

UNITED STATES OF AMERICA  
Before the  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Postal Rate and Fee Request            }  
Pursuant to Public Law 108-18        }

Docket No. R2005-1

INITIAL BRIEF OF THE GREETING CARD ASSOCIATION

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## INTRODUCTION

a. Position of the Greeting Card Association. The Greeting Card Association (GCA) is a full intervenor in this case. GCA believes that the substantially across-the-board increase by which the Postal Service proposes to fund the escrow payment required by the 2003 postal retirement reform legislation, which forms the revenue-deficit basis of this case, is appropriate in the unique circumstances the case presents. This is not because the case is devoid of substantive ratemaking issues. As we indicate below, the Postal Service's submission implies numerous important questions which will have to be addressed in the near future. GCA expects to pursue them. But because the real basis of this case is unique – and fully justifies across-the-board treatment – they can be temporarily deferred. We are filing this Brief, therefore, in order to reply to policy arguments made by Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc. (collectively referred to as Valpak) in opposition to that across-the-board distribution.

b. Important issues not addressed in GCA's brief. Were this a "normal" rate case – i.e., one based on the usual sorts of observed and predicted changes in the Postal Service's costs, volumes, and revenues – it could be expected that the proposed rates would *not* reflect an essentially across-the-board distribution of the additional revenue claimed to be needed. Under those circumstances, GCA would have raised substantive issues regarding several aspects of the Postal Service's filing. These

issues are vitally important not just to GCA, but to the Postal Service as well. They include:

- Whether the dramatic shift in relative volume away from First Class and toward Standard Mail – with First Class volumes essentially stagnant (reflecting competitive pressures from alternative messaging and transaction and payment media) and Standard volumes overtaking First Class – requires that Standard Mail support a larger share of the costs of the delivery phase.
- How to reflect in rates the falling cost of processing single-piece First-Class letters<sup>1</sup>, as read rates for non-workshared letters improve and normal automation processing replaces more costly remote barcode sortation. In the past, benefits from automation have flowed to worksharing mailers. But as GCA has argued in the past, automation investment has been funded in large part by the single-piece mailer, and rates should reflect the (increasing) benefits the Postal Service receives when it is applied to single-piece mail.
- Whether Postal Service cost data are capable of justifying the existing non-machinable surcharge in First Class.
- Perhaps most important, how the Postal Service and the Commission can seek to preserve high-contribution First-Class letter mail<sup>2</sup> against competition from

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<sup>1</sup> Conceded to be relevant in rate development; see response to GCA/USPS-T27-1, TR. 3/344-346 (Robinson).

<sup>2</sup> The Board of Governors, in a recent letter to the Chairman of the House Committee on Government Reform and Oversight, called attention to the decline in First-Class volume and its serious effect on Postal Service net revenue. Letter to Hon.

electronic media – for both personal messages and transactional mail. GCA believes that any answer to this question must rest on a thorough, realistic rethinking of the way the price sensitivity of letter mail is defined, estimated, and applied to ratemaking.

GCA is not raising these issues in this Docket. If they prove germane to future rate proceedings, GCA expects to raise them there. They are identified and described here to underscore our belief that this is *not* a "normal" rate case and that the across-the-board approach embodied in the settlement rates is therefore a legitimate and indeed preferable means of recovering the anomalous "cost" element represented by the escrow payment obligation.

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Tom Davis, September 13, 2005, p. 2. The problem, seemingly, is recognized; the unmet challenge is to translate it into an effective volume-preserving rate policy.

## ARGUMENT

### I. The Escrow Payment is Not an Ordinary "Operating Expense"

a. Introduction. Valpak challenges the Postal Service's proposal to treat the FY 2006 escrow obligation as an anomalous cost element and to spread it, as nearly evenly as possible, across all classes of mail. The Service has advanced reasons for this decision (see USPS-T-1 (Potter), USPS-T-6 (Tayman), USPS-RT-1 (Kiefer)) and, we assume, also will defend those reasons on brief. We will therefore not rehearse them here, but instead will turn directly to Valpak's arguments.

