

Before The  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

Postal Rate and Fee Changes )

Docket No. R2005-1

OFFICE OF THE CONSUMER ADVOCATE  
INTERROGATORIES TO  
UNITED STATES POSTAL SERVICE (OCA/USPS-196-207)  
(August 19, 2005)

Pursuant to Rules 25 through 28 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatory OCA/USPS-T1-1, dated April 12, 2005, are hereby incorporated by reference.

Respectfully submitted,

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OCA/USPS-196. Please refer to Postal Service testimony, USPS-T-6, Appendix A, regarding military service payment requirements under Public Law 108-18. The appendix discusses the direct cost transfer from the U.S. Treasury to the Postal Service of the costs of CSRS benefits that current and former Postal Service employees have earned through military service. In the second paragraph on page one, the statement refers to the direct cost transfer of \$27 billion of which \$17 billion is “wholly retroactive,” relating to funding between 1971 and 2002. The statement continues, “No agency other than the Postal service is responsible for these CSRS costs that Treasury continues to pay for all other federal employees. Neither is any private sector company responsible for these costs.”

- a. Does the quoted sentence refer to the entire \$27 billion, or only the wholly retroactive \$17 billion?
- b. Please reconfirm the validity of the above quoted Postal Service statement in view of the July 26 , 2005 OMB Statement of Administration Policy on H.R. 22 which says at page 3, that P.L 108-18 “effectively converted USPS’s CSRS program to the funding system utilized for the Federal Employees’ Retirement System (FERS). FERS is a fully-funded retirement system...where each agency, rather than the Treasury, covers the costs of the military service pension credits of its retirees.” If you cannot reconfirm, please explain.

- c. Please explain whether the Postal Service agrees that the P.L. 108-18 effectively converted the USPS's CSRS program to FERS, with respect to military service.

OCA/USPS-197. The House of Representatives passed H.R. 22 on July 26, 2005 providing for additional payments into a Postal Service Retiree Health Benefits Fund (Fund) and apparently eliminating all escrow payments required by P.L. 108-18.

- a. Is it the Postal Service's understanding that H.R. 22 eliminates entirely the P.L. 108-18 requirement that the Postal Service make escrow payments in FY2006 of \$3.08 billion? If not, please explain.
- b. Is it the Postal Service's understanding that the companion legislation to H.R. 22 in the Senate, S.662, eliminates entirely the P.L. 108-18 requirement that the Postal Service make escrow payments in FY2006 of \$3.08 billion? If not, please explain.

OCA/USPS-198. Please confirm that the \$3.08 billion escrow payment is a net figure as calculated in witness Tayman's Exhibit 6O. If not, please explain.

OCA/USPS-199. Please confirm that the H.R. 22 legislation eliminating the escrow payment does so by eliminating the Postal Service payments shown in Exhibit 6O styled as "Employer Contribution" and "Supplemental Liability" together being the "Total Cost Increases" of \$1.2 billion for FY2006. If not, please explain.

OCA/USPS-200. Please confirm that the "Total Cost Reductions" of \$4.3 billion in FY2006 in Exhibit 6O represents the total savings provided from P.L.

108-18 before the offsetting payments required by P.L. 108-18 reduce the retirement payment "savings" to \$3.01 billion. If not, please explain.

OCA/USPS-201. In the Report to Congress "Postal Service

Proposal: Use of Savings for Fiscal Years after 2005, P.L. 108-18,"

September

30, 2003, attached to the response to VP/USPS-T6-5a, the Postal Service estimated an FY2006 payment for "retiree health benefits" of \$5.0 billion.

Please also refer to the response to VP/USPS-T6-9 and VP/USPS-T6-4.

- a. Is it the understanding of the Postal Service that if H.R. 22 were enacted, the FY2006 payment for "retiree health benefits" would be \$5 billion? If not, please explain and provide the amount that would be expected to be paid in FY2006 for "retiree health benefits."
- b. Are the estimated health care benefits for existing retirees of \$1.7 billion that are included in the roll-forward model for FY2006, as discussed in VP/USPS-T6a, considered part of the \$5 billion payment in Proposal I as reported to Congress? If not, please explain.
- c. Please provide a worksheet detailing the various items that make up the \$5 billion of retiree health benefit payments as estimated in Proposal I and Table 1 of the report to Congress and provide updates to those amounts.

