

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

Experimental Periodicals
Co-Palletization Dropship Discounts
For High Editorial Publications

Docket No. MC2004-1

ERRATUM TO INTERROGATORIES OF TIME WARNER INC.
TO WITNESS TAUFIQUE
(April 19, 2004)

On Friday, April 16, Time Warner Inc. (Time Warner) submitted a filing denominated "Interrogatories Of Time Warner Inc. to Witness Taufique (TW/USPS-T1-24-25)." Because an interrogatory numbered TW/USPS-T1-24 had already been filed on April 9, 2004, the interrogatories filed on April 16 should have been numbered TW/USPS-T1-25-26.

A corrected set of interrogatories, numbered TW/USPS-T1-25-26, is attached hereto.

Respectfully submitted,

s/_____
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INTERROGATORIES OF TIME WARNER INC.
TO WITNESS TAUFIQUE (TW/USPS-T1-25-26)
(April 16, 2004)

Pursuant to sections 25 and 26 of the Rules of Practice, Time Warner Inc. (Time Warner) directs the following interrogatories to United States Postal Service witness Taufique (USPS-T-1). If witness Taufique is unable to respond to any interrogatory, Time Warner requests that a response be provided by an appropriate person capable of providing an answer.

Respectfully submitted,

s/ _____
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INTERROGATORIES TO WITNESS TAUFIQUE (USPS-T-1)

TW/USPS-T1-25. Please refer to your testimony's reference to "more fundamental change in the current rate structure" (p. 5, line 16) and to your answer to TW/USPS-T1-14, where you say in response to parts "c" and "d" respectively: "I am confident that the Postal Service will continue, in some form or another, to advocate providing *incentives for small publications* to combine their mail and enter it on pallets at an ADC or SCF" (emphasis supplied); and "I would expect that any future Postal Service proposals would be consistent with the objectives embodied in the current proposal, namely to make it *more likely that smaller mailers* would combine their mailings to achieve palletization and dropshipment." (emphasis supplied)

- a. Do these statements mean that you are confident that the incentives advocated for "small publications to combine their mail and enter it on pallets at an ADC or SCF" will be greater than any corresponding incentives for large publications to prepare pallets of similar postal cost incurrence and enter them at ADCs or SCFs? If not, please explain clearly what they do mean.
- b. When you say that "any future Postal Service proposals would be consistent with the objective[] . . . [of making] it more likely that small mailers would combine their mailings to achieve palletization and dropshipment," do you mean more likely with incentives than without incentives, or more likely than large mailers, or more likely than something else? Explain.
- c. Are you suggesting that small mailers should and will be singled out by applying some sort of arbitrary boundary (possibly focusing on their mailed circulation or their density) and given incentives beyond cost avoidances to prepare mail in ways specified by the Postal Service? If not, please explain what you do mean.
- d. Do you believe that it would be fair to give small mailers cost-based signals and then to allow them to choose what is best for them?
- e. This part focuses on the discounts proposed in Dockets No. MC2002-3 and MC2004-1. The references to cost savings are to cost differences and should not be interpreted as influenced by whether some mailers are already performing a specific worksharing activity.
 - (1) Do you agree that the savings behind the discounts proposed in MC2002-3 and MC2004-1 exist for considerable volumes of palletized and dropshipped mail that are *not* eligible for the discounts (i.e., both MC2002-3-type savings and MC2004-1-type savings would seem to exist for all pallets entered at a DSCF, though the discounts are available only to certain co-palletized entries, understanding of course that no mailer can claim both discounts)? Explain any disagreement.

- (2) Leaving aside the question of whether any discrimination involved might be undue or unjustifiable, do you agree then that the discounts of MC2002-3 and MC2004-1 *discriminate* against these considerable volumes of palletized and dropshipped mail that do not qualify for the discounts? In this case discrimination means that the savings exist for both groups but only one group gets the discount. Explain any disagreement.
 - (3) Is this a kind of discrimination (in this case substantially between large and small mailers) that you would expect to see, in one form or another, in any future Periodicals rate proposals of the Postal Service? Explain.
- f. As a reference point, consider the possibility of a cost-based rate structure in which the rates are based on mailings' costs through general recognition of containerization, presort, bundle makeup, and entry point, including associated interactions, with zoned pound rates applying to the publications' full weight. As one example of this kind of structure, see the proffered proposal of Time Warner et al. in Docket No. MC2004-1. Within such a rate structure:
- (1) Do you see any cost-based opportunity to exclude considerable volumes of palletized and dropshipped mail from a discount that would be available to certain co-palletized mailings? If you do, please explain.
 - (2) Do you see for "small publications" any cost-based opportunity for incentives that would *not* exist as well for large publications? Explain.
- g. This part focuses on the discounts of Docket No. MC2002-3.
- (1) For the additional rate reductions (or discounts) of MC2002-3, do you agree that the cost basis focuses on unrecognized (i.e., not given to the mailer through the zoned advertising pound rates) savings for publications of *average* editorial content and therefore that high-advertising publications (receiving the co-pallet discount and a substantial discount on advertising pounds) receive rate reductions that are larger than the actual savings (i.e., the savings on the actual weight, except for an effect due to the 95 percent passthrough) and that high-editorial publications (receiving the co-pallet discount and a minuscule discount on advertising pounds) receive rate reductions that are smaller than the actual savings? Explain any disagreement.
 - (2) Do you agree that the structure described in part 1 discriminates against high-editorial publications and in favor of high-advertising publications? In this case, discrimination means that the high-

