

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

Postal Rate and Fee Changes )

Docket No. R2005-1

OFFICE OF THE CONSUMER ADVOCATE  
MOTION TO COMPEL RESPONSES TO INTERROGATORIES  
OCA/USPS-196-207  
(September 9, 2005)

Pursuant to Rules 21, 26(d) and 27(d) of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate (“OCA”) hereby moves to compel Postal Service responses to interrogatories OCA/USPS-196-207 filed on August 19, 2005.<sup>1</sup>

The Postal Service filed an objection to the interrogatories on August 29, 2005, claiming only that the questions are “untimely and unauthorized.”<sup>2</sup> That claim is wholly without merit as it ignores the clear language of the Presiding Officer’s ruling and recent interrogatory practice in this case. Significantly, the Postal Service does not dispute that the interrogatories meet the fundamental test: whether they are likely to produce admissible evidence. Not only would the responses be admissible, but the responses to these interrogatories will be necessary for the Commission to complete this proceeding if postal reform is passed before the Commission issues its opinion. Also significant, the Postal

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<sup>1</sup> In accordance with Rules 26(d) and 27(d) of the Commission’s Rules, the interrogatories are reproduced in an attachment to this pleading.

<sup>2</sup> “Objection of the United States Postal Service to Interrogatories of the Office of the Consumer Advocate (OCA/USPS-196-207),” August 29, 2005.

Service does not object to any of the interrogatories on the usual grounds of burden, relevance, cumulativeness, lack of nexus to the proceeding, improper-follow-up or confidentiality of the information requested.

Generally, these interrogatories relate to the potential impact of the proposed Postal Reform legislation moving through Congress. The House passed H.R. 22 on July 26, 2005. The bill was placed on the Senate calendar the next day. The Senate very nearly considered S. 662 only a few days later on July 29, just prior to August recess. Unanimous consent was needed to pass the legislation, but only because one senator placed a last minute hold on the legislation the matter was not considered for a Senate vote.<sup>3</sup> Reportedly, the vote would have led to passage of S. 662 as the White House, Senate Republican leadership and key sponsors had reached agreement on substance.<sup>4</sup> Thus, enactment in the near future before the final Commission ruling in this case appears likely and more than a mere possibility.

OCA believes the subject matter of the interrogatories is not only timely but of such significance that detailed responses will in all probability guide the course of the Commission's and the Postal Service's procedures in this case. The responses will indicate that legislation now close to enactment would eliminate the reason supporting the proposed across-the-board rate increase that is fundamental to the Postal Service's application. The responses to the interrogatories will indicate that in the event of final passage of the legislation

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<sup>3</sup> As reported by "PostCom Bulletin," Number 31-05, August 5, 2005 at 2.

<sup>4</sup> *Ibid.*

now in the Senate, and already approved by the House, the Commission will be required to order a complete recasting of the evidentiary support for any rate increase or either reject the application or encourage its withdrawal because without the escrow payment the rationale for an across-the-board rate increase will be eliminated and any rate increase should be based on updated cost attributions.

The legislation would eliminate the escrow payment that the Postal Service has treated as an institutional expense. However, the legislation in the version already approved by the House, and in the version now before the Senate, would require large Postal Service payments into a Retiree Health Benefits Fund. The amount of those payments is not clear but it is likely to be significantly different than the \$3.01 billion anticipated for the escrow payment in the FY2006 test year. More importantly, those payments into the Retiree Health Benefits Fund would not appropriately be deemed institutional costs but should be allocated as volume variable costs in the manner that other Postal Service labor costs are allocated. (See VP/USPS-T6-2, Tr. 2/170.)

