

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-1) TO INTERROGATORIES
OF MCGRAW-HILL (MH/TW-T1-1-11)
(October 18, 2006)

Time Warner Inc. (Time Warner) hereby provides the responses of witness Robert W. Mitchell (TW-T-1) to McGraw-Hill interrogatories MH/TW-T1-1-11 (filed October 4, 2006).

Each interrogatory is stated verbatim and followed by the response.

Respectfully submitted,

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**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
TO INTERROGATORIES OF MCGRAW-HILL**

MH/TW-T1-1. With respect to your testimony at page 10 lines 4-11, please explain fully and specifically how the rates proposed by you in this case reflect a “piecemeal” approach, including in your answer (without limitation) a specification of any and all further rate design proposals for Periodicals mail that are presently contemplated by you and/or Time Warner for future rate and/or classification cases.

RESPONSE:

The rates I develop are piecemeal in the sense that a zoned editorial pound rate is not proposed and that costs are averaged over three origin points (DSCF, DADC, and DBMC). So far as I know, the only further step contemplated by Time Warner or me is that it might be worthwhile to take the additional step of deaveraging the three origin points. The reasoning would be that mailers are in many cases well positioned to enter mail at a facility that would allow lower Postal Service costs, but have no incentive to do so.

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MH/TW-T1-2. With respect to your testimony at page 17 lines 18-20 that “[i]f the container rate were to cause mailers of 5-digit pallets to merge them into larger 3-digit pallets in order to reduce the container charges, it would be a step backwards”:

(a) Please explain fully whether the USPS-proposed container charge would likely cause any substantial shift from 5-digit pallets to larger 3-digit pallets, in view of the fact that under that proposal, the average per-piece container charge for pallets would be only 0.052 cents, as confirmed by witness Tang in response to MH/USPST35-1(b).

(b) Please explain fully whether the container charges proposed by Time Warner in this case would be more likely to cause a shift from 5-digit pallets to larger 3-digit pallets.

(c) Would a mailer moving copies of Periodicals from 5-digit to 3-digit pallets likely face degraded service? Why or why not?

RESPONSE:

(a) I have no basis for estimating the number of 5-digit pallets that might be merged into 3-digit pallets. Qualitatively, the signal in the Postal Service proposal goes in the wrong direction in some cases. I believe signals that go in the wrong direction should be avoided, especially if how to do better is clearly understood.

(b) Under the rates I develop, for example, the charge for each 5-digit pallet entered at a DSCF is \$11.90. The bundles on these pallets are charged 1.2 cents each. If a shift is made to 3-digit pallets, the charge for each pallet becomes \$9.90. However, the associated charge for the bundles becomes 13.4 cents each. I have no basis for projecting how many of these shifts will be made or for comparing the likelihood of such shifts with the likelihood of similar shifts under the Postal Service proposal. What is important is that mailers contemplating shifts factor into

their decisions the change in the cost to the Postal Service of handling *both* the pallets and the bundles on the pallets. Sending balanced signals of this kind is much better than sending unbalanced signals that are not related to the costs involved.

(c) I do not know. If the Postal Service honors its standard operating procedures and the mailers honor the cut-off times, there should be no change in the service received.

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MH/TW-T1-3. With respect to your testimony at page 21 lines 7-10 that “the costs of co-palletizing have not been found low,” but “will undoubtedly decline over time”:

(a) Please provide any and all information available to you regarding the costs of co-palletization and the charges assessed therefor by printers and/or other parties.

(b) Please explain fully whether there is any basis for concluding that those charges will likely decline over time, particularly if a printer’s co-palletization charges are based on a percentage of the postage saved through co-palletization.

RESPONSE:

(a) I do not have specific information on “the charges assessed ... by printers and/or other parties.” Please see my response to interrogatory ABM/TW-T1-1(c).

(b) With competition, I would expect printers’ charges to be based their costs, not on the application of some proportion to the savings in postage. My expectation is that the printers’ costs “will likely decline over time” due to normal learning effects and to innovative efforts.

