

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

POSTAL RATE AND FEE CHANGES, 2006

Docket No. R2006-1

RESPONSES OF TIME WARNER INC.
WITNESS MITCHELL (TW-T-3) TO INTERROGATORIES
OF UNITED STATES POSTAL SERVICE (USPS/TW-T3-1-8)
(October 11, 2006)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Robert W. Mitchell (TW-T-3) to Postal Service interrogatories USPS/TW-T3-1-8 (filed September 27, 2006).

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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**RESPONSES OF TIME WARNER INC. WITNESS MITCHELL
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USPS/TW-T3-1 On page 3, line 27 through page 4, line 2 of your testimony, you state "Because of this mail's uniform characteristics and high density levels, the Postal Service is able to handle it at a low cost." On page 7, lines 24-25 of your testimony you state, "QBRM mail is received under multiple permits at their inbound facility in Tampa, Florida..."

(a) Please confirm that when a small volume of BRM or QBRM is received at a destinating facility, the mail may be processed manually. If you cannot confirm, please explain.

(b) Have you conducted field observations in which you evaluated the processing methods used to sort, count, rate, and bill Time Customer Service's and/or Time Warner's BRM mail at the Tampa P&DC? If so, please indicate the approximate date and time of the observations, the specific operations observed, the volume of Time Customer Service and/or Time Warner BRM involved, and describe all mail flows/processing methods that you observed.

(c) Please list all other postal facilities at which you studied non-Time Warner QBRM processing. For each site, include the approximate date and time of the observations, the specific operations observed, the volume of BRM involved, and describe all mail flows/processing methods that you observed.

RESPONSE:

(a) I cannot speak for all Postal Service facilities. I am told that the Tampa P&DC processes incoming QBRM mail on a barcode sorter that directs BRM pieces to holdouts for which Time Customer Service (TCS) has paid a caller service fee. The experience of TCS has been that this equipment is used even on small-volume days.

(b) Not as such. I have talked extensively with TCS personnel who tell me that they work closely with their local Postal Service officials and have observed the sorting, counting, rating processes.

(c) Except through my discussions with Rodale Inc., I have not studied other postal facilities.

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USPS/TW-T3-2 On pages 7-8 of your testimony, you discuss Rodale Inc. and Time Customer Service as examples of QBRM users.

(a) Your testimony states that in 2005, Rodale received 7.1 million reply pieces, 3.4 million of which were cards. Please provide a breakdown of those figures by BRM rate category.

(b) Your testimony states that in 2005, Time Customer Service received "more than 17 million QBRM pieces on behalf of Time Inc. publications, 9.2 million of which were cards." Please provide a breakdown of those figures by BRM rate category.

(c) Do you consider Rodale and Time Customer Service to be representative of most users of QBRM, or are they representative of High Volume QBRM users? Please explain fully.

RESPONSE:

(a) I have discussed the breakdown requested with Rodale. It has not received reports since July, 2005. The following breakdown of total 2005 volume represents proportions from the first seven months of 2005 for the Book Division and a best estimate supplied by the Magazine Division.

High Volume QBRM Cards = 3,224,800
QBRM Cards = 412,400
High Volume QBRM Letters = 3,402,000
QBRM Letters = 60,800

(b) The 2005 breakdown is:

High Volume QBRM Cards = 6.1 million
QBRM Cards = 3.1 million
High Volume QBRM Letters = 7.0 million
QBRM Letters = 1.4 million

(c) As indicated in my responses to the first two parts of this question, both Rodale and Time Customer Service (TCS) receive High Volume and non-High Volume QBRM. The latter exists primarily because the volumes do not meet the

requisite threshold for High Volume rating. In general, volumes for a number of customers are processed together, so that any economies of scale in postal operations are shared. The nature of the pieces involved is believed similar among customers, as is the use of ACH debiting to pay postage. I understand that the overall volume of Rodale and TCS may be above average for QBRM users. I cannot speak to variations among postal facilities.

