

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

POSTAL RATE AND FEE CHANGES, 2005)

Docket No. R2005-1

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
THIRD INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS TO UNITED STATES POSTAL SERVICE
WITNESS MAURA ROBINSON (VP/USPS-T27-11-23)
(June 10, 2005)

Pursuant to sections 25 and 26 of the Postal Rate Commission rules of practice, Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. hereby submit interrogatories and document production requests. If necessary, please redirect any interrogatory and/or request to a more appropriate Postal Service witness.

Respectfully submitted,

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June 10, 2005

VP/USPS-T27-11.

Please refer to your response to VP/USPS-T28-17(d), redirected from witness Taufique (USPS-T-28), where you state that “In this example, it is unclear whether you are referring to marginal costs or total costs of providing a product,” and, in referring to the response of witness Taufique to VP/USPS-T28-17(c), you state “Therefore, I do not believe, given the break-even constraint and the level of institutional costs, that the pricing of Postal Service products could necessarily result in rates and fees equal to marginal costs for every product.”

- a. Please define the term “product” as you use that term in your above-quoted response.
- b. Please refer to your definition of “product” in preceding part a and identify the number of Postal Service products that currently exist in the ECR commercial subclass and, referring to Rate Schedule 322 in the Request, please describe what those products are.

VP/USPS-T27-12.

Would you agree that a change in rates described generally as a 5.6 percent “across-the-board” increase represents an approach to setting rates that is both formulaic and unusual? If you do not agree that this is a formulaic approach to rate setting, please explain why not, and define or state what in your opinion would constitute a formulaic approach.

VP/USPS-T27-13.

Please refer to your testimony at page 7 (ll. 9-10), where you state that “While the Postal Service incurs other institutional costs, these other costs, unlike the escrow requirement, are related to the provision of mail services....”

- a. Where you refer here to “the provision of mail services,” please explain whether are you referring to the current (or future) provision of mail services, or to the provision of mail services at any and all times in the past?
- b. To the extent that the Postal Service’s institutional costs have included retroactive payments to cover workers’ compensation costs for injuries incurred prior to enactment of the Postal Reorganization Act, would you consider those costs to be for the provision of mail services? Please explain why a retroactive payment for costs incurred so many years ago should be considered as falling within the ambit of “provision of mail services.”
- c. Since the current law now requires the Postal Service to pay all retirement costs for Postal Service employees who have credit for military service, would you consider that portion of retirement costs related to military service to be for the provision of mail services? Please explain why this particular portion of retirement costs should be considered as falling within the ambit of “provision of mail services,” and explain what distinguishes this expense from the institutional overhead expense imposed by the escrow obligation.

VP/USPS-T27-14.

Please refer to your testimony at page 6 (ll. 19-20) where you state that “postal management was faced with the question of how to **most equitably** recover the escrow burden in a circumstance where they would not otherwise be proposing changes in rates and fees.” (Emphasis added.) Please also refer to your testimony at page 8 (ll. 11-12) where you state that “[a]llocating the escrow obligation *pro rata* based on revenue spreads the burden of the escrow requirement **equitably**....” (Emphasis added.)

- a. Is it your opinion that an across-the-board percentage increase in rates is the most equitable way of recovering an increase in institutional costs?
- b. Is it your opinion that any other set of rate increases not based *pro rata* on revenue would be a less equitable way of recovering either (i) any increase in institutional costs, or (ii) an increase in institutional costs mandated by Congress? Please explain your answer.
- c. Unless your answer to preceding part a is an unqualified affirmative, please indicate whether it is your opinion that an across-the-board percentage increase in rates is the most equitable way of recovering an increase in institutional costs only when the increase is mandated by Congress. If this is your opinion, please (i) explain why obligations mandated by Congress require different treatment, and (ii) opine as to why Congress has not enacted a special subsection under Section 3622(b) to allow the Postal Service and the Postal Rate Commission to deal with this situation, or (iii) explain why the Postal Service, in the absence of such legislation, has take it upon itself to decide that the existing rate-setting

criteria in Section 3622(b) of the Postal Reorganization Act are inadequate and different treatment is required.

VP/USPS-T27-15.

Please refer to your testimony at page 12 (ll. 15-18) where you state:

Because the escrow expense does not vary with mail volume, and, in fact, is not related to the provision of postal services, it would be unreasonable to propose that any one customer or group of customers bear a disproportionate share of this expense.

- a. Can you identify any institutional overhead expenses that vary with volume?

Unless your answer is an unqualified negative, please identify each such expense.

- b. Has the Postal Service made any attempt to identify other expense items in its annual budget that may not be related to the provision of postal services?

- c. Would you agree that having Standard ECR mailers pay a 244.1 percent coverage, while, for example, Standard Regular mailers pay a 159.6 percent coverage and Periodicals within county mailers pay a 104.3 percent coverage, results in Standard ECR mailers bearing a “disproportionate share of this expense?” If not, please explain.

- d. Why is it reasonable to propose that any one customer, or group of customers, bear a disproportionate share of the Postal Service’s institutional overhead expense, as the Postal Service has proposed in prior omnibus rate cases?

VP/USPS-T27-16.

Please refer to your testimony at page 12 (ll. 11-13) where you state:

the Postal Service cannot simply ignore its [the escrow requirement's] existence. To do so would be a breach of the financial management responsibilities established under the Postal Reorganization Act.

If the Postal Service cannot afford to ignore the existence of the escrow requirement without breaching the financial management responsibilities established under the Postal Reorganization Act, please explain how the Postal Service can afford to ignore its future unfunded health care liabilities (discussed at page 27 of the 2004 Annual Report of the U.S. Postal Service) which far exceed the FY 2006 escrow requirement of \$3.1 billion, without breaching its financial management responsibilities.

VP/USPS-T27-17.

Please refer to your testimony in Section IV.B, starting at page 13 (l. 15) where you discuss the Value of Service criterion contained in Section 3622(b)(2) of the Postal Reorganization Act. Aside from your explanation of the various factors that have been used to assess value of service, please explain how you explicitly took into account value of service when recommending (or reviewing) coverages for each class and subclass of mail, and how that consideration caused you either to increase or decrease the coverage on any individual class or subclass of mail. If the circumstances of this case caused you essentially to ignore, or override considerations of value of service, please so state.

VP/USPS-T27-18.

Please refer to your testimony at page 18 (ll. 6-7) where, in your discussion of Criterion 4, Effect of Rate Increases, you state that “Public Law 108-18 does not differentiate between customers in the imposition of the escrow.”

- a. Did the Omnibus Budget Reconciliation Act of 1990 differentiate between postal customers?
- b. Did the Omnibus Budget Reconciliation Act of 1993 differentiate between postal customers?
- c. Did the Balanced Budget Act of 1997 differentiate between postal customers?
- d. Did the section of Public Law 108-18 that requires the Postal Service to pay Civil Service Retirement System (“CSRS”) retirement benefits for military service differentiate between postal customers?
- e. Does your above-quoted statement mean that you felt it was necessary for Public Law 108-18 to differentiate between postal customers on the basis of the number of available alternatives in order for you to give explicit consideration and weight to this criterion in Section 3622(b)? If this is not a correct interpretation of what you intended, please explain what you meant.
- f. In light of the criteria already contained in Section 3622(b) of the Postal Reorganization Act, please explain why any act of Congress that imposes some kind of financial obligation on the Postal Service also should contain explicit provisions that differentiate between postal customers.

VP/USPS-T27-19.

Please refer to your testimony at page 19 (ll. 15-16) where you discuss available alternatives, and state that “Public Law 108-18 has not differentiated customers on the basis of the number of available alternatives.”

- a. Did the Omnibus Budget Reconciliation Act of 1990 differentiate postal customers on the basis of the number of available alternatives?
- b. Did the Omnibus Budget Reconciliation Act of 1993 differentiate postal customers on the basis of the number of available alternatives?
- c. Did the Balanced Budget Act of 1997 differentiate postal customers on the basis of the number of available alternatives?
- d. Did the section of Public Law 108-18 that requires the Postal Service to pay CSRS retirement benefits for military service differentiate between postal customers on the basis of the number of available alternatives?
- e. Does your above-quoted statement mean that you felt it was necessary for Public Law 108-18 to differentiate customers on the basis of the number of available alternatives in order for you to give explicit consideration and weight to this criterion in Section 3622(b)? If this is not a correct interpretation of what you intended, please explain what you meant.
- f. Please explain how you explicitly took available alternatives into account, especially changes and developments in available alternatives since Docket No. R2001-1, when recommending the coverages for each individual class or

subclass of mail. If the circumstances of this case caused you to ignore, or override considerations of available alternatives, please so state.

VP/USPS-T27-20.

Please refer to your testimony at page 6 (l. 13) where you state that “the escrow obligation does not serve a ‘postal’ function.”

- a. Please define what you mean by the term “postal function” as you use it here.
- b. Please explain how retirement payments for military service serve a “postal” function.
- c. Please explain how workers’ compensation expenses for injuries incurred prior to 1971 serve a “postal” function.

VP/USPS-T27-21.

Please refer to your response to VP/USPS-T27-3(k) where you state:

Efforts to force fit past coverages to a new case can only succeed if one is compelled to ignore all new information and solely dwell on the past.

- a. Would you agree that an across-the-board rate increase is built solely on prior rates already in existence? Please explain any disagreement.
- b. Would you agree that an across-the-board rate increase ignores all new information as regards changes in cost, demand, competition, elasticities of demand, etc. Please explain any disagreement.

VP/USPS-T27-22.

Please refer to your response to VP/USPS-T27-7 where, as part of your response, you state:

The potential for Congressional action removing the escrow requirement must be considered. The proposed across-the-board rate increase permits the Commission to separate the escrow obligation from other issues in rate design that would not otherwise be raised by the Postal Service.

- a. If the Postal Service, the Commission and mailers are to consider the potential for Congressional action removing the escrow requirement, should they also consider the potential for Congressional action eliminating future rate cases and thereby causing rates resulting from your proposed across-the-board increase becoming the basis for rates in the foreseeable future?
- b. In your opinion, is the potential for Congressional inaction a possibility that also should be considered?
- c. With respect to your statement that the proposed across-the-board rate increase permits the Commission to separate the escrow obligation from other issues in rate design, does Public Law 108-18 or the Postal Reorganization Act mandate that the Commission make such a separation?
- d. With respect to your statement that the proposed across-the-board rate increase permits the Commission to separate the escrow obligation from other issues in rate design, does Public Law 108-18 or the Postal Reorganization Act in any way obligate the Commission to make such a separation?

- e. With respect to your statement that the proposed across-the-board rate increase permits the Commission to separate the escrow obligation from other issues in rate design, does the Postal Reorganization Act allow the Commission to make such a separation, and then apply the criteria in Section 3622(b) differentially, to the point of virtually ignoring most of the criteria?

VP/USPS-T27-23.

- a. Please confirm that your testimony does not contain or discuss either markups or coverage of individual subclasses using PRC attributable costs. If you do not confirm, please indicate where in your testimony these data can be found.
- b. Please confirm that the markups for individual subclasses using PRC attributable costs can be found only in USPS-LR-K-114, which is a Category 5 library reference, and which you do not sponsor. If you do not confirm, please explain.
- c. Please confirm that, using PRC attributable costs, library reference USPS-LR-K-114 indicates that both (i) Within County Periodicals and (ii) Media Mail and Library Mail have negative markups — *i.e.*, coverages of less than 100 percent — which means that neither subclass covers its attributable costs. If you do not confirm, please explain.
- d. When you prepared your testimony, did you refer to library reference USPS-LR-K-114?

- e. Is it your recommendation that the Commission should approve rates that are known to you to be less than attributable cost?