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

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

Docket No. C2004-1

RESPONSE OF TIME WARNER INC. ET AL.
TO NOTICE OF INQUIRY NO. 1
(December 8, 2004)

On November 19, 2004, the Commission issued Notice of Inquiry No. 1 Concerning Periodicals Data in the above-captioned docket (NOI No. 1), which requested additional data concerning Periodicals mail from the Postal Service and the National Newspaper Association (NNA) and additionally stated (at 2):

> To the extent not already provided on this record, the Commission seeks data from participants addressing the characteristics identified in Part I. Any other information that would inform the Commission about the characteristics of these mailers would also be appreciated.

On December 1, the Postal Service and NNA filed responses to NOI No. 1, providing substantial new data regarding low-circulation Periodicals class publications.

Time Warner Inc. et al. (Complainants)[1] witness Halstein Stralberg (TW et al.-T-2; TW et al.-RT-2) has now prepared an analysis of and commentary on those data that Complainants believe will substantially contribute to the record. Complainants hereby respectfully submit that commentary in response to NOI No. 1.

Complainants are prepared to provide an appropriate attestation from witness Stralberg in order to facilitate inclusion of this material in the record and to provide a

[1] 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.

response by Mr. Stralberg to questions from the Commission or any participant concerning his analysis.

Simultaneously with this response and motion, Complainants are filing a motion for leave to file this response subsequent to December 1, the requested date of response stated in NOI No. 1.

Respectfully submitted,

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COMMENTS OF TIME WARNER INC. ET AL. WITNESS HALSTEIN STRALBERG ON THE CHARACTERISTICS OF VERY SMALL PERIODICALS, IN RESPONSE TO NOTICE OF INQUIRY NO. 1

In her response to the Commission's Notice of Inquiry No. 1 Concerning Periodicals Data (filed December 1, 2004), Postal Service witness Tang has provided much new information on the characteristics of small Periodicals. Further information regarding small newspapers was simultaneously presented by the national Newspaper Association (NNA).

Tang had initially defined "small" Periodicals to include those with circulation below 15,000 per issue and estimated that approximately 25,000 such Periodicals exist (USPS-T-2 at 8, Table 5). But her new data show that most "small" Periodicals are much smaller than 15,000. In fact, she identifies 15,152 of them as having circulation under 1,000 per issue and half of these 15,152 as having circulation no higher than 224, the median circulation shown in her response. Furthermore, she shows most of the rest of the "small" publications, 6,821 to be exact, as having circulation less than or equal to 5000, with half of these 6,821 having circulation no larger than 2081.

If one is concerned about how the majority of Periodicals would be affected by alternative rate schedules, then it follows that particular attention should be paid to the 15,152 that have circulation under 1,000 per issue. In the following I point out some characteristics of these Periodicals that may not be obvious from a superficial reading of the Tang and NNA responses. In particular:

(1) The smallest Periodicals, with circulation 1,000 or lower, would collectively <u>benefit</u> from zoning of the editorial pound rates, other factors being equal. More precisely, their total editorial pound charges would be 9.2% less under zoned than under unzoned editorial pound rates.

(2) Many of the Periodicals shown by Tang to have circulation below 1,000 are likely to be the outside-county components of Periodicals that also mail under in-county rates.

The reasons for these conclusions are explained below.

The Smallest Periodicals Would Benefit From Zoning Of The Editorial Pound Rates.

To analyze the impact of zoned editorial pound rates in different size categories, I started with the zone percentages presented by Tang for each category in her response to item 9 in NOI No. 1. They are summarized in Table 1 below. Some Periodicals in each category have 100% editorial content (18% in the case of those with circulation under 1,000) and therefore are not required to specify zone percentages. Assuming that these have the same zone distribution as other Periodicals in their size category, I normalized the zone percentages to add up to 100%, as shown in Table 2.

In order to isolate the impact of zoning the editorial pound rates, I estimated the average pound charge for an editorial pound, in each size category, under: (1) the rates proposed in this docket by witness Mitchell; and (2) the alternative with unzoned editorial pound rates that is described in my rebuttal testimony (TW et al.-RT-2, at 4-5). Note that the latter, which uses a flat editorial pound rate of 12.95 cents, was designed to produce exactly the same overall revenues from editorial pounds as Mitchell's proposed rates.

Table 3 shows the results for each of the four size categories into which Tang grouped the Periodicals that she already had characterized as "small." For Periodicals with circulation no greater than 1,000, the average charge for an editorial pound under the proposed rates would be 11.76 cents, or 9.2% less than under the unzoned alternative. In other words, it appears that these very small Periodicals collectively would be paying less under zoned editorial rates.[1] The reason is, of course, that most of them are local publications that mail primarily to the lower zones. Most of these Periodicals have a high percent of editorial content.[2] The current system of an unzoned editorial pound

[1] In the current outside-county rates, the unzoned editorial pound charge is 19.3 cents. It is larger than the 12.95 cents used here primarily because the proposed rates derive less revenues from pound rates (and more from bundle, sack and pallet charges) than the current rates. The comparison to determine the impact of zoned editorial rates could be carried out also relative the current rates and would likely give conclusions very similar to those presented above. I have not carried out such a comparison because there does not appear to exist a documented alternative rate structure that uses zoned editorial pound rates but is identical to current rates in all other respects.

[2] According to Tang's response to item 5 in NOI No.1, 57.3% of the 15,152 smallest Periodicals contain less than 10% advertising.

rate denies these Periodicals recognition of the fact that they impose few transportation costs on the Postal Service, thereby negating part of the editorial benefit they would otherwise receive.

For the next size category, the average editorial pound charge would be 13.04 cents under the proposed rates, 0.67% more than in the unzoned alternative. In other words, there would be little overall impact on Periodicals with circulation between 1,001 and 5,000. Higher rates for some would be approximately offset by lower rates for other Periodicals in this category.