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USPS/TW-T3-3 On page 12 of your testimony, at the end of your paragraph 2, you state “See Response of Witness Abdirahman to MMA/USPS-T22-15.” Please confirm that MMA/USPS-T22-15 was redirected to the Postal Service, and the response was institutional, rather than from witness Abdirahman. If not confirmed, please explain.

RESPONSE:

Confirmed.

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USPS/TW-T3-4 On page 3 of your testimony, lines 7-9, you state, "One proposal of this kind focused on courtesy reply envelopes, in hopes that recognition in rates would encourage their use and be fairer to all concerned." On page 3, lines 21-23, you state, "Specifically, a discount for Qualified Business Reply Mail (QBRM) was recommended by the Commission in Docket No. R97-1 and has been quite successful."

(a) Do you equate the term "successful" with an increase in mail volume? If that is not specifically what you meant by using that term, please define "successful" as you have used it in this context.

(b) Have you conducted any studies to evaluate how the QBRM discount has affected QBRM mail volumes? If so, please provide the results of those studies.

(c) Please confirm that a rate category for barcoded BRM existed before the implementation of the QBRM discount following Docket No. R97-1 and that this rate category offered lower total postage rates to BRM recipients by virtue of the fact that the per-piece fee was lower than the fees associated with other BRM rate categories. If not confirmed, please explain.

RESPONSE:

(a) No. Since there is no way to know what the volume *should* be, it is not reasonable to evaluate success by looking at volume levels or volume growth. Although the volume of QBRM is not low, and has warranted substantial investment by the Postal Service, my use of the word *successful* means simply that the system is working smoothly, that it is providing a valuable service to many mailers, and that it seems to me to be an example of a kind of service that ought to exist.

(b) No.

(c) Confirmed, as shown in USPS-LR-L-76.

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USPS/TW-T3-5 On page 5 of your testimony, lines 8-10, you state, "They are a simple and friendly alternative to using 800 numbers or the Internet, and they can be used by persons who do not have computers. All parties benefit."

(a) Please describe how 800 numbers and the Internet have affected Time Warner's usage of all types of BRM to date.

(b) Please describe how you anticipate that 800 numbers and the Internet will affect Time Warner's usage of all types of BRM in the future.

(c) Please indicate the extent to which Time Warner prefers 800 numbers, the Internet, or other postal alternatives, when compared to the usage of QBRM, all things considered.

RESPONSE:

(a) The assessment of Time Warner is that the effects of 800 numbers and the Internet have varied across titles. Some titles have seen effects and others have not. The role of BRM has depended in part on how promotion dollars are allocated among channels, which has been guided by cost-per-thousand calculations, as discussed on page 8 of my testimony, beginning on line 14.

(b) Time Warner does not expect significant growth in the use of 800 numbers. On the other hand, use of the Internet is expected to grow, particularly for titles that have seen growth so far. To support promotional decisions and channel selection, detailed records are kept by the marketing departments on costs, return rates, and customer attitudes. The consensus is that the various channels are highly competitive.

(c) Although BRM has certain advantages, such as providing hard copy and being scannable, the preference in most cases is for the Internet, followed by BRM, followed by 800 numbers.

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USPS/TW-T3-6 On page 5 of your testimony, lines 13-14, you state, "The original mailer has worked with the Postal Service in preparing the envelope."

(a) Please confirm that the QBRM approval process does not result in regular evaluation of the mail pieces. Therefore, the only time further review activities are conducted is in the event that a problem is detected. If you cannot confirm, please explain.

(b) Please confirm that, on occasion, BRM recipients change their fulfillment processing vendor, such that: 1) the address and thus the destinating postal processing facility would eventually change; and 2) large volumes of mail would be forwarded from one postal facility to another during the time it takes to exhaust the old envelope or card stock and print/distribute mail pieces bearing the correct destinating address. If not confirmed, please explain.

(c) Has Time Warner experienced the scenario described in part (b) above? If so, please indicate, on average, how long it usually takes from the time the mail pieces are first forwarded to the time that mail pieces bearing the correct address are received.