Valpak's policy argument<sup>3</sup>, as presented through witness Mitchell, rests largely on the assertion that the FY 2006 escrow payment is an ordinary operating expense and should therefore be treated, for rate-case purposes, in the same way as wages, fuel, or building occupancy. Since expenses like these are subjected to causal analysis for possible attribution, and to institutional-cost assignment procedures employing the pricing criteria of § 3622(b)<sup>4</sup>, Valpak concludes that an across-the-board treatment of the escrow expense is inappropriate, and that the Commission should reject it and

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<sup>3</sup> This policy argument is essentially that summarized by Mr. Mitchell in the first numbered paragraph on page 4 of his prefiled testimony (lines 15-18).

<sup>4</sup> In this Brief, section citations standing alone refer to provisions of title 39, United States Code unless the context clearly requires otherwise.

instead treat the case as an ordinary revenue proceeding. See VP-T-1, at 4, 6-9 (Mitchell). (Mr. Mitchell's prefiled testimony is transcribed at TR. 9/5264-5354.)

Valpak's contention rests on a misunderstanding of the escrow obligation itself and of the legislation that created it.

b. Public Law 108-18 created a unique "pseudo operating expense" for FY 2006 and subsequent years. Witness Mitchell argues that (i) because Congress decreed that the "savings" giving rise to the escrow payment should be "considered to be operating expenses," and (ii) because § 3621, which governs rate proceedings, requires that rates be adequate to recover (among other things) "operating expenses," it follows (iii) that there is no significant difference between the escrow payment and, e.g., the salaries of Postal Service employees. He states (VP-T-1, at 7) that he is "not aware of any basis under the Act for treating this operating expense as any different from any other operating expense." A main purpose of this Brief is to point out some cogent reasons for doing just that.

Valpak's premise, apparently, is that the common phrase "operating expense" must be interpreted identically, regardless of statutory context. This premise is false, for two reasons. It is false, first, because the escrow payment is the creation of specialized, ad hoc legislation unrelated to ratemaking, and the situation that legislation addresses can hardly have been foreseen when § 3621 was written. Second – and probably more important – Valpak has focused on one fragment of the statutory

language, taken out of context. It ignores another, at least equally important, directive, which clearly distinguishes the "savings" and corresponding escrow payment from any other operating expense. And because its premise is false, Valpak's argument that the escrow payment must be allocated on the same basis and by the same procedures as all other postal costs becomes unsustainable.

Section 3(a) of the Postal Civil Service Retirement System Funding Reform Act of 2003, Pub. L. 108-18, reads (italics added):

(a) In General. – Savings accruing to the United States Postal Service as a result of the enactment of this Act –

(1) shall, to the extent that such savings are attributable to fiscal year 2003 or 2004, be used to reduce the postal debt (in consultation with the Secretary of the Treasury), and the Postal Service shall not incur additional debt to offset the use of the savings to reduce the postal debt in fiscal years 2003 and 2004;

(2) shall, to the extent that such savings are attributable to fiscal year 2005, be used to continue holding postage rates unchanged and to reduce the postal debt, to such extent and in such manner as the Postal Service shall specify (in consultation with the Secretary of the Treasury); and

(3) to the extent that such savings are attributable to any fiscal year after fiscal year 2005, shall be considered to be operating expenses of the Postal Service and, until otherwise provided for by law, shall be held in escrow *and may not be obligated or expended.*

Section 3(a)(3) of Pub. L. 108-18 thus shows clearly that the escrow payment is not a run-of-mine "operating expense." After declaring that the FY 2006 and later savings are to be "considered" operating expenses, the statute goes on to forbid the Postal Service to spend them.

This is not a merely verbal distinction from the way "operating expense" is used in § 3621. It is a distinction that makes some of the ordinary ratemaking procedures the Commission uses to satisfy § 3621 inapplicable.

The function of attribution under § 3622(b) is to channel the costs of productive activities carried on by the Postal Service to the classes and types of mail that can be shown to have caused them. *National Association of Greeting Card Publishers v. U.S. Postal Service* ["NAGCP IV"], 462 U.S. 810, 823, 826-827 (1983); PRC Op. R84-1, ¶ 3004. Some costs incurred in providing postal services cannot be causally traced, and are therefore assigned to classes and types via statutory non-cost factors. *NAGCP IV*, at 834. The Commission's rules of decision, developed over more than 30 years of administering the Postal Reorganization Act, are thus designed to distribute among mail users the expenditures the Service makes to provide them with postal services.

