

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

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POSTAL RATE AND FEE CHANGES, 2006

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: Docket No. R2006-1  
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RESPONSES OF TIME WARNER INC.  
WITNESS MITCHELL (TW-T-1) TO INTERROGATORIES  
OF AMERICAN BUSINESS MEDIA (ABM/TW-T1-1-6 & 10-12)  
(October 3, 2006)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Robert W. Mitchell (TW-T-1) to American Business Media (ABM) interrogatories ABM/TW-T1-1-6 & 10-12 (filed September 19, 2006). ABM/TW-T1-7-9 have been redirected to witness Halstein Stralberg (TW-T-2)

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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ABM/TW-T1-1. At page 21, you discuss co-palletizing and the costs of co-palletizing. With respect to this testimony, please respond to the following questions?

- (a) Please identify the employees of printing companies, and the names of those companies, with whom you have discussed the availability or cost of co-mailing or co-palletizing since the filing of your direct testimony in Docket No. C2004-1.
- (b) Please provide all notes of such conversations, e-mails or other written communications with respect to those conversations and data produced to you or by you related to those conversations (that is, data related to the costs to printers or prices to mailers of co-palletizing or co-mailing).
- (c) With respect to the statement (at page 21, line 8) that the costs of co-palletizing "have not been found low," does the same hold true for co-mailing?
- (d) In general, are the costs of the printer that are passed on to the mailer higher or lower for co-mailing or for co-palletizing, and why?
- (e) Please provide your best estimate of the extent to which co-mailing produces pieces that would qualify for a carrier route discount.
- (f) Please provide your best estimate of the extent to which co-palletizing or co-mailing produces 5-digit pallets.

**RESPONSE:**

- (a) I may have talked to such employees at meetings, but I do not recall any specific conversations.
- (b) No notes of the kind you describe exist.
- (c) My statement is based on references I have heard or seen to the effect that much of the current postage reductions for co-palletization are being used to fund the activity and that the reductions in postage being received by mailers are rather small. For example, see Docket No. C2004-1, response of witness Cavnar to TW et al./ABM-T1-6, Tr. 6/1712. My statement does not factor in the possibility of improved service, reduced

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bundle breakage, or any concomitant linkage to dropship activities. I do not believe the same holds true for co-mailing.

- (d) I do not have sufficient information on which to base an answer.
- (e) Generally, bundles of co-mailed pieces could be 3-digit bundles, SCF bundles, 5-digit bundles, or carrier route bundles. I do not have sufficient information on which to base an estimate of the proportions of each.
- (f) I do not have sufficient information on which to base an answer.

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ABM/TW-T1-2. At page 22, line 5, you state that the rates in this proposal “were moderated.” Please:

- (a) describe from what they were moderated, and
- (b) identify each of the ways in which they were moderated and the differences between the moderated rates and the rates that would result absent such moderation.

**RESPONSE:**

- (a) In general, the bundle, sack, and pallet charges proposed are moderated from what they would have been if they were to reflect fully the costs caused by bundles, sacks, and pallets.
- (b) Principally, the bundle, sack, and pallet charges proposed are equal to 60 percent of the estimated costs of bundles, sacks, and pallets. Also, a weighted average was developed of the estimated costs of SCF, ADC, and BMC entry of sacks and pallets, separately, before the 60-percent proportion was applied.

Moderation is discussed further in my testimony, TW-T-1. *See especially* p. 23, l. 1 through p. 25, l. 25. Also to be noted is that the effects of changing the degree of moderation can be developed using my workpaper, WP-Mitchell-3F-06.xls. Go to sheet ‘Inputs’. Changing the figure in cell D123 changes the passthrough on the bundle costs. Changing the figure in cell D148 changes the passthrough on the sack costs. Changing the figure in cell D177 changes the passthrough on the pallet costs. In addition, the passthrough for any selected cell or group of cells in the bundle, sack, and pallet charges may be adjusted by changing the proportions in cells C124 through C197, although it should be noted that these compound with the passthroughs selected in the corresponding

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cells in column D. Withdrawing the averaging across origin entry points can be done by following the instruction in cell J146 and cell J175, for the sack costs or the pallet costs, respectively. The passthroughs relating to non-machinability can also be adjusted, by changing the center figures in the yellow boxes in the presort tree, in cells like G54. Any and all of these can be changed, one at a time or in groups, and the new rates will show on the 'Rates' sheet. Once alternative rates are obtained, differences between them and the rates I propose can be obtained by subtraction.

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ABM/TW-T1-3. You state (page 22, line 28) that your proposal “would continue all current recognition of editorial matter.” Is it your testimony that the total benefit to all editorial matter in the system would be preserved, or that no individual Periodical mailer will see its editorial benefit reduced, compared with the present rate design?

**RESPONSE:**

Neither. In list form, page 22 introduces nine objectives, described as “disparate in character and not all of which can be transformed into a variable suitable for maximization.” It says these objectives relate to the approach taken and are reflected in my proposal. (ll. 8-11) The eighth objective, on line 28, is: “To continue all current recognition of editorial matter.” I met this objective with editorial benefits approximating those in the Postal Service proposal, which, in turn, are modified in structure from those in the current rates. Modifications in structure always cause the effects on individual publications to vary, depending on publication billing determinants.

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ABM/TW-T1-4. Please confirm that, if your rate design were changed to eliminate entry level discounts for editorial matter, and the same overall editorial benefit were to be offered, the editorial flat rate applicable to all editorial pounds would be lower than that proposed by Time Warner.