- d. If H.R. 22 were enacted, would the difference between the Postal Service's proposed funding of \$5.0 billion less former CSRS and retiree health benefit premium payments required under current law as discussed in VP/USPS-T6-9 be the total additional retiree health benefit cost to the Postal Service for FY2006? Would that amount be a net of \$1.2 billion? If not, please explain and provide the amount of the net increase in retiree health benefit payments for FY2006 under H.R. 22.
- e. Please explain why there is a difference between the amount used in the FY2006 roll-forward model of \$1.7 billion for existing retiree health benefits and the implicit existing retiree health benefit expense of \$3.8 billion in FY2006 as derived by subtracting \$1.2 billion net new retiree health benefit expenses from the \$5 billion total estimated retiree health benefit expenses discussed in VP/USPS-T6-9a.
- f. For FY2006, would the Postal Service payments into the Retiree Health Benefits Fund as required by H.R. 22 be the same under the legislation proposed in the companion legislation in the Senate, S.662? If not, please explain and provide an estimate of the net increase in retiree health benefit payments into the Fund.

OCA/USPS-202. Please confirm that the difference between the retirement payment savings due to P.L. 108-18 shown in Exhibit 6O of \$4.3 billion and the savings shown for FY2006 of \$5.2 billion in Proposal I in the Postal Service

report to Congress results solely from the assumption in Proposal I that the treasury assumes the cost of military service. If you do not confirm, please explain.

OCA/USPS-203. Please confirm that in comparing Tables 1 and 2 in the Postal Service report to Congress "Postal Service Proposal: Use of Savings for Fiscal Years after 2005, P.L. 108-18," September 30, 2003, attached to the response to VP/USPS-T6-5a, the "savings" due to P.L. 108-18 would be reduced from \$5 billion to \$3.8 billion if the CSRS cost of military service remains funded by postal ratepayers. If you do not confirm, please explain.

OCA/USPS-204. On August 18, 2005, Postcom.org reported comments attributed to CFO Richard Strasser. At the August 17<sup>th</sup> MTAC meeting, Mr. Strasser was said to have made "significant comments about the rate request now moving through proceedings at the Postal Rate Commission." The comments were reported as follows:

The escalation in fuel prices and the increase in next year's cost of living adjustments (COLAs) for craft employees "enhance the need for a 5.4% increase in January," he said. The prefunding requirements of the postal bills -- or an escrow account payment -- combined with the fuel and COLA increases make the 5.4% rate increase necessary. The USPS' financial situation is more unfavorable than when the case was filed, he said.

- a. Is it the Postal Service's current position that the Postal Rate Commission should approve the requested (Docket No. R2005-1) 5.4% across-the board increases even if the Postal Service is relieved of the P.L. 108-18 escrow burden and instead is required to make a substantial payment into a Retiree Health Benefits Fund

in the test year (possibly along the lines of the Postal Service's "Proposal 1: (Preference) If U.S. Treasury Funds CSRS Cost of Military Service"? If so, please explain fully the Postal Service's position. (Please assume for purposes of answering this question that a postal reform bill is signed by the President prior to the issuance of a recommended decision by the Postal Rate Commission).

- b. If the answer to part a. above is that the Commission should recommend the rates requested in Docket No. R2005-1, then isn't there now a contradiction between such a position and that espoused in the response to interrogatory VP/USPS-T6-9.a.(i), i.e., "Assuming that the \$1.2 billion payment cited above relates to the difference between our proposed funding of \$5.0 billion less former CSRS and retiree health benefit premium payments, it would be appropriate for the Postal Service to withdraw this case and file a new case"? (For reference, the "\$1.2 billion payment cited above" was an assumption made in the predicate of interrogatory VP/USPS-T6-9 that "Congress were to enact legislation that relieved the Postal Service of its \$3.1 billion obligation to the escrow account, but required that \$1.2 billion be paid into a new Retiree Health Care Fund.") If the Postal Service believes that no contradiction exists, then please explain and state clearly the Postal Service's current position.