The FY 2006 savings, by statute, *cannot* be expended to provide postal services. The Postal Service's assertions that the escrow payment is not caused by any class or type of mail (USPS-T-27, at 5 (Robinson)) and that it derives no economic benefit from the payment (USPS-T-6, at 11-12 (Tayman)) are thus both essentially correct and centrally relevant. Pub. L. 108-18 does, in effect, direct that the escrow payment be recovered through the revenue requirement (by way of the interaction of § 3621 and its own "operating expense" characterization). On the other hand, it not only does not require ordinary rate-case treatment of the resulting "expense," but actually makes such

treatment inappropriate by negating in advance any conceptual connection between the escrow payment and the service-providing activities for which the Commission has developed attribution and assignment procedures.<sup>5</sup>

It is this latter aspect of Pub. L. 108-18 that Valpak ignores.

These considerations are particularly relevant to Valpak's contention that *because* in Pub. L. 108-18 Congress did not prescribe ratemaking treatment for the escrow payment, it must have meant that the standard techniques should be applied.

Witness Mitchell argues that

. . . Had Congress intended that one particular operating expense should be met in a manner different from other operating expenses, it would have needed to create a separate set of guidelines. . . .

VP-T-1, at 8. But there is no requirement, in the Postal Reorganization Act or elsewhere, that Congress be that helpful. More probably, Congress, having once estab-

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<sup>5</sup> Given that we divide all costs into "attributable" and "institutional," it is trivially true that the escrow payment is an "institutional cost" – simply because it is not attributable. That does not mean that it must be treated in the same way as the "institutional costs" which *are* the consequence of rendering mail service but are neither volume variable nor specific (dedicated) to a particular class. Postal Service witness Robinson explains this distinction (USPS-T-27, at 6-7). In a different context (not involving an extrinsic imposition forbidden to be expended or obligated), the Commission has stated that "[i]nstitutional costs, though not causally traceable to any particular class of mail, are nonetheless actually incurred in exchange for labor and other inputs consumed by the Postal Service" and declined to accept a characterization of institutional costs as "merely a residual," pointing out that some "are unattributable because of the nature of *the input they are incurred to acquire*." PRC Op. R90-1, ¶ 3270 (italics added). Where, by statute, no inputs may be acquired by spending the retirement "savings," it is clear that the "cost" involved is "institutional" not in the normal rate-case sense but *only* because it must be paid for and cannot be attributed.

lished that the escrow payment was to be recovered from ratepayers, was content to leave the choice of techniques to the Commission – a course that would also appropriately recognize the Commission's role as the expert agency charged with translating costs into specific rates.<sup>6</sup>

c. The Commission may consider the nature of purported costs in deciding how to treat them for rate-case purposes. The Commission has in the past taken care to analyze the nature of alleged costs as part of the process of determining how to treat them in a rate proceeding. In particular, the question whether a purported cost of an unusual kind should be treated as potentially attributable has been decided only after analyzing the nature of the cost.

For example, in responding to arguments that the opportunity costs of certain investments to provide postal services should be attributed, the Commission pointed out that while such opportunity costs have a genuine *economic* existence, they are not usable for attribution purposes since the Act calls for recovery of costs actually incurred to provide mail service.<sup>7</sup> PRC Op. R90-1, ¶¶ 3262, 3267-3271; and see PRC Op. R83-

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<sup>6</sup> In any case, one would not expect Congress, when occupied only with reforming the Postal Service's retirement obligations, also to give specific ratemaking directions to the Commission. But that same circumstance counsels at least as strongly against teasing out of the phrase "shall be considered to be operating expenses" just such a specific direction – which is what Valpak would have the Commission do.

<sup>7</sup> Thus, for example, postal management may and probably should consider opportunity costs in deciding whether to make an investment. In some circumstances, opportunity costs – if linked with a particular subclass – may even provide the Commission with a guide to institutional-cost assignment. PRC Op. R83-1, ¶ 6027. But

1, ¶¶ 6027-6037 (of particular importance as discussing the different ways in which "cost" may be understood).

Similar analytical circumspection is appropriate here. Considering § 3(a)(3) as a whole, it is highly probable that in Pub. L. 108-18 Congress used "operating expenses" as shorthand for "recoverable, currently, from postal customers" – and as nothing more. If that is so, then the proposed across-the-board distribution of the payment is not forbidden by anything in ch. 36 of the Act. The decision for or against it should be made after analysis of the nature of the cost element, and not because of a legislative label whose evident function extends no farther than directing that the cost be recovered – by techniques to be chosen by the expert Commission – from today's ratepayers.<sup>8</sup>

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these circumstances do not make them even potentially attributable – or even recoverable, as such, through the revenue requirement.

