

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

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Postal Rate and Fee Changes

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Docket No. R2006-1

RESPONSE OF TIME WARNER INC.  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 18  
TW-T1 a (Part 1 of 2), b and TW-T2 a (Part 2 of 2) (October 17, 2006)

Time Warner Inc. (Time Warner) hereby provides the responses of witnesses Robert W. Mitchell (TW-T-1) and Halstein Stralberg (TW-T-2) to Presiding Officer's Information Request No. 18 (issued September 29, 2006). Mr. Mitchell provides a response to item a (part 1 of 2) and item b, and Mr. Stralberg to item a only (part 2 of 2)..

Associated with the responses provided herein are Library References TW-LR-4 and TW-LR-5, which Time Warner expects to file tomorrow, October 18.

Respectfully submitted,

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John M. Burzio  
Timothy L. Keegan

COUNSEL FOR  
TIME WARNER INC.

Burzio & McLaughlin  
Canal Square, Suite 540  
1054 31st Street, N. W.  
Washington, D. C. 20007-4403  
Telephone: (202) 965-4555  
Fax: (202) 965-4432  
E-mail: burziomclaughlin@covad.net

**RESPONSE OF TIME WARNER WITNESS MITCHELL (TW-T-1) TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 18 a (part 1 of 2)**

**QUESTION:**

Please refer to Time Warner witness Mitchell's workpaper 'Wp Mitchell-3F-06.xls,' worksheet 'tybr-4.'

- a. Please provide billing determinants and estimates of test year after-rates volumes and revenues for each of the rate categories (existing and new) proposed. Provide them separately for Regular Rate, Nonprofit, and Classroom Periodicals.

**RESPONSE:**

- a. Time Warner Library Reference No. 5, TW-LR-5, contains two Excel files. File WP-Mitchell-5-06 is a replacement in its entirety for my original workpaper WP-Michell-3F-06 (contained in TW-LR-1), and file PieceVolumes(3) is a reference file containing piece, bundle, and container counts. In WP-Mitchell-5-06: sheet 'tybr-4' contains a full set of TYBR billing determinants for the Outside County subclass and the categories of Regular, Nonprofit, and Classroom; sheet 'Fcst-2' shows the development of the tyar/tybr volume ratios; and sheet 'tyar-1' provides TYAR billing determinants and revenues for the Outside County subclass and the categories of Regular, Nonprofit, and Classroom. As in my original workpaper, sheet 'Rates' contains the rate schedule with the proposed rates. None of the proposed rates has changed.

**RESPONSE OF TIME WARNER WITNESS MITCHELL (TW-T-1) TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 18 b**

- b. What rate does Time Warner propose for the current category basic nonautomation letters? Please describe in detail the proposal for each of the current letter categories.

**RESPONSE:**

- b. The proposed rates were developed on the assumption that non-automation letters are machinable and would therefore pay the rates for machinable periodicals that are not prebarcoded. This is consistent with the current classification scheme. The basis for the assumption of machinability is that there is little reason to assume that these letters are non-machinable and that only 30 percent of non-automation publications in general are non-machinable. If some non-automation letters are non-machinable, some additional revenue would be received. Except that the basic presort tier is disaggregated into mixed AADC and AADC, separate piece rates for *automation* letters are proposed just as in the current rate schedule.

In addition to the traditional piece and pound rates, letters would receive a container charge, just as in the Postal Service proposal, and would pay a bundle charge. The Postal Service might decide that a tray receives handling that is equivalent to that of a bundle.

The piece rates for automation letters were developed by relying primarily on the Postal Service proposal. Witness Tang shows a cost difference between basic non-automation flats and basic automation letters of 29.6 cents (equal to a letter-flat differential plus the savings

due to automation compatibility) and proposes a passthrough of 35.3 percent, yielding a rate difference of 10.4 cents. To get the rate for automation letters at the mixed AADC level, I applied this difference to the rate for machinable flats at the corresponding level. Also, Tang proposes a discount for 5-digit automation letters, relative to 3-digit automation letters, of 6.4 cents, which I adopted. This leaves two discounts, AADC relative to mixed AADC, and 3-digit relative to AADC. Both of these involve the current *basic* level, which is proposed to be deaveraged. Making matters worse is that Tang (in cell F45 of her 'Discounts' sheet) erroneously calculated the cost avoidance for the 3-digit pieces as equal to a letter-flat differential at the basic level (which may be viewed as applicable) plus the difference between a 5-digit non-automation letter and a 3-digit automation letter (an irrelevant cost difference). I selected an ADC discount (relative to mixed AADC) of 3.8 cents and a 3-digit discount (relative to AADC) of 1.4 cents. The resulting rate for 5-digit automation letters is 19.1 cents, 1.3 cents below Tang's rate, consistent with a reduced role for piece rates.