- advertising publications receive a larger discount relative to cost avoidance than the high-editorial publications. Explain any disagreement.
- (3) Does the pattern of discounts in MC2002-3, as described in part 1, represent a kind of advertising vs. editorial treatment that you would expect to see in any future Periodicals rate proposals from the Postal Service? Explain.
- h. Consider a co-pallet (or regular pallet) entered at an origin office, in a high zone, average in terms of its weight and its number of pieces.
- (1) Do you agree that all of the savings behind the 1-cent pallet discount of Docket No. R2001-1 exist for this co-pallet (or regular pallet) but that this co-pallet (or regular pallet) does not receive the 1-cent discount? Explain any disagreement.
- (2) On this basis, then, do you agree that this co-pallet (or regular pallet) is discriminated against in the current rate structure, whether unduly or not being a separate question? That is, the savings exist for both the dropshipped and the non-dropshipped pallet, but only the dropshipped pallet gets the discount. Explain any disagreement.
- (3) Is this a kind of discrimination against non-dropshipped pallets that you would expect to be part of any future Periodicals rate proposal of the Postal Service? Explain.
- i. Consider *sacks* that would normally be entered at an origin office but that are dropshipped instead to a DSCF and that receive both the 0.8-cent per-piece discount and the per-pound discount on advertising.
- (1) Do you agree that all of the dropship savings (or avoidances) behind the discounts of MC2002-3 and MC2004-1 exist for these sacks but that they are not eligible for the discounts? Explain any disagreement.
- (2) On the basis that the savings occur but the discounts *are not* given, while for the co-pallets of these two cases the savings occur and the discounts *are* given, do you agree that these sacks are discriminated against in the current and proposed rate structures, whether unduly or not being a separate question? Explain any disagreement.
- j. Consider a mailer contemplating entering either sacks or co-pallets (or regular pallets) at an origin office, where the pieces on the pallets would receive the existing one-half-cent pallet discount.

- (1) Do you agree that the one-half-cent discount is based on pallet savings occurring at the destination office and does not include any savings associated with handling pallets instead of sacks between the origin office and the destination office? Explain any disagreement.
- (2) Do you agree that if the Postal Service, *ceteris paribus* (including the same postage, except for the one-half-cent discount), had a choice between handling the pallets and handling the sacks, in each case from the origin office to the destination office, it would prefer handling the pallets? Explain any disagreement.
- (3) Do you agree that if the sacks were dropshipped instead of being entered at the origin office, the cost avoidance would be larger than that caused by dropshipping the pallets? Explain any disagreement.
- (4) Assuming the Postal Service to have a preference for handling pallets instead of sacks, as suggested in part 2, please explain the basis for offering special discounts for dropshipping the pallets, including as applicable (a) the discounts from MC2002-3 and MC2004-1 and (b) a decision to grant the otherwise-withheld one-cent pallet discount (which is based on savings that occur whether or not the pallet is dropshipped), but not arranging any special discounts for dropshipping the sacks, when the savings for dropshipping the sacks is larger than the savings for dropshipping the pallets, as suggested in part 3. Note: it should be understood that both the sacked mail and the palletized mail would receive in equal amounts certain dropship discounts in the basic rate structure.
- (5) Based on evidence of providing special discounts for pallets-but-not-sacks to dropship, please explain an apparent Postal Service interest in biasing rates so that it has sacks-but-not-pallets on its trucks.

TW/USPS-T1-26. Please see your response to ABM/USPS-T1-17, where you say: “My reference to mail preparation in an ‘efficient fashion’ refers to mail preparation that lowers the costs imposed on the Postal Service, rather than the efficiency of the mailer’s operations.” See also your response to TW/USPS-T1-17, where you say: “The goal is to provide incentives for changing behavior that is costly both to the mailers and the Postal Service.” In addition, note part “d” of the same interrogatory that asked: “If under the efficient component pricing rule a mailer decides to purchase a high-cost service instead of a low-cost service, do you know of any basis for concluding that this is an undesirable outcome?”

- a. Would you agree that the Postal Service offers mailers a broad range of services and that it costs the Postal Service more to provide some of the services than to provide others? Explain any disagreement.
- b. Consider two services offered. Service A involves accepting, processing, and delivering mail that is tendered on *pallets*, and providing it costs the Postal Service 15 cents per piece. Service B involves accepting, processing, and delivering mail that is tendered in *sacks*, and providing it costs the Postal Service 20 cents per piece.
 - (1) Please explain whether it is your contention that, because the cost of Service A is lower, mailers wishing to purchase Service A are preparing their mail in an “efficient fashion” and mailers wishing to purchase Service B are preparing their mail in an inefficient fashion.
 - (2) Under the conditions assumed in this question, would the Postal Service have an interest in discouraging mailers from purchasing Service B, because the Postal Service’s costs of providing that service are higher?
 - (3) Can you think of any private firms that discourage customers from buying their higher-cost services, such as General Motors discouraging the purchase of automobiles that cost more, as might be the case for buyers wanting convertibles or extra features like traction control? If so, please discuss them as examples.
 - (4) If the purchasers of Service B are charged a rate that is based on the 20-cent cost, can you think of any reason for concluding that they are purchasing in an inefficient fashion or are doing something wrong, or that they should be discouraged from their purchasing?
 - (5) If the rates for Service A are based on the costs of Service A and the rates for Service B are based similarly on the costs of Service B, would it be your view that mailers should be permitted to choose freely which service they wish to purchase and that there is nothing wrong with purchasing Service B? Explain.

- (6) If the rates for Services A and B are based respectively on the costs of Services A and B, and the Postal Service breaks even, can you think of any reason why the Postal Service is better off with more of Service A and less of Service B? Explain.
- (7) If the difference between Service A and Service B were that one is dropshipped and the other is not, or that one is presorted and the other is not, would your answers to any parts (accordingly adjusted) of this question change?