For the two larger of the "small" size categories, zoning of the editorial pound rate would lead to higher average editorial pound charges, by 11.55% and 12.93% respectively.

Many Of The Smallest Periodicals Identified By Tang Must Be The Outside County Component Of In-County Newspapers

The NNA response to NOI No. 1 indicates that only 140 of its member newspapers have circulation under 1,000 and that only 455 of all newspapers, including NNA non-members, have circulations that low. From this one might be tempted to conclude that only a few of the 15,152 Periodicals that Tang reports for the lowest size category are newspapers. I believe, however, that such a conclusion would be inaccurate, for reasons explained below.

Whereas NNA obviously refers, in its response, to the total circulation of its members and other newspapers, Tang's volumes refer only to pieces mailed at outside-county rates. As described by NNA witnesses Crews and Heath, many local newspapers mail most of their volume at in-county rates but also have some volume going outside the county of origin, including some to far-away locations. Both witnesses describe a "typical" NNA member as having outside-county circulation in the hundreds, rather than in the thousands. That would indicate that a large portion of the NNA membership must be included among the 15,152 Periodicals that have outside-county circulation below 1,000.[3]

[3] Heath (NNA-T1 at 8) refers to a typical NNA member as having a total circulation of 3,500, of

There may also be many others of these small Periodicals that have an in-county as well as outside-county component. Tang, in response to TW et al./USPS-RT2-9b, indicated that a total of 9,614 Periodicals were identified as having some in-county as well as some outside-county volume.[4] In response to TW et al./USPS-RT2-18g, she referred to a total of 296.7 million outside-county annual pieces that belong to Periodicals which also mail at in-county rates.

I draw attention to these facts for two reasons. First, I believe it is important to realize that for many of the smallest mailers of outside-county pieces, the outside-county volume is only a small part of their total volume – the rest enjoys low in-county rates, so that whatever the impact of the proposed rates might be on their outside-county postage, it affects only a small portion of their total volume.

Second, my rebuttal testimony analyzed in detail part of one small newspaper, described by Crews as "typical," and showed that by avoiding excessive use of very low-volume sacks, such a publication could either reduce the impact of the proposed rates or in some circumstances end up with lower postage than at present.

Most Of The Smallest Periodicals Would Likely End Up With Lower Postage Under The Proposed Rates

In her extended sample of Periodicals, described in response to POIR No.2, Item 2, Tang included a total of 101 "small" (i.e., with circulation under 15,000 per issue) Periodicals. The really small, those with circulation under 1,000, are under-represented in that sample, given that they represent over 60% of the total "small" category. However, as can be seen from Table A-1 in my rebuttal testimony, her sample did include thirteen "low density" Periodicals with circulations ranging from 98 to 978 per issue. Eight of those thirteen would pay less under the proposed rates. The four with the highest increase all use very low-volume sacks – changing that practice would be

which 750 are mailed at outside-county rates.

[4] The 9,614 correspond to 9,817 combinations of USPS publication number and acceptance office combinations. These combinations, whose number obviously exceeds the number of separate Periodicals, constitute the "universe" from which Tang drew her samples of specific Periodicals.

likely at least to reduce those increases dramatically, and perhaps produce lower postage than under current rates.

Tang's sample also included eight "high density" Periodicals with circulation below 1,000. All would pay more under the proposed rates if they made no change in mailing practices. However, as can be verified from Table A-2 in my rebuttal testimony, those increases are closely linked to excessive use of low-volume sacks (six of the eight have one bundle or less per sack), combined in some cases with a non-machinable format.

Given that these smallest Periodicals generally would benefit from zoned editorial pound rates, as shown above, and would have the opportunity to avoid high sack charges simply by avoiding the excessive use of low-volume sacks, I believe one can conclude that most of the 15,152 smallest Periodicals would end up with lower postage if the proposed rates were to take effect.

Table 1: Zone Distribution Of Small Publications				
	Circulation Per Issue			
Zone	0-1,000	1,001-5,000	5,001-10,000	10,001-15,000
DDU	1%	3%	3%	3%
DSCF	24%	16%	10%	11%
DADC	1%	1%	2%	2%
1	31%	25%	18%	18%
3	7%	8%	8%	7%
4	5%	7%	9%	10%
5	6%	7%	9%	10%
6	3%	4%	4%	5%
7	2%	2%	3%	3%
8	3%	4%	4%	4%
100% Editorial	18%	22%	29%	28%

Table 2: Normalized Zone Distribution For Small Publications				
	Circulation Per Issue			
Zone	0-1,000	1,001-5,000	5,001-10,000	10,001-15,000
DDU	1.20%	3.90%	4.29%	4.11%
DSCF	28.92%	20.78%	14.29%	15.07%
DADC	1.20%	1.30%	2.86%	2.74%
1	37.35%	32.47%	25.71%	24.66%
3	8.43%	10.39%	11.43%	9.59%
4	6.02%	9.09%	12.86%	13.70%
5	7.23%	9.09%	12.86%	13.70%
6	3.61%	5.19%	5.71%	6.85%
7	2.41%	2.60%	4.29%	4.11%
8	3.61%	5.19%	5.71%	5.48%
Total	100.00%	100.00%	100.00%	100.00%

Table 3: Impact Of Zoning Editorial Pound Rates Per Periodicals Size Category				
	Circulation Per Issue			
Editorial Pound Rate	0-1,000	1,001-5,000	5,001-10,000	10,001-15,000
Unzoned	$0.1295	$0.1295	$0.1295	$0.1295
Zoned	$0.1176	$0.1304	$0.1445	$0.1462
Difference	-9.19%	0.67%	11.55%	12.93%