**RESPONSE OF WITNESS HALSTEIN STRALBERG (TW-T2) TO POIR 18 a (part 2 of 2)**

POIR 18 Please refer to Time Warner witness Mitchell's workpaper 'Wp Mitchell-3F-06.xls,' worksheet 'tybr-4.'

(a) Please provide billing determinants and estimates of test year after-rates volumes and revenues for each of the rate categories (existing and new) proposed. Provide them separately for Regular Rate, Nonprofit, and Classroom Periodicals.

**Response:**

a. In the following I use the term 'former subclass' to refer to either Regular Rate, Nonprofit or Classroom Periodicals. My part in responding to POIR 18 was to develop test year before rates (TYBR) billing determinants for each former subclass, similar to those presented for the Outside County subclass in Exhibit B of my direct testimony (TW-T-2).

As explained in my testimony, the billing determinant volume data presented in my Exhibit B and used in witness Mitchell's workpaper were developed mostly from a series of Excel tables filed by witness Loetscher as part of his responses to interrogatories TW/USPS-T28-1-11. Those tables were developed from the data collection described in LR-L-91.

Information on whether publications were Regular Rate, Nonprofit or Classroom was collected as part of the LR-L-91 effort. However, the relevant tables provided by Loetscher are not broken down by the former subclasses. The billing determinants I provided to Mitchell were developed only for the Outside County subclass. In responding to the POIR 18 request to provide separate billing determinants for the former subclasses, I considered two options:

(1) Request that the Postal Service provide separate LR-L-91 based tables for each former subclass, similar to the Loetscher tables referred to above. While it is possible that this approach might have given the most accurate results, I could have no certainty about when or whether the data would become available. I was also concerned that the LR-L-91 data might not include

sufficient samples to provide accurate details on Classroom and perhaps not even on Nonprofit publications.<sup>1</sup>

(2) Distribute the piece, bundle, sack and pallet counts already generated for the Outside County subclass among the former subclasses by extrapolating known information, including the Postal Service's FY2005 billing determinants and information from earlier dockets. While this approach necessarily requires a number of assumptions, I concluded it could be carried out in a way that would reflect the most important characteristics that distinguish the former subclasses from one another. Such characteristics include the higher level of presort and higher number of pieces per bundle for nonprofit publications, which would cause them to incur fewer piece related and bundle related charges under the rates proposed by Mitchell.

I have carried out the second approach. The TYBR volumes of pieces, bundles, sacks and pallets, corresponding to those in Exhibit B of my testimony but separate for each former subclass, are presented in a series of tables at the end of this response. They were provided to witness Mitchell, who used them in the new version of his rate design spreadsheet and computed the corresponding after rates volumes. See Mitchell's response to this POIR and library reference TW-LR-5.

The remainder of this response describes the methodology by which I carried out the second approach. The actual calculations are shown in a spreadsheet provided as library reference TW-LR-4.

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<sup>1</sup> The relevant Loetscher tables that would have had to be provided in expanded form are the tables numbered 9, 13 and 14 in his responses to TW/USPS-T28-1-11. Loetscher's tables are also broken down by publications circulation size, and that breakdown would not be necessary for the purposes discussed here.

## A. Piece Volumes

For each former subclass, I extracted from the Postal Service's FY2005 billing determinants the base year volume (excluding auto letters) in each of the following rate categories:

- (1) basic non-auto;
- (2) 3-digit non-auto;
- (3) 5-digit non-auto;
- (4) carrier route;
- (5) basic auto;
- (6) 3-digit auto; and
- (7) 5-digit auto.

For each rate category, I determined the percentage that each former subclass contributes to the Outside County totals.

I then started with a table, generated from Loetscher's table 9 and representing the base year version of Table B3 in my direct testimony, containing base year piece volumes for outside county non-letters. Each cell in that table is associated with exactly one of the seven rate categories listed above. I created three new tables, in similar format, by multiplying each cell in the original table with the percentage that each former subclass contributes to the rate category corresponding to the given cell.