<sup>8</sup> Related considerations dispose of Valpak's attempt to use the Commission's decision in Docket R94-1 against the present across-the-board proposal. The Commission did indeed deprecate – and modify, as far as the record allowed – the across-the-board approach in the R94-1 filing. But it did so for reasons not applicable here. First, the R94-1 proposal did not reflect cost changes, when the costs which the proposal failed to reflect – unlike the escrow payment – *were* costs of providing postal services. PRC Op. R94-1, ¶ 1017. There was no question in the earlier case of an extrinsic imposition, unconnected with those services but legally required to be recovered from ratepayers. Second, the rationale for across-the-board treatment in Docket R94-1 was that it would provide adequate revenue while allowing the Service to proceed with major reclassification, and the Commission found no reason to believe that more conventionally-derived increases would interfere with such reclassification. *Id.*, at ¶ 1015. Since Valpak ignores both the reclassification context of the earlier case and the distinction between operating expenses in the normal sense and the "pseudo" operating expense created by Pub. L. 108-18 and underpinning the present request, it fails to see that the R94-1 decision is easily distinguishable.

## II. The Escrow Payment Is Properly Considered the Unique Basis of the Revenue Request

a. Introduction. Valpak appears to argue that this case is not really about the escrow payment as such, but about a generalized Test Year deficit. VP-T-1, at 8-11. This argument meshes conveniently with its assertion that the escrow obligation is indistinguishable from any other "operating expense" and that therefore ordinary rate-case methods should be applied. But that does not make it valid. Witness Mitchell interprets some of Postal Service witness Robinson's statements to imply that, even given the escrow requirement, the Service would not have filed had it not predicted a deficit in the Test Year. VP-T-1, at 9. In particular, he quotes Ms. Robinson to the effect that if the *escrow obligation* had not existed, the Service would not have filed; and then "take[s] this to mean" that given a reduction of about \$3 billion in *any* expense category, the Service also would not have filed. *Ibid.*, fn. 3. This might be true, but (i) it is not what Ms. Robinson said, and (ii) it does not prove that the Service did not file *this* case to recover only the (element of the) deficit ascribable to the escrow payment.

Valpak's position on this issue implies a wholesale re-characterization of the Postal Service's filing. Witness Tayman, for example, states flatly that "the escrow requirement stands alone as the reason for the proposed increases." USPS-T-6, at 18. While the testimony describing the basis of the filing is as subject to inquiry as any other testimony, there are also independent circumstances supporting it. These are ignored by Valpak.

b. The zero contingency proposed in this case shows that the "deficit basis" for the filing is indeed the escrow payment. At VP-T-1, page 9, Mr. Mitchell states that

Except for the Postal Service's unusual decision to propose a contingency level of zero, it seems purely coincidental that the deficit of \$3 billion in the Test Year is approximately equal to the escrow payment of \$3.1 billion.

The decision to propose a zero contingency is "unusual" only if one has lost sight of the basis of the filing: a determination by the Board of Governors to recover through new rates *a known amount required to be paid at a known time.*

The function of a contingency provision is, simply, to provide against (i) misestimates of Test Year costs and revenues, and (ii) unforeseeable adverse events not preventable through honest, efficient and economical management. PRC Op. R84-1, ¶ 1017. If this case were merely a generalized deficit recovery mechanism bearing no relation to the escrow obligation, one might agree with witness Mitchell that a zero-contingency proposal was "unusual." If, however, the whole basis of the case is the escrow obligation, then a zero contingency is not merely to be expected; it seems to be the only permissible approach.

Section 3621 includes among that costs to be recovered through rates and fees "a reasonable provision for contingencies." If, as Postal Service witness Tayman's table indicates (see USPS-T-6, at 11), the amount of the escrow payment is known with certainty, then the only "reasonable" contingency level is precisely zero. The amount of the payment is, *ex hypothesi*, not subject to misestimation. As the Postal Service is

seeking additional revenue only in order to fund the escrow payment (see USPS-T-1, at 2, 4, 7 (Potter); USPS-T-6, at 16-17, 18 (Tayman)), unforeseeable adversities affecting other areas are likewise irrelevant. That the proposed contingency level is zero therefore undercuts Valpak's argument that this is a simple deficit recovery proceeding which only "coincidental[ly]" corresponds to the amount of the escrow payment.

c. The distinction between the Postal Service's overall revenue adequacy position and the special problem of the escrow payment should not be obscured.