RESPONSE:

(a) Not confirmed. Time Customer Service personnel have explained to me that they consult regularly with their Mailpiece Design Analyst and their Mailing Standards Office for feedback and approval on such piece attributes as print contrast, reflectance, and barcode quality. In addition, discussion occurs whenever a new ZIP+4 is needed. The issue of problem detection that you raise is more of an ongoing process than you suggest. Mailpieces that cannot be processed successfully do not receive the QBRM discount, which prompts inquiry.

(b) Confirmed that BRM recipients sometimes change fulfillment vendors, that the destinating postal processing facility can change, and that persons replying with BRM pieces could send pieces that are not fresh.

Not confirmed that large volume movements from one postal facility to another would be expected. Changes in fulfillment vendors are changes of some magnitude that do not occur often. They are accompanied by months of planning and special arrangements, including planning of direct mail efforts and attention to levels of card and envelope stock. It is not in the interests of BRM users to have large volumes of mail going to the wrong place and experiencing delays. And when some volume movement is required, it is effective to handle the forwarding in bulk, using Express Mail or Priority Mail, which avoids per-piece forwarding costs.

(c) Yes. However, I am told that no data are available on the amounts forwarded or the time periods involved. In general, as explained in my response to part b of this question, changes of this kind are viewed as manageable and not as a major problem.

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USPS/TW-T3-7 On page 5 of your testimony, lines 15-17, you state, "Because of these preparatory efforts and the cooperation involved, Postal Service costs are low. The mailpieces require no window service or stamp cancellation; they can be sorted initially on a barcode sorter; the likelihood of manual sorts at any point in the processing stream is extremely low..." Please confirm that QBRM mail pieces will be processed through cancellation operations, typically on the AFCS-ISS, with all other non-QBRM single-piece mail pieces, despite the fact that the QBRM mail pieces would not actually be cancelled. If not confirmed, please explain.

RESPONSE:

The description you provide is consistent with my general understanding. I have no reason to doubt it.

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USPS/TW-T3-8 On page 10 of your testimony, lines 26-27, you discuss the QBRM cost model and state, "The validity of these changes apparently has not been tested. Yet the Postal Service includes them again in its model in this case."

(a) Please confirm that the cost avoidance presented in this docket is similar to the analysis first presented in Docket No. R97-1, rather than the analysis presented in Docket No. R2000-1, because it calculates costs up to the point where a given mail piece receives its first barcoded sortation on a Bar Code Sorter (BCS). If not confirmed, please explain.

(b) Please confirm that the Commission has not formally expressed an opinion against using the Docket No. R97-1 cost avoidance analysis, due to the fact that Docket Nos. R2001-1 and R2005-1 were settled. If not confirmed, please explain.

RESPONSE:

(a) Confirmed that the two analyses are similar in that they both calculate costs, for prebarcoded pieces, up to a point just past where the pieces receive their first sortation on a BCS.

(b) The QBRM analysis proposed by the Postal Service in Docket No. R2000-1 was different from the analysis proposed by the Postal Service in Docket No. R97-1. The new analysis was adopted by the Commission. In Docket No. R2001-1, the analysis presented by the Postal Service was similar to the R97-1 analysis, and thus changed from the R2000-1 analysis. The Commission reviewed the issue, indicated that it would "not rely on Miller's methodological changes or the resulting estimate of QBRM avoided costs," and "accept[ed] the settlement proposal to retain the [then] current discount." Op., pp. 78-79, ¶ 3082. In Docket No. R2005-1, the Commission observed that the analysis underlying the across-the-board proposal was not "the method last approved by the Commission," and, again, accepted the settlement proposal. Op., p. 119, ¶ 6028. It went on to say that "[t]he validity of these changes

[proposed by the Postal Service] should be tested." *Id.* I agree that these observations do not constitute a "formally expressed . . . opinion against using the Docket No. R97-1 cost avoidance analysis."