES

Docket No. C2004-1

FIRST SET OF INTERROGATORIES OF TIME WARNER INC. ET AL.
TO MCGRAW-HILL WITNESS SCHAEFER (TW ET AL./MH-T1-1-9)
(September 15, 2004)

Pursuant to sections 25, 26 and 27 of the rules of practice, 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 direct the following interrogatories to McGraw-Hill witness Schaefer (MH-T-1).

Time Warner Inc. et al. request that, in responding to these requests, McGraw-Hill follow the guidelines set out in Time Warner Inc. et al.'s First Set of Interrogatories to McGraw-Hill, filed July 27, 2004, which are incorporated by reference herein. If witness Schaefer is incapable of providing an answer to any question, it is requested that an answer be provided by another person capable of providing an answer.

Respectfully submitted,

s/ _____
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**FIRST SET OF INTERROGATORIES
FROM TIME WARNER INC. ET AL. TO WITNESS SCHAEFER (MH-T-1)**

TW et al./MH-T1-1. For each McGraw-Hill publication, please provide all memos, analyses, and spreadsheets that have been created to illustrate how the publication could modify its mailing practices if the complainants proposed rates were implemented.

TW et al./MH-T1-2. On page 5, lines 18-20, of your testimony, you refer to now-defunct Platt's Energy Business and Technology (herein PEBT), and say that it would have received a 28.2 percent rate increase under the proposed rates. For that publication, please address the following questions.

- (a) What was the most recent circulation of PEBT, and what proportion of that circulation was delivered through the Postal Service?
- (b) What was the proportion of advertising of PEBT?
- (c) What proportion of mailed PEBT pieces were in firm bundles?
- (d) What proportion of PEBT pieces were sent to firm addresses?
- (e) What was the estimated average annual income of persons receiving PEBT?
- (f) Since the rates proposed by Time Warner Inc. et al. are designed to move postage toward costs, do you agree that the ECSI-adjusted postage paid by PEBT was approximately 22 percent ($0.282/1.282$) below the Postal Service's costs of handling and delivering PEBT, and therefore that PEBT went out of business despite receiving a 22 percent subsidy of its delivery costs? (ECSI-adjusted postage means

the postage that would exist if the pieces had a subclass-average proportion of editorial content and therefore that any extent to which the postage is below costs is not due to deference for editorial content.) Please explain any disagreement and provide your own perspective on what the postal costs for handling PEBT might be.

- (g) Assuming PEBT was receiving a 22-percent subsidy of its delivery costs, please explain whether it would be your contention that a larger subsidy would have kept it in business, and if so, how much larger that subsidy should be.
- (h) Thinking in terms of a business plan for prospective publications or for publications like PEBT, is it your contention that the Postal Service should systematically offer such publications subsidized rates, beyond any benefit they receive for their editorial content, in order to make it more likely that the plan will show a net profit for the prospective publisher or publisher? If so, please outline the factors that the Postal Service should consider in judging the worth of the publication or in deciding how much subsidy to provide.
- (i) If a subsidy is to be provided, please explain who it is that should pay the subsidy.
- (j) On page 6, line 21, you state that McGraw-Hill publications “must stand on their own financially.” Does this mean that McGraw-Hill demands strict profit-and-loss accountability for each publication in its portfolio but that the Postal Service should contribute subsidized rates to the financial equation? Explain any non-yes answer.

- (k) Suppose that McGraw-Hill has a small publication with below-cost postage that is very profitable. Do you agree that the subsidy provided by the Postal Service goes directly to the McGraw-Hill bottom line, serving to increase the profits of the publication beyond what they would otherwise be? Explain any non-yes answer.

TW et al./MH-T1-3. Please refer to Charts A, B, and C on pages 7-13 of your testimony.