Valpak's position appears to be, or at least to entail, that the filing *vel non* of a rate request is governed by the Postal Service's (projected) overall revenue adequacy and by nothing else. Mr. Mitchell states, for example, that

Witness Potter explains . . . that "[t]he Postal Service, thus, finds itself in the peculiar situation of being required to ensure that its revenues in FY 2006 are sufficient to cover not only actual operational expenses but also an additional \$3.1 billion to be put in escrow." Actually, it is not "peculiar" for the Postal Service to face the requirement to break even, given that Congress specifically required that the escrow payment be treated as an operating expense. After all, one would be hard pressed to argue that this case would have been filed in the face of an operating surplus in FY 2006 large enough to cover the escrow payment.

VP-T-1, at 8-9 (fn. omitted). Thus witness Potter distinguishes clearly (and, as we showed above, realistically) between the escrow obligation and "actual" operational expenses. But since Valpak's policy argument requires that the escrow payment be treated on all fours with such "actual" operating costs, this distinction is passed over without comment, and the question treated simply as one of breakeven.

Such oversimplification does justice neither to the anomalous character of the escrow-related revenue problem nor to the reasons the Postal Service offers for treating it in the way the filing reflects. If there truly were no material distinction between the escrow payment and other "operating expenses" – and, in particular, if it were not plain that the escrow payment purchases no labor, supplies, or other goods valuable in providing service to mail users – then there might be merit to Valpak's argument that only conventional ratemaking techniques should apply. But such distinctions do exist and are of central importance; and they will not go away because Valpak chooses to ignore them.

d. Valpak's contention that no specific cause can be assigned for a deficit is neither persuasive nor dispositive. It is true that Valpak does not rely entirely on the erroneous premise that the escrow payment is indistinguishable from any other operating cost. Witness Mitchell also argues that when the Postal Service records or projects a deficit, no specific cause (such as the escrow payment) can ever be assigned; he asserts that a deficit is simply a (negative) imbalance between income and outlay ("[d]eficits exist in the aggregate and are residual in nature." VP-T-1, at 10). This principle, if valid at all for the purposes to which Mr. Mitchell applies it, would have to be equally valid even if the candidate cause were an anomalous element like the escrow payment.

If one considers it abstractly enough, a deficit may indeed be "residual" and "aggregate." But, as the following counter-example shows, those labels are far from

disposing of the present problem. Mr. Mitchell's hypothetical (VP-T-1 at 10-11) addresses only the (diversely changing) respective contributions of *three* imaginary products. But consider a different sort of case: all main parameters (volumes, revenue per piece, etc.) remain close to prior year levels (assumed to yield breakeven or positive income) – but *one* cost element (e.g., carrier labor) escalates sharply, and there is then a negative aggregate year-end revenue-cost balance. Even though the deficit is still "aggregate" and "residual in nature" – i.e., it is computed on the basis of *all* the costs and *all* the income items – we suggest that one would have to be heroically theory-minded to object to a business judgment that the change in carrier cost caused the shortfall.<sup>9</sup> As explained by Mr. Tayman, the Service, at least, evidently views this case as analogous to our counter-example, not to Mr. Mitchell's hypothetical case. See USPS-T-6, at 16, 18.

It appears, in fact, that Mr. Mitchell's hypothetical, and the use he makes of it, tacitly jumble together two entirely different sorts of causal inquiry. He postulates, as facts preceding the hypothesized deficit, diverse changes in "contribution" – i.e., in the difference between attributable cost and revenue for each of his three products. The resulting problem, which he finds insoluble in principle, is how to fix responsibility on

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<sup>9</sup> Postal Service rebuttal witness Kiefer rightly calls attention to Mr. Mitchell's concessions with respect to a somewhat similar hypothetical case (USPS-RT-1, pp. 8-9, fn. 4). But in order to be identifiable as the "cause" of a deficit, the anomalous cost event need not be an unforeseen natural disaster such as the earthquