

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

POSTAL RATE AND FEE CHANGES
PURSUANT TO PUBLIC LAW 108-18

Docket No. R2005-1

RESPONSES OF POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC. (VP/USPS-T6-10-14)

The United States Postal Service hereby provides the responses of witness Tayman to the following interrogatories of ValPak Direct Marketing Systems, Inc. and ValPak Dealers' Association, Inc., filed on June 10, 2005: VP/USPS-T6-10-14.

Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2999, Fax -5402
scott.l.reiter@usps.gov
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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAYMAN
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

VP/USPS-T6-10. Your testimony (USPS-T-6, as revised on June 9, 2005) set out the basis for the Rate Request at pages 16-19. We seek to contrast the Civil Service Retirement System (“CSRS”) escrow fund basis for this rate case with similar expenses incurred by the Postal Service in the past.

- a. Please indicate the total expenses that the Postal Service was obligated to incur as a result of the Omnibus Budget Reconciliation Act (“OBRA”) of 1990.
- b. What was the purpose, or purposes, of the expenses mandated by the 1990 OBRA?
- c. Was there precedent for the 1990 OBRA as it affected the Postal Service, or was it an unprecedented event for the Postal Service? Please explain any precedent.
- d. At the time the 1990 OBRA was enacted, would it be reasonable to describe it as a unique event, or did it fall into a pattern that might be described as a follow-on to some prior event or existing trend? If the latter is the case, please explain.
- e. Would it be reasonable to describe the effect of the 1990 OBRA as a “tax” on postal ratepayers?
- f. To the best of your knowledge, was a “tax” metaphor used at the time it was under consideration by Congress and immediately following its enactment?
- g. Of the total obligation provided in response to preceding part a, how much, or what percentage, did the Postal Service treat as operational expenses?
- h. How much (or what percentage) of the expenses caused by the 1990 OBRA was retroactive, and how much (or what percentage) was for expenses incurred either in FY 1990 or in FY 1991?
- i. Of that amount of the 1990 OBRA expenses that the Postal Service treated as operational expenses, (i) how much was attributable, and (ii) what was the basis for attribution?

Response

- a. As reflected on the attached schedule, the total cost through FY2004 was \$21.099 billion.
- b. The OBRA of 1990 made the Postal Service responsible for CSRS COLAs and the employer’s share of FEHBP insurance premiums for postal annuitants who retired after June 30, 1971 and their survivors, apportioned to

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reflect only Federal civilian employment service occurring after June 30, 1971.

c. The OBRA of 1990 reflected the continuation of the trend seen in previous legislation for the transfer of costs related to Postal Service retirement and annuitant health benefits previously funded by the U.S. Treasury.

d. See my response to c.

e. No.

f. Not to my knowledge.

g. \$18.959 billion was treated as operating expense.

h. \$2.140 billion was retroactive. There was no 1990 OBRA expense in FY 1990. The FY 1991 expense was \$2.650 billion.

i. (i) These costs have been attributed to the same degree as all volume variable postal labor costs.

(ii) The establishment for this approach to attribution relates to CSRS unfunded liability costs first charged to the Postal Service in 1974. In its Opinion and Recommended Decision, Docket No. R77-1, the PRC stated the rationale for treating prior years' costs as volume variable:

The best available approximation of the costs that are causally related to the classes and service, therefore, must include a share of the prior year payment in order to reach the costs that have not yet been causally apportioned – but without giving undue weight to obligations that exceed the revenue requirement.

OBRA Costs

(\$ in billions)

Attachment to
VP/USPS-T6-10

FISCAL YEAR	OBRA 1985	OBRA 1987	OBRA 1989	OBRA 90		OBRA 1993	TOTALS	
				CURRENT	RETRO		ANNUAL	CUM.
1987	0.010	---	---	---	---	---	0.010	b/ 0.010
1988	0.053	0.510	---	---	---	---	0.563	b/ 0.573
1989	0.100	0.270	---	---	---	---	0.370	b/ 0.943
1990	0.166	---	0.074	---	---	---	0.240	b/ 1.183
1991	a/	a/	a/	0.749	1.901	---	2.650	b/ 3.833
1992	a/	a/	a/	0.871	0.081	---	0.952	b/ 4.785
1993	a/	a/	a/	1.061	0.070	0.857	1.988	b/ 6.772
1994	a/	a/	a/	1.139	0.054	0.043	1.236	b/ 8.009
1995	a/	a/	a/	1.212	0.034	0.045	1.291	b/ 9.300
1996	a/	a/	a/	1.247	---	0.047	1.294	b/ 10.594
1997	a/	a/	a/	1.365	---	0.032	1.397	b/ 11.991
1998	a/	a/	a/	1.440	---	0.016	1.457	b/ 13.448
1999	a/	a/	a/	1.496	---	---	1.496	b/ 14.944
2000	a/	a/	a/	1.724	---	---	1.724	b/ 16.668
2001	a/	a/	a/	1.983	---	---	1.983	c/ 18.651
2002	a/	a/	a/	2.226	---	---	2.226	c/ 20.877
2003	a/	a/	a/	1.133	---	---	1.133	c/ 22.010
2004	a/	a/	a/	1.313	---	---	1.313	d/ 23.323
Totals	0.329	0.780	0.074	18.959	2.140	1.041	23.323	

a/ Enactment of the OBRA 1990 superceded prior OBRA's, therefore all costs are now identified as OBRA 1990.

b/ Source: Docket R2001-1 Exhibit USPS 6-K.

c/ Source: FY 2001-2003 Summary Description

d/ Source: Library Reference USPS-LR-K-50

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VP/USPS-T6-11. Your testimony (USPS-T-6, as revised on June 9, 2005) set out the basis for the Rate Request at pages 16-19. We seek to contrast the Civil Service Retirement System (“CSRS”) escrow fund basis for this rate case with similar expenses incurred by the Postal Service in the past.