Each of the new tables, representing base year Regular Rate, Nonprofit and Classroom non-letter volumes, was then modified, first by applying the appropriate BY to TYBR volume ratio, then by the transformation described in my testimony to simulate migration due to the 24-piece sack minimum.<sup>2</sup>

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<sup>2</sup> See TW-T-2 at 29-34 and Ex. B. To carry out the procedure described above I first made small adjustments, as shown in TW LR-4, to the estimates derived from Loetscher's tables so that the Outside County volume with carrier route presort would match exactly that in the billing determinants and so that the volume of each auto presort category would match that in the billing determinants minus the auto letter volumes. The resulting surplus volumes in the three non-auto, non-carrier route categories constitute my estimates of non-auto letter volumes in each subclass, which I also provided to witness Mitchell.

## **B. Bundle Volumes**

In the Time Warner et al. Complaint case (Docket No. C2004-1) I developed estimates of pieces per bundle for each combination of bundle presort level, container type and container presort, based on the Postal Service's R2000-1 mail characteristics survey. I extrapolated those results to include similar estimates for Classroom publications. The results indicated that in almost all cases, the average number of pieces per bundle for Nonprofit publications was significantly higher than the corresponding number for regular rate. This would indicate that in a rate structure that includes per-bundle charges, such as that proposed by witness Mitchell in this docket, nonprofit publications would on the average incur fewer bundle charges for a given number of pieces.

I assumed that a similar relationship would apply today.<sup>3</sup> To develop a complete estimate of bundle volumes for each of the former subclasses in the current case, I employed the following procedure, for each combination of bundle presort, container type, container presort and former subclass.

First, I developed a preliminary estimate of the number of bundles in each cell by dividing the number of pieces in that cell (as developed by the procedure described in part A above) by the complaint case estimate of pieces per bundle. I then divided the current Outside County estimate of bundles in the given cell by the sum of the preliminary estimates in that cell for the former subclasses. That factor was then applied to adjust the bundle volume estimate for each former subclass, for the given combination of bundle presort, container type and container presort.

## **C. CONTAINER VOLUMES**

My direct testimony describes how I developed a test year profile of the numbers of sacks and pallets, per entry point and container presort level, while maintaining

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<sup>3</sup> It is likely that Nonprofit publications will always have a higher average number of pieces per bundle, since heavier Regular rate publications often face weight limits on bundle size, and may also face limitations because of the Postal Service's complex regulations meant to reduce the incidence of bundle breakage.

consistency with witness Tang's estimate of the total number of sacks and pallets in the test year.

In order to develop a test year container profile for each of the former subclasses of Outside County Periodicals, I first developed profiles for each subclass of the number of containers by container type and container presort. In a subsequent step I added the breakdown by entry point for each subclass,

To accomplish the first step I made use of the following information:

- (1) estimates of the number of pieces per former subclass, container type and container presort level, as developed in the Complaint case;
- (2) similar estimates for TY08, developed as described in Section A above;
- (3) estimates of the number of sacks and pallets, by container presort level and former subclass, as developed in the Complaint case; and
- (4) estimates of the number of TY08 Outside County sacks and pallets, by container presort level, developed as described in my direct testimony.

The calculations performed can be seen from the spreadsheet formulas in TW LR-4. The results of this step are shown in the table below.

<b>Table POIR18-1: Estimated Number of Test Year Containers By Subclass</b>					
Type	Presort	Regular Rate	Nonprofit	Classroom	Total
Sacks	MADC	3,804,035	488,157	49,991	4,342,183
	ADC	7,972,972	1,107,074	101,852	9,181,897
	3-D/SCF	21,279,353	2,550,272	266,539	24,096,164
	5-d	3,770,187	819,740	36,467	4,626,394
	5-d CR	1,600,202	499,698	12,227	2,112,127
	CR	1,911,325	389,920	12,256	2,313,500
Pallets	ADC	707,105	71,236	6,136	784,478
	3-D/SCF	2,077,144	249,867	14,576	2,341,587
	5-Digit	548,309	152,251	4,015	704,575

The next step was to develop entry point estimates for each volume in the above table.

I broke this step into two parts. First, for each cell in the table, I estimated the number of containers that are dropshipped (i.e., entered at the DADC or closer) and not dropshipped (entered at the DBMC, OBMC, OADC or OSCF). For this purpose I made use of the information on dropshipping of sacks and pallets that can be extracted from existing billing determinants.<sup>4</sup> The details of these calculations are shown in TW LR-4.