One of the most prominent features of H.R. 22 is to require a sizeable payment into a Retiree Health Benefits Fund, in lieu of the P.L. 108-18 escrow payment. In response to Valpak interrogatories, the Postal Service itself acknowledges that the character of a P.L. 108-18 escrow payment, described by the Postal Service as a "tax" that is best treated as an institutional cost, is very different from a health benefits payment. Both the Postal Service and the Commission have long agreed that health benefits payments are volume variable

to the same extent as the underlying labor costs are volume variable. In view of the increasing likelihood that Congress will pass postal reform in the next few months, it is important for the Commission to have available to it, when it formulates its decision, evidence that it must consider when it evaluates the “across-the-board” rate increase. Since the \$3.1 billion escrow payment was viewed by the Postal Service as an institutional cost, while a retiree health benefits payment is mostly attributable, the rates proposed by the Postal Service might very well be in violation of §3622(b)(3) in that some classes of mail might not even be covering their attributable costs.

The Postal Service has stated that if the escrow payment is eliminated, management would recommend withdrawal of this rate case. However, the legislation now under consideration not only eliminates the escrow payments but establishes large payments into a Retiree Health Benefits Fund that may or may not offset the escrow payment. Thus, the Postal Service may take the position that despite the elimination of the escrow payments, new costs justify continuing the rate case. These interrogatories attempt to provide a record that estimates the new costs and to further point out that new costs should be and would be attributed differently than the attribution of the escrow payment in this case. Until the legislation rose recently to the top of the legislative agenda, these issues did not appear critical to the Postal Service case. The passage of H.R. 22 and the apparent near vote in the Senate on S. 662 brings these issues to the forefront in this case and they should be explored at this time.

The record does not include even approximate Retiree Health Benefits Fund amounts required by the legislation to be paid by the Postal Service; nor does the record include the impact of attributing the Retiree Health Benefits Fund payments to the various classes of service in the manner that labor costs are attributed. The OCA interrogatories seek to obtain an indication of these amounts from the Postal Service based on its current understanding of the impact of the legislation being considered. Thus, OCA interrogatories OCA/USPS-196-207 attempt to fill gaps in the current record.

The Commission should require a response now in order to assure that this record, in the event postal reform legislation is passed during this case, contains evidence to enable the Commission to revise procedures if the Postal Service seeks rate relief to recover new FY2006 expenses ordered by the legislation for payments into the Retiree Health Benefits Fund. The sooner these issues can be addressed and considered, the earlier the matter can be dealt with if legislation is passed. With appropriate foresight, there is even the possibility the current record could be salvaged with updating to preserve the proceeding rather than discarding the case by withdrawal as the Postal Service suggested would be appropriate in response to a Valpak interrogatory. (VP/USPS-T6-9a(i), Tr. 2/189.)

#### The Interrogatories

The legislation adjusting the escrow requirements is not straightforward. It does not simply eliminate an escrow payment. It amends several sections of the current law that together result in a single amount referred to as the final escrow

payment. In fact, the escrow payment comprises several different costs and offsets requiring complex calculations.<sup>5</sup> These interrogatories attempt to obtain the Postal Service's interpretation of the relevant sections in H.R. 22.

OCA/USPS-196 is a predicate to the other interrogatories and seeks to obtain the Postal Service's view on the cost of military service payment requirements under Public Law 108-18. It also attempts to determine the Postal Service's views of the argument presented by OMB to support the retention in the law of military service payments by the Postal Service. OMB contends the Postal Service's CSRS program was effectively converted to FERS and because each agency, rather than the Treasury, covers the costs of FERS, the new legislation should also require the Postal Service to bear the cost of retaining military service payments, apparently about \$2 billion per year. The record ought to have some information explaining the Postal Service's view of this reasoning as it may impact the Postal Service's expenses during the test year if legislation passes.

OCA/USPS-197 requests the Postal Service's understanding of the impact of language in H.R. 22 and S. 662 regarding elimination of the escrow payment.

OCA/USPS-198 seeks to verify that the escrow payment required by P.L. 108-18 is a net figure made up of costs and offsets provided in various sections of the U.S. Code as shown by witness Tayman. This verification is necessary

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<sup>5</sup> For instance, Section 901 of H.R. 22 apparently eliminates two Postal Service payments initiated by Pub. L. 108-18. Section 901 amends Title 5, §8334, to eliminate a previously ordered increase in employer contributions from 7 percent to 17.4 percent of wages and also amends §8348(h)(1) to eliminate a "supplemental liability" payment related to military service costs also first required by P.L. 108-18.

because the proposed legislation modifies sections of the law that establish the escrow payment through costs and offsets.