- a. Please indicate the total obligation that the Postal Service was required to incur as a result of the Omnibus Budget Reconciliation Act (“OBRA”) of 1993.
- b. What was the purpose, or purposes, of the expenses mandated by the 1993 OBRA?
- c. Of the total expenses provided in response to preceding part a, how much, or what percentage, did the Postal Service treat as operational expenses?
- d. At the time the 1993 OBRA was enacted, would it be reasonable to describe it as a unique, one-time event? If not, please describe all circumstances (other than the 1990 OBRA) that made it non-unique.
- e. Would it be reasonable to describe the effect of the 1993 OBRA as a “tax” on postal ratepayers?
- f. To the best of your knowledge, was a “tax” metaphor used at the time it was under consideration by Congress and immediately following its enactment?
- g. Of the total obligation provided in response to preceding part a, how much, or what percentage, did the Postal Service treat as operational expenses?
- h. How much (or what percentage) of the obligation caused by the 1993 OBRA was retroactive, and how much (or what percentage) was for expenses incurred in either FY 1993 or FY 1994?
- i. Of that amount of the 1993 OBRA expenses that the Postal Service treated as operational expenses, (i) how much was attributable, and (ii) what was the basis for attribution?

Response

- a. As reflected on schedule attached to response VP-USPS-T6-10, the total cost was \$1.041 billion.
- b. The OBRA of 1993 required the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990.
- c. None.

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- d. The OBRA of 1993 reflected the continuation of the trend seen in previous legislation for the transfer of costs related to Postal Service retirement and annuitant health benefits previously funded by the U.S. Treasury.
- e. No.
- f. Not to my knowledge.
- g. None.
- h. See my response to b. The expenses incurred in FY 1993 and FY 1994 were \$857 million and \$43 million, respectively.
- i. These costs have been attributed to the same degree as all volume variable postal labor costs.

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VP/USPS-T6-12. Your testimony (USPS-T-6, as revised on June 9, 2005) set out the basis for the Rate Request at pages 16-19. We seek to contrast the Civil Service Retirement System (“CSRS”) escrow fund basis for this rate case with similar expenses incurred by the Postal Service in the past.

- a. Please indicate the total obligation that the Postal Service was required to incur as a result of the Balanced Budget Act of 1997.
- b. What was the purpose, or purposes, of these expenses mandated by the Balanced Budget Act of 1997?
- c. Of the total expenses provided in response to preceding part a, how much, or what percentage, did the Postal Service treat as operational expenses?
- d. How much (or what percentage) of the expenses caused by the Balanced Budget Act of 1997 was retroactive, and how much (or what percentage) was for expenses incurred either in FY 1993 or in FY 1994?
- e. Of that amount of the Balanced Budget Act of 1997 expenses which the Postal Service treated as operational expenses, (i) how much was attributable, and (ii) what was the basis for attribution?

Response

- a. In FY 1997, the Postal Service recognized an expense of \$258 million.
- b. The balanced budget Act of 1997 repealed the authorization for appropriations that had funded the liabilities of the former Post Office Department to the Employees’ Compensation Fund. Through FY 2004 the total cost to the Postal Service has been \$339 million.
- c. As reflected in the FY 1997 Annual Report, none of these costs were treated as operating expenses.
- d. All of these expenses were retroactive and related to years prior to Postal Reorganization.
- e. (i) None.

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- (ii) Because Post Office Department workers' compensation costs relate to the cost of Post Office Department employees, they are classified as institutional.

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VP/USPS-T6-13. Please refer to your response to VP/USPS-T6-8, where you cite the transfer of the old Post Office Department workers' compensation costs to the Postal Service as an example of expenses not "funded by ordinary (non-escrow) revenues."

- a. When did the requirement to fund the Post Office Department's workers' compensation costs take effect?
- b. Since the requirement took effect, what has been the cumulative total expenses to the Postal Service?
- c. Of the total cumulative expenses provided in response to preceding part b, how much has been treated as operating expenses?
- d. How much of the total cumulative expenses provided in response to preceding part b has been treated as attributable, and what has been the basis for attribution?

Response

- a. FY 1997
- b. \$339 million.
- c. Prior to FY99, these costs were treated as non-operating expense.
- d. None. See response 12.e(ii)

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VP/USPS-T6-14.

- a. When the Postal Service has been required by Congress to pay large retroactive amounts for expenses incurred in prior years, what was the basis for treating such payments as operational expenses in the year (or years) during which such payments were made?
- b. Under what circumstances would you consider it appropriate to recover large retroactive amounts for expenses incurred in prior years via an across-the-board rate increase, and under what circumstances would you consider it more appropriate to recover such large retroactive amounts for expenses incurred in prior years via a rate case that relies fully on the rate-setting procedure specified in the Postal Reorganization Act of 1970?

Response

- a. As explained in my answers to questions VP/USPS-T6-10-13, the extraordinary and retroactive portion of these types of expense have not been included in operating expense.
- b. The use of an across-the-board rate increase in the filing was based on the unknown nature of the FY2006 escrow requirement. Were it not for this requirement, we would not have filed this case. As stated on page 18 of my testimony, the escrow represents a true tax or burden on the system.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

Scott L. Reiter

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
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