Finally, having determined the number of containers of a given type, presort and former subclass that would be dropshipped in the test year, I assumed for the sake of simplicity (lacking more detailed information) that the percent going to each dropship entry (DDU, DSCF or DADC) would be the same for each former subclass as for the combined Outside County subclass. Similarly, for the sacks and pallets that are not dropshipped, I assumed that their distribution between DBMC, OBMC, OADC and OSCF entry is the same for each former subclass as for Outside County as a whole.

The tables on the following pages are those I provided to witness Mitchell to enable his response to this POIR.

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<sup>4</sup> For example, current billing determinants for each subclass indicate the number of pieces receiving the destination pallet discount and the non-destination pallet discount, from which one can determine the percent of palletized pieces that is dropshipped and non-dropshipped. Similarly, the number of pieces receiving the DDU, DSCF or DADC dropship discounts, minus the number of pieces receiving the destination pallet discount, must be the number of pieces in dropshipped sacks, etc. This information is used in combination with the volumes in Exhibit B of my testimony of the total number of dropshipped and non-dropshipped sacks and pallets, to estimate how many sacks or pallets at a given presort level and in each subclass are respectively dropshipped or not dropshipped.

<b>Test Year BR Volumes of Periodicals Flats by Subclass &amp; Piece Characteristics</b>					
		Regular	Nonprofit	Classroom	OC total
MADC	NBC/NM	1,663,501	263,608	31,672	1,958,782
	NBC/M	14,279,222	2,262,772	271,868	16,813,861
	BC/NM	2,573,274	447,815	23,654	3,044,744
	BC/M	8,061,484	1,402,904	74,104	9,538,492
ADC	NBC/NM	9,173,554	1,453,697	174,659	10,801,910
	NBC/M	38,948,589	6,172,029	741,557	45,862,176
	BC/NM	21,032,501	3,660,191	193,338	24,886,030
	BC/M	102,345,033	17,810,645	940,790	121,096,468
3d	NBC/NM	57,527,670	8,640,578	1,786,967	67,955,215
	NBC/M	125,356,363	18,951,778	3,714,418	148,022,558
	BC/NM	169,485,605	28,001,877	1,958,454	199,445,936
	BC/M	731,584,545	120,870,091	8,453,667	860,908,303
5d	NBC/NM	73,349,391	17,180,215	1,100,066	91,629,673
	NBC/M	124,949,192	28,918,719	1,893,885	155,761,795
	BC/NM	346,488,732	70,157,891	2,839,421	419,486,044
	BC/M	1,729,622,559	350,218,229	14,173,988	2,094,014,776
CR	NM	352,438,397	128,315,980	2,669,532	483,423,909
	M	2,520,647,235	917,718,736	19,092,551	3,457,458,523
Firm	NM	4,203,641	666,134	80,035	4,949,810
	M	12,852,074	2,036,617	244,696	15,133,387
Total Flats:		6,446,582,563	1,725,150,508	60,459,321	8,232,192,392

<b>Estimated Test Year BR Non- Auto Letters By Subclass</b>				
Presort	Regular	Nonprofit	Classroom	Total:
Basic:	13,069,766	2,133,670	256,304	15,459,740
3-D	4,435,286	678,867	152,705	5,266,858
5-D	7,015,330	1,753,119	96,843	8,865,292
Total:	24,520,382	4,565,656	505,852	29,591,890

Adjusted TYBR Counts of Regular Rate Bundles Per Bundle & Container Presort Level										
Bundle	Sacks						Pallets			Total Bundles
Presort	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit	
MADC	2,994,825									2,994,825
ADC	7,122,094	6,985,967					350,099			14,458,159
3-D	6,476,870	16,255,916	33,787,878				10,157,622	7,178,275		73,856,560
5-D	1,972,294	5,634,374	36,926,970	4,753,889			30,246,190	83,226,882	763,175	163,523,773
CR			4,643,684		6,775,717	3,019,697	11,015,975	196,423,505	28,468,968	250,347,547
Firm	6,146,471	4,852,808	4,430,056	228,585	638,994		787,364	168,039	1,757	17,254,072
Total	24,712,552	33,729,064	79,788,588	4,982,474	7,414,711	3,019,697	52,557,250	286,996,701	29,233,900	522,434,936