OCA/USPS-199 and OCA/USPS-200 request confirmation from the Postal Service that H.R. 22 eliminates the escrow payment by eliminating certain payments and offsetting cost reductions required by P.L. 108-18.

OCA/USPS-201 asks the Postal Service's understanding of the retiree health benefits payments that would be required in the test year by the proposed legislation and as compared to its current health benefit payments.

OCA/USPS-202 and 203 attempt to determine whether the difference in retiree costs between witness Tayman's exhibit and one of the Postal Service's legislative proposals to Congress, and also as between the Postal Service's two proposals to Congress, depend upon whether the Postal Service makes certain military service retirement payments.

OCA/USPS-204 refers to recent statements of CFO Richard Strasser and seeks to determine the Postal Service's current position in this case in light of recent cost increases and in light of the proposed legislation.

OCA/USPS-205 assumes the new legislation and asks for calculations attributing the new Retiree Health Benefits Fund costs and asks whether it results in rates lower than attributable costs for any class.

OCA/USPS-206 requests the Postal Service's explanation why its calculations differ from those of the Congressional Budget Office as to the cost of eliminating the military service retirement payments.

OCA/USPS-207 requests the cost impact on each class and subclass of mail if H.R. 22 is enacted (but retaining the military service retirement payments with the Postal Service) if the new Retiree Health Benefits Fund payments are treated as volume variable labor costs. The interrogatory also asks whether, in that case, any of the proposed rates would be less than the attributable costs for any class or subclass.

#### Postal Service Objections

The Postal Service's objects only that interrogatories OCA/USPS-196-207 are "untimely and unauthorized."<sup>6</sup> The Postal Service claims discovery "ended over two months prior" to the August 19, 2005 and that neither are they follow-up on previous responses. The claim that the interrogatories are untimely is incorrect. The date established by the Presiding Officer for "completion of discovery directed to the Service" is clearly indicated as August 23. See Ruling No. R2005-1/11, Attachment A, page1. These interrogatories were filed August 19. Apparently the Postal Service views June 10 and 17 as the last days for discovery, but those dates also established in the same Ruling relate only to discovery on the direct case of the Postal Service for Group A and Group B witnesses. These interrogatories are directed to the Postal Service. The Presiding Officer has issued six POIRs since June 17 (POIRs 9-14) which have added additional information to the record.<sup>7</sup> Clearly, the intent of the Presiding

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<sup>6</sup> No distinction is drawn in the Postal Service's objection between timeliness and authorization so it is assumed the words are here used synonymously by the Postal Service.

<sup>7</sup> POIR 9 was filed June 24. The most recent POIR (POIR 14) was filed September 2. The Postal Service has responded to these without objection as to their timeliness.

Officer's ruling is not to foreclose all interrogatories to the Service after June 17 that may be necessary for a full and complete record. Alternatively, the Presiding Officer could have requested this information in a POIR when these interrogatories were filed.

In past proceedings, the Commission has demonstrated a willingness to supplement the evidentiary record late in the proceeding if the evidence sought “would not have been possible” to obtain in earlier stages of the proceeding.<sup>8</sup> This elevation of evidentiary need over formalistic application of the procedural schedule is particularly appropriate where the information at issue is relevant and material.<sup>9</sup> OCA submits that the “would not have been possible” standard is applicable to the instant set of facts. OCA did not request the type of information sought in interrogatories OCA/USPS-196-207 during the initial discovery phase because neither branch of Congress had yet passed its postal reform bill. That factual circumstance changed radically on July 26, 2005, when the House of Representatives passed H.R. 22 almost unanimously. H.R. 22 specifically addresses the escrow payment that is the foundation for the Postal Service's request in this proceeding and adds entirely new payments.

In any case, these interrogatories are not directed to the Postal Service's direct case but relate solely to Postal Reform legislation—an event not anticipated in the filing except for the testimony that, if Congress removed the

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<sup>8</sup> POR No. R83-1/67, issued December 6, 1983 at 4.