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MH/TW-T1-4. Please explain fully the basis for your statement at page 24 lines 13-14 of your testimony that “[m]any mailers have already made adjustments to achieve machinable status,” and identify any and all such mailers and specify the adjustments made.

RESPONSE:

The basis for my statement is observations I have heard at mailer meetings (including MTAC) concerning machinability. A great deal of attention is paid to the content and interpretation of machinability standards and how pieces can be changed to meet them. I have no specific mailers in mind. The changes made range from changing size and weight to changing stiffness, cover stock, poly-wrap practices, address location and orientation, the use of tabs (most common on letter-size pieces), and more. Mailers work regularly with the Postal Service on such issues. It is not uncommon for mailers to provide pieces for testing.

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MH/TW-T1-5. Please explain fully the basis for your statement at page 24 lines 13-16 that “adjustments to achieve machinable status . . . should not be a source of significant . . . disruption,” assuming that the achieving of machinability would require a significant change in the weight and/or dimensions of a publication or otherwise.

RESPONSE:

Beginning on line 12 of the page you cite, my testimony says:

The time has come to recognize the additional costs of being non-machinable. Many mailers have already made adjustments to achieve machinable status and many others have opportunities to do so. Changes in this area are possible, and appropriate signals should be sent. This development has long been expected, and should not be a source of significant surprise or disruption.

The basis for my statement that the recognition of the additional costs of being non-machinable “has been long expected” is that such costs have been recognized in other subclasses, that machinability has been discussed widely at mailer meetings and between the Postal Service and mailers, and that the Commission has expressed considerable interest in such recognition. For example, see Order Addressing Complaint of Time Warner et al. (Order N. 1446), Docket No. C2004-1, p. 34, ¶ 4045:

Mailers should expect the Postal Service to develop additional machinability standards as technology evolves and additional automated equipment is deployed. The Postal Service therefore should look toward a rate structure that recognizes the machinability of Periodicals mail, along the lines suggested by Complainants.

The Commission also remarked that Periodicals is “the only traditional class in which machinability is not explicitly recognized in the current rate schedule.” *Id.*, p.

33, ¶ 4040. Accordingly, I do not see how the recognition of non-machinability in rates could come as a surprise.

The basis for my statement that the recognition of non-machinability should not be a source of significant disruption is that it should have been anticipated and that there is nothing inherently disruptive about responding to a surcharge in a rate schedule. I did not say that it is not disruptive to make non-machinable pieces machinable, although the adjustments needed to achieve machinability are not always extensive. Mailers are not required to make their pieces machinable. Under the rate schedule I develop, mailers are free to consider the value they receive from sending non-machinable pieces and pay the surcharge. They cannot, however, elect to send non-machinable pieces and expect other mailers to pay the additional costs.

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MH/TW-T1-6. Please explain fully the basis for your statement at page 24 lines 20-21 that “[m]any mailers have been investing in co-mailing capabilities,” and identify any and all such mailers and investments, and provide any and all supporting documentation.

RESPONSE:

The basis for my statement is my general awareness that co-mailing is a preparation activity that has received considerable attention for some time and that there are costs associated with it. Witness Cavnar has testified to the same general awareness: “..., I do know from American Business Media Postal Committee discussions and from general knowledge that the level of co-palletizing and co-mailing by American Business Media members has been increasing, probably substantially, in the past couple of years.” ABM-T-1, p. 2, l. 23 to p. 3, l. 3.

I have no way of providing a list of mailers or printers that are co-mailing.

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MH/TW-T1-7. With respect to your testimony at page 24 lines 23-25, please explain fully the reasons why a separate rate is proposed for firm bundles, and why they may require handling different from the manner in which any other bundles are handled (except that firm bundles are not broken prior to delivery).

RESPONSE:

For equivalent handlings, the cost of handling a firm bundle is the same as the cost of handling a carrier-route bundle. Both must be routed to the carrier. In my rate schedule, the charges for firm bundles are somewhat different from the charges for carrier-route bundles because the costs on which my rates are based are averaged over 5-digit and carrier-route containers and over sacks and pallets, and the proportions of firm bundles that are in the various containers are different from the corresponding proportions for carrier-route bundles.