Adjusted TYBR Counts of Nonprofit Bundles Per Bundle & Container Presort Level										
Bundle	Sacks						Pallets			Total Bundles
Presort	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit	
MADC	337,833									337,833
ADC	1,165,213	767,793					34,802			1,967,808
3-D	986,095	2,558,742	3,353,025				1,201,980	1,455,613		9,555,457
5-D	522,273	1,106,249	4,843,252	659,689			3,955,166	11,899,231	97,219	23,083,079
CR			1,023,518		1,877,908	517,937	3,029,682	40,961,060	8,071,793	55,481,898
Firm	974,007	769,005	702,013	36,223	101,259		124,770	26,628	278	2,734,185
Total	3,985,421	5,201,790	9,921,808	695,912	1,979,167	517,937	8,346,401	54,342,533	8,169,290	93,160,260

Adjusted TYBR Counts of Classroom Bundles Per Bundle & Container Presort Level										
Bundle	Sacks						Pallets			Total Bundles
Presort	MADC	ADC	SCF/3-D	5-Digit	5-D CR	CR	ADC	3D-SCF	5-Digit	
MADC	44,705									44,705
ADC	87,353	78,263					4,613			170,229
3-D	90,893	237,993	475,263				134,800	107,889		1,046,838
5-D	23,457	59,287	344,212	43,941			228,102	667,710	6,633	1,373,342
CR			31,031		49,923	18,109	74,552	1,277,806	206,199	1,657,620
Firm	117,025	92,394	84,346	4,352	12,166		14,991	3,199	33	328,507
Total	363,433	467,938	934,852	48,293	62,089	18,109	457,058	2,056,604	212,865	4,621,241

<b>Regular Rate Sack &amp; Pallet Counts By Entry Point &amp; Container Presort (TY08 BR)</b>								
Container		Entry Point						
Type	Presort	DDU	DSCF	DADC	DBMC	OBMC	OADC	OSCF/OAO
Sacks	MADC				8,113	271,616	1,870,524	1,653,783
	ADC			820,322	10,875	712,372	2,973,719	3,455,682
	3-D/SCF		3,533,942	1,235,072	56,821	1,747,863	7,538,914	7,166,741
	5-d	142,925	1,414,128	428,603	12,186	83,409	1,147,291	541,645
	5-d CR	20,375	609,332	76,007	4,495	278,669	257,366	353,957
	CR	77,842	1,072,088	284,765	6,746	112,218	224,394	133,271
Pallets	ADC			353,828	4,608	4,253	173,969	170,447
	3-D/SCF		1,394,581	262,380	11,804	7,849	207,185	193,345
	5-Digit	1,876	489,621	37,972	565	84	9,734	8,457

<b>Nonprofit Sack &amp; Pallet Counts By Entry Point &amp; Container Presort (TY08 BR)</b>								
Container		Entry Point						
Type	Presort	DDU	DSCF	DADC	DBMC	OBMC	OADC	OSCF/OAO
Sacks	MADC				1,041	34,855	240,037	212,223
	ADC			71,892	1,574	103,100	430,378	500,131
	3-D/SCF		140,997	49,277	8,122	249,841	1,077,617	1,024,419
	5-d	20,804	205,835	62,386	3,624	24,806	341,202	161,084
	5-d CR	5,039	150,689	18,797	1,634	101,305	93,560	128,674
	CR	13,962	192,294	51,076	1,877	31,217	62,421	37,073
Pallets	ADC			27,939	565	521	21,321	20,890
	3-D/SCF		164,114	30,877	1,542	1,025	27,059	25,251
	5-Digit	497	129,690	10,058	360	54	6,203	5,389

<b>Classroom Sack &amp; Pallet Counts By Entry Point &amp; Container Presort (TY08 BR)</b>								
Container		Entry Point						
Type	Presort	DDU	DSCF	DADC	DBMC	OBMC	OADC	OSCF/OAO
Sacks	MADC				107	3,569	24,581	21,733
	ADC			1,149	153	10,029	41,867	48,653
	3-D/SCF		5,733	2,004	891	27,398	118,174	112,340
	5-d	154	1,525	462	234	1,604	22,068	10,418
	5-d CR	17	497	62	59	3,630	3,352	4,611
	CR	48	662	176	161	2,677	5,353	3,179
Pallets	ADC			2,251	51	47	1,913	1,875
	3-D/SCF		8,954	1,685	111	74	1,941	1,812
	5-Digit	10	2,559	198	37	6	645	560