<sup>9</sup> See *id.* at 4.

escrow payment, the Postal Service management would recommend withdrawal of the rate request.

In Docket No. R80-1, the Commission itself initiated consideration of Congress' appropriations activities due to their character as a "matter presently pending before Congress and one likely to be pending throughout the Commission's deliberations."<sup>10</sup> The Commission further stated that:

To the extent practical, the Commission has determined to consider the status of the appropriation process on a current basis and not be bound by the hearing record upon which the Commission based its original decision.

and

[W]e likewise believe it is a valid exercise of our inherent power to reopen the record to take official notice of supervening events to incorporate within the record of these proceedings.

OCA's interrogatories OCA/USPS-196-207 are far less disruptive to Commission procedures than the activities undertaken in Docket No. R80-1. As has been stated previously, the procedural schedule established at the beginning of the proceeding explicitly provided for the possibility that the Postal Service might have to provide additional information in late stages of the proceeding, thereby setting August 23, 2005, as the final date for questions to the Postal Service.

OCA's interrogatories were submitted several days ahead of the August 23 cutoff date. If they are answered in a timely fashion, the responses can readily be made part of the record and can be considered by the Commission in the event that postal reform legislation passes before the Commission has issued its recommended decision.

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<sup>10</sup> "Request for Comments on Financial Data and Status of Appropriation Process," issued March 23, 1981 at 2.

The interrogatories in issue are directed toward a scenario not developed in the record whereby legislation eliminating the escrow payment is passed but where other partial or wholly offsetting expenses are added. The interrogatories seek to determine the differences in attributions between the Postal Service proposal and the attributions for those new expenses that would be appropriate under the proposed legislation. They also seek to determine the Postal Service's understanding of the impact on the Postal Service if retirement benefits for military service continue to be paid by the Postal Service.

The Postal Service's objection notes that the discovery will not be needed to rebut an intervenor's direct case. The OCA does not claim the purpose is for rebuttal of an intervenor case. Rather the interrogatories are in response to changing circumstances that have occurred during the course of this proceeding. The OCA can discuss the responses on brief to the Commission. Moreover, these responses would be relevant to the Commission's decision in the event postal reform is enacted after the completion of briefing but before a final opinion is issued.

The Postal Service's objection also notes the interrogatories are premised on the passage of proposed legislation that has not become law. However, the recent legislative activity in Congress indicates a probability that the legislation will become law before the Commission finalizes its action in this proceeding. In that case, the application must be reviewed in light of the legislation. We note the legislation provides in both H.R. 22 and S. 662 for an effective date of

October 1, 2005.<sup>11</sup> If the Commission does not obtain the answers to these interrogatories at this time, then when the legislation is passed, the time lost in obtaining these facts could be significant and important to a timely and successful development of further procedures for this case. It is better to obtain this information for the record now when the Postal Service staff is available to calculate the attributable costs as requested, rather than await final passage of the bill.

Wherefore, OCA moves that the Presiding Officer direct the Postal Service to respond to interrogatories OCA/USPS-196-207.

Respectfully submitted,

SHELLEY S. DREIFUSS, Director  
Office of the Consumer Advocate

KENNETH E. RICHARDSON  
Attorney

901 New York Avenue, NW Suite 200  
Washington, D.C. 20268-0001  
(202) 789-6830; Fax (202) 789-6819  
E-mail: richardsonke@prc.gov

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<sup>11</sup> H.R. 22, section 905 provides: "EFFECTIVE DATES.

(a) IN GENERAL- Except as otherwise provided, this title shall take effect on October 1, 2005.

(b) GOVERNMENT CONTRIBUTIONS- Section 901(a) shall take effect on the first day of the first pay period beginning on or after October 1, 2005."

S.662, Section 805 provides "EFFECTIVE DATES.

(a) IN GENERAL- Except as provided under subsection (b), this title shall take effect on October 1, 2005.

(b) TERMINATION OF EMPLOYER CONTRIBUTION- The amendment made by paragraph (1) of section 802(a) shall take effect on the first day of the first pay period beginning on or after October 1, 2005."

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 PUB.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.