- (a) You indicate on page 7, line 25, that you focused on “postage increases.” Please explain whether you have in fact focused on unit postage increases, so that your curves are not affected by changes in volume levels.
- (b) You indicate on page 8, line 7, that you have made adjustments “for changes in the rate structure over the period.” Please describe in detail the nature of the adjustments that you made and how you recognized changes in the rate structure.
- (c) Please explain whether your curves have the character of a per-piece postage index or of a price index. If they are a price index, please outline what quantity weights you used and whether the indexes are based on an unchanged set of quantity weights or whether they are link relative in character.
- (d) If your indexes are per-piece postage in character, please discuss the meaning that should be attached to a comparison between a per-piece postage index and a price index such as the CPIU.

- (e) Do you agree that there are factors that affect per-piece postage indexes that do not affect price indexes? Explain any non-yes answer.
- (f) Please explain whether any of your postage curves recognize additional costs to the mailer (sometimes called user costs) of preparing the mail to take advantage of worksharing discounts and other changes in rate structure.

TW et al./MH-T1-4. Please refer to Chart A on page 8 of your testimony. Do you agree that the index for Engineering News Record (ENR), which you characterize on line 3 as “a small-circulation magazine,” tracks closely the index for all Periodicals? Explain any non-yes answer.

TW et al./MH-T1-5. Please refer to your statement on page 9, line 7: “It is hard to believe in this light that, as stated by witness Mitchell, the current rates provide signals that are ‘hidden by excessive tempering.’”

- (a) Please explain what it is about the index for Engineering News Record approximating the average for Periodicals and the index for Business Week being between the CPIU and the average for Periodicals that makes it difficult for you to believe that the current rates might hide (or not provide) signals relating to postal costs.
- (b) Suppose under the current rates a mailer made a decision that it would be somewhat easier for the production people to put six bundles in two sacks instead of one sack, and the postage did not change. Please explain the sense in which any of the curves you show make it “hard to believe” that the increase in postal costs associated with the shift to two sacks is “hidden” from the mailer making the decision to change.

TW et al./MH-T1-6. Please refer to page 11, lines 15-16, where you argue that the “smaller-circulation publications” have “borne the brunt” of the excessive increase in the costs of Periodicals.

- (a) Suppose the inflation in all Periodicals costs over the period shown in your charts had been 20 percentage points lower than it actually was. Do you accept that under these conditions the level of each Periodicals rate cell would likely be 20 percentage points lower at the end of the period than it actually was and that, *ceteris paribus*, the postage paid by each and every Periodicals title would likely be 20 percentage points lower at the end of the period than it actually was. If you do not accept this outcome of the supposition, please explain in detail every rate design and costing reason for your non-acceptance and describe the outcome that you feel would be more likely.
- (b) If all Periodical titles would share in a general cost *reduction*, as suggested in the previous part of this question, please explain the rationale and the basis for arguing that the smaller publications have “borne the brunt” of the general cost *increase* that actually occurred.
- (c) Please explain the basis for your statement at page 11, lines 16-18, that the Complainants have “seize[d] upon” the excessive cost increases “as a reason to further increase the cost burden borne by smaller-circulation publications.”
- (d) When witness Mitchell said on page 3 of his testimony, line 3, that “[t]he fact that [these excessive cost increases have] been occurring makes it all the more important to search for other avenues of progress, on which this Complaint focuses,” did you take this to mean

that he had searched for ways to place burdens on small-circulation publications?

- (e) In the Rate Design section that begins on p. 26 of Mitchell's testimony, do you find any decision that:
- (1) is not based on well established, balanced, and explained rate design principles?
 - (2) is biased with the intent to affect in a negative way a particular mailer group? or
 - (3) is justified on the basis of the size of recent cost increases?

Please explain "yes" answers to any of these questions.

TW et al./MH-T1-7. Engineering News Record appears to be an excellent candidate for co-mailing. Why is this title not co-mailed?

TW et al./MH-T1-8. On page 21 you discuss the difficulties of palletizing airfreight copies. Does your airfreight forwarder offer the service of re-palletizing copies at the destination city, so that they can be entered into the Postal Service as palletized copies? If your response is no, please explain fully.

TW et al./MH-T1-9. How does Business Week prepare and enter its backdate copies and any supplemental mailings? Could these copies be co-mailed? If your response is no, please explain fully.