- c. Please confirm that the rationale presented in witness Robinson's testimony, USPS-T-27 at 12, i.e., "the escrow expense does not vary with volume" and "a substantially equal across-the-board, 5.4% increase in rates and fees is fair and equitable" may not apply to a payment into a Retiree Health Benefits fund in that the nature of pre-funding Retiree Health Care benefits is nothing like the escrow requirement of P.L. 108-18. If this is not confirmed, then please explain in full.
- d. Also confirm that current treatment of retiree health care costs as volume variable (Witness Tayman's response to interrogatory VP/USPS-T6-2) might lead to the conclusion that payments into a Retiree Health Benefits fund should likewise be treated as volume variable, and distributed, "to the same degree as all volume variable postal labor costs" (id.). If this is not confirmed, then please explain fully.
- e. Confirm that if the situation arises as described in part a. of this interrogatory, i.e., *(1) the Postal Service is relieved of the P.L. 108-18 escrow burden and instead is required to make a substantial payment into a Retiree Health Benefits Fund in the test year (possibly along the lines of the Postal Service's "Proposal 1: (Preference) If U.S. Treasury Funds CSRS Cost of Military Service"?* and *(2) a postal reform bill is signed by the President prior to the issuance of a recommended decision by the Postal*

*Rate Commission*, the Commission may wish to treat such a Retiree Health Benefit payment in the test year as volume variable (and attributable) rather than as an operating expense suitable for “across-the-board” allocation. If this is not confirmed, then please explain in full.

OCA/USPS-205. Assuming enactment of the H.R. 22 provisions:

- a. Please calculate the impact of attributing the new Fund payment costs to all classes and subclasses of mail by removing the institutional allocation of the P.L. 108-18 escrow payment and attributing the new Retiree Health Benefits Fund payment required under H.R. 22 to all classes and subclasses of mail to the same degree as all volume variable postal labor costs are allocated as indicated in the Postal Service response to VP/USPS-T6-2.
- b. Does the impact of eliminating the institutional allocation of the \$3.01 billion escrow payment and reallocating the \$1.2 billion of new Retiree Health Benefits Fund payments (or such other amount anticipated by the Postal Service pursuant to H.R. 22) to the several classes and subclasses of mail, to the same degree as all volume variable postal labor costs are allocated as indicated in the Postal Service response to VP/USPS-T6-2, result in the proposed rates being less than attributable costs for any class or subclass? If so, please explain.

- c. Please provide all workpapers demonstrating the reallocation of the payments and supporting the conclusions reached in parts a and b.

OCA/USPS-206. The CBO estimated the cost of eliminating the Postal Service obligation for the cost of CSRS military service would be \$2 billion. The CBO Cost Estimate, HR 4341, Revised July 13, 2004 at page 7, stated, "CBO estimates transferring responsibility for military service credits, and the attendant reduction in CSRS contributions such a change would bring, would reduce on-budget receipts by \$2 billion in 2006 and \$13 billion over the 2006-2014 period." Please explain the difference between the Postal Service estimate of \$1.2 billion and the CBO estimate of \$2 billion.

OCA/USPS-207. Assuming enactment of the H.R. 22 provisions and further assuming that the Administration's policy requiring the Postal Service to fund the military service is also pursued by maintaining the current law in P.L. 108-18 for funding those military costs:

- a. Please calculate the cost impact on each class and subclass of mail pursuant to H.R. 22 together with the Administration's proposed modification by removing the institutional allocation of the P.L. 108-18 escrow payment (except for the military costs) and attributing the new Retiree Health Benefits Fund payment costs to all classes and subclasses of mail to the same degree as all volume variable postal labor costs are allocated as indicated in the Postal Service response to VP/USPS-T6-2.

- b. Does the impact of eliminating the non-military portion of the institutional allocation of the \$3.01 billion escrow payment and reallocating the \$1.2 billion of new Retiree Health Benefits Fund payments (or such other amount anticipated by the Postal Service pursuant to H.R. 22) to the several classes and subclasses of mail result in the proposed rates being less than attributable costs for any class or subclass? If so, please explain.
- c. Please provide all workpapers demonstrating the reallocation of the payments and supporting the conclusions reached in parts a and b.