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MH/TW-T1-8. With respect to the request in Presiding Officer's Information Request No. 19, page 3, that Time Warner "provide calculations of the percentage changes of ... [its] proposal[] on the 251 publications using . . . more recent data", please provide for each such publication (using the more recent data) the cents-per-piece postage cost (a) under the present rates, (b) under the Time Warner-proposed rates, and (c) under the USPS-proposed rates.

RESPONSE:

The requested information will be included in the response of Time Warner to POIR No. 19.

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MH/TW-T1-9. Please explain the statement that “I do not believe the same holds true for co-mailing” at the end of your response to ABM/TW-T1-19(c). Are you saying that the costs of co-mailing are low? If so, please provide the information on which that statement is based.

RESPONSE:

I believe that you meant to refer to ABM/TW-T1-1(c). Just before saying that “I do not believe the same holds true for co-mailing,” I state that I have heard or seen references “to the effect that much of the current postage reductions for co-palletization are being used to fund the activity and that the reductions being received by mailers are rather small.” At that point I provide a reference to a report in Docket No. C2004-1 that one mailer was receiving a net savings of 1 percent. I consider 1 percent to be rather small. What does not hold true for co-mailing, I believe, is that the net savings are in the neighborhood of 1 percent.

**RESPONSES OF TIME WARNER WITNESS MITCHELL (TW-T-1)
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MH/TW-T1-10. In response to ABM/TW-T1-6, you make general statements in support of the assertion in your testimony that the effects of your proposal on small mailers are limited. Please explain whether and, if so, how you tested these hypotheses prior to the filing of your testimony.

RESPONSE:

The testing done prior to filing is described by witness Stralberg in his response to ABM/TW-T1-7 (“Due to a shortage of time, the only publications analyzed before the filing of Mitchell’s testimony were the six Transworld publications, owned by Time Inc., and Time magazine”).

My response to ABM/TW-T1-6 contains five numbered statements supporting my contention that the effects of my rates on small mailers are limited. None of the five is a hypothesis. The first three statements draw on considerable quantitative analysis presented in Docket No. C2004-1 and acknowledged by the Commission in Order No. 1446. The fourth statement relates to the 60-percent passthrough of the costs of bundles, sacks, and pallets. Because small mailers are understood to be heavy users of sacks, the result will be substantial attenuation for them. The fifth statement relates to the charges for non-machinability and firm bundles. It is true that small mailers would face these charges, if applicable, but it is also true that if small mailers send machinable pieces, they would see lower rates because of these charges.

An indication of the magnitudes involved in the new rate elements is shown in my workpapers, sheet ‘tybr-4’, column F. In particular, 2.57 percent of the revenue is obtained from the pallet charges, 4.48 percent from the sack charges, and 3.3 percent from the bundle charges. These proportions are not large. Furthermore,

since the costs behind these charges were averaged in the past and paid by all mailers, the proposal does nothing more than shift them in the direction of causation, so that a portion of them would be paid by the same mailers as pay them currently. In contrast, 54.6 percent of the revenue comes from the per-piece charges (before accounting for the per-piece editorial benefit) and 35.0 percent comes from the per-pound charges. Except for the charges for non-machinability, these charges reside in the same place that they do now. In short, considerable reason exists for a conclusion that the effects of these proposed new rate elements on small publications are limited.

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MH/TW-T1-11. Please refer to publication number 31 on Table ABM/TY-T1-8b, page 3 of 3. According to that table, publication 31 now pays 33.2 cents per copy, would pay 36.7 cents per copy under the Postal Service proposal, and would pay 51.9 cents per copy under your proposal, *an increase of 56%*. (a) What are the mailing characteristics of that publication that cause such a large increase under your rate proposal? (b) If one such characteristic is that the publication is mailed in sacks, please explain why it is not palletized, co-palletized or co-mailed.

RESPONSE:

Inquiry has shown that an error was made in estimating the rate increase for publication number 31. The correct increase is 24.3 percent. An erratum to the earlier response will be filed.