

2. Early in the FSS process, senior Postal Service managers assured customers that FSS is a cost reduction tool and would not cost mailers more money, and in particular that FSS deployment would not result in higher carrier route rates (rather, the 5-digit rate would be lowered to the carrier route level in FSS zones).

In this filing, the carrier route rate received the highest percentage increase of all piece rates. Has the Postal Service changed its position on the pricing of carrier route copies, and if so, why?

3. In its Annual Compliance Determination for Fiscal Year 2009 (issued March 29, 2010), at 82, the Commission stated the following regarding Periodicals Class rates:

The price-cost ratios for bundles, sacks, and pallets are significantly below 100 percent. . . .

The low passthroughs are problematic for two reasons. First, they exacerbate the Periodicals cost/ revenue gap because mailers are not paying for the full cost of handling bundles and containers. Second, the combination of low and differential passthroughs may send conflicting price signals to mailers and prevent them from entering mail in a way that reduces the end-to-end cost. [footnote omitted]

As noted above, current opportunities exist to improve efficiency and to offer mailers appropriate pricing incentives. The Postal Service should implement such changes as soon as practicable. [Emphasis in original.]

At page 39 of his testimony, Witness Kiefer states:

In light of these considerations, the Postal Service believes that an above-average increase of 8 percent together with a plan of gradual improvement of cost coverage represents a judicious balance between quickly resolving the Periodicals cost coverage problem and ensuring the best prospects for the long-term health of the Periodicals industry.

- a) Can you please clarify what you mean by “a plan of gradual improvement of cost coverage”?
 - b) Does that plan include implementation of the changes recommended by the Commission "as soon as practicable"? If not, why not? If so, how soon, according to the plan, is "as soon as practicable"?
4. At page 41 of his testimony, Witness Kiefer states:

There are nine workshare discounts that exceed avoided costs in the proposed Periodicals rates.

Would reducing these discounts to a passthrough of 100% or less of avoided costs have a positive effect on Periodicals Class cost coverage?

5. Witness Kiefer provides passthrough data for various Periodicals workshare discounts in Appendix B of his testimony. Non-machinable nonauto 3D/SCF Flats show a passthrough of 177.8%. At the same time, Carrier Route Basic Flats show a passthrough of 76.8%. In the exigency filing, the percentage rate increase proposed for a Non-machinable nonauto 3D/SCF Flat is 8.39%, while the percentage increase for a Carrier Route Basic Flat is 9.0% (the highest increase of all flat piece rates).
 - a) How can the Postal Service justify proposing a smaller increase for a rate that currently passes through far more than 100% of avoided costs than for a rate that currently passes through significantly less than 100% of avoided costs?
 - b) Is it the position of the Postal Service that reduction of the wide disparity in the passthrough levels for these two rates is not currently "practicable." If so, please explain.
6. Do you agree that Periodicals Class publications that have higher-than-average unit mail processing costs are generally the beneficiaries of higher percentage passthroughs of avoided bundle and container costs than are publications with lower-than-average unit mail processing costs? If not, please explain. If so, please state the justification for continuing to provide higher passthroughs of avoided costs to the publications that are most costly to process.
7. Many Periodicals mailers are reporting increases in advertising pages in 2010. If the advertising weight of Periodicals improves, will this have a positive or negative effect upon Periodicals cost coverage?

Respectfully submitted,

s/

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