**RESPONSE:**

Confirmed for all of the rate designs that have been proposed in this docket.

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ABM/TW-T1-5. Please describe the types of publications that are not machinable.

**RESPONSE:**

The Postal Service defines machinability, and would continue to do so under the rates I propose. Under any particular definition, I have no way of describing “types of publications” that would not be machinable. In fact, it seems entirely possible that in any lexicon of types, some pieces of a type would be machinable and some not.

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ABM/TW-T1-6. You state (page 26, lines 6-7) that the “effects” of the rates you propose on “small mailers are limited.” Please (a) confirm that your statement would be true if the effects were limited to increases below 100% and (b) explain in full both qualitatively and quantitatively what you meant by this statement.

**RESPONSE:**

- (a) Confirmed that “if the effects were limited to increases below 100%,” the effects would, by definition, be limited.
- (b) What I meant is as follows: (1) It became clear in the Time Warner et al. complaint case (Docket No. C2004-1) that some small mailers (particularly those sending heavy publications, high in editorial content, to the higher zones) would have received large rate increases due to the proposal to zone the editorial content, though some other small mailers would have received rate decreases for the same reason. These potential effects are not part of the current proposal. (2) It also became clear in Docket No. C2004-1 that the most common reason why some small publications would have received large rate increases was their use of sacks with only a few pieces in them. This has now been changed administratively, by the 24-piece rule. (3) Without these two effects, the range of increases in the Complaint case was not very wide. (4) In this case, in addition to the elimination of those two effects, the 60 percent passthrough on the bundle costs, sack costs, and pallet costs will result in the greatest attenuation for small mailers. (5) The revenue from the proposed charges for non-machinability and firm bundles is used to reduce all other Periodicals rates, including those for small mailers.

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ABM/TW-T1-7. Please describe in detail, and produce, all studies you or someone else performed for or on behalf of Time Warner to determine the effect of your proposal on Periodicals mailers.

**RESPONSE:**

Redirected to witness Stralberg.

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ABM/TW-T1-8. Please provide information similar to that provided in Docket No. C2004-1 showing, for a recent and representative issue of each publication produced by Time Warner (names may be coded), the approximate mailed circulation, the approximate mailed circulation in its main file, the frequency, the percentage of the main file and the percentage of supplemental mailings mailed in sacks, whether or not the publication is now co-mailed or co-palletized, the percentage of pieces sorted to carrier route, the percentage of pieces on 5-digit or carrier route pallets, and postage per copy for the main file and for supplemental mailings at the present rates and at the rates you propose.

**RESPONSE:**

Redirected to witness Stralberg.

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ABM/TW-T1-9. Please provide the results in terms of postage per copy at present rates, postage per copy at the rates you propose and percentage increase between present rates and those proposed rates for the publications studied by USPS witness Tang in Docket No. C2004-1 and this one.

**RESPONSE:**

Redirected to witness Stralberg.

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ABM/TW-T1-10. Since you filed your direct testimony in Docket No. C2004-1, have you studied, examined or inquired into whether or not there are types of publications, such as for example small weeklies, tabloids, very small circulation, etc., that at present cannot easily or at all be co-mailed or co-palletized? If so, what did you learn, and from whom?

**RESPONSE:**

No. However, we know that some weeklies are now being co-mailed. *See for example* Direct Testimony of Mark White, USNews-T-1. We also know that co-mailing and co-palletizing become less important as volume grows, because the degree of presortation can no longer be increased and pallets reach effective weights. Therefore, co-mailing and co-palletizing present their greatest potential for publications that are mid-size and smaller, with alternatives depending in many cases on the printers selected. And it should not be presumed that the types you refer to as "very small" are being left out. Many of the smallest publications are local and regional in nature. They are in many cases well positioned to take their mail to processing facilities with close ties to the mail's final destination, and it is not the case that efficiency would increase if a way were found to co-mail or co-palletize all of this mail. If bundle and sack makeup are selected in view of the costs involved, this mail, and even longer-distance mail, can be part of a low-cost mailstream.

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ABM/TW-T1-11. Since you filed your direct testimony in Docket No. C2004-1, have you studied, examined or inquired into whether or not there are Periodical printers that are not equipped to, or do not have enough volume to, co-mail or co-palletize? If so, what did you learn, and from whom?

**RESPONSE:**

No.

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ABM/TW-T1-12. Do you believe that the incentives in the present rates to co-mail or co-palletize are adequate to encourage that activity? Why or why not?

**RESPONSE:**

Both the current rates and the ones proposed by the Postal Service are misaligned with costs.<sup>1</sup> Therefore, the incentives are inadequate. They would not be expected to result in an appropriate amount of dropshipping, containerizing, co-mailing, or co-palletizing. Additionally, they would not be expected to bring about the appropriate *makeup* of bundles and containers. Some level of combined Postal Service and mailer costs exists today that is much higher than it should be. That is, we know that combined costs can be lowered, with attendant increases in efficiency. The rates I propose are designed to move toward appropriate levels of these various mailer activities.

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<sup>1</sup>Under current rates, for example, the Postal Service savings from a co-pallet is greater if the co-pallet is *not* dropshipped than if it is dropshipped, but the discount is allowed only if it is dropshipped. My testimony, on page 18, line 17 through page 21, line 3, provides examples of the degree of misalignment under the rates proposed by the Postal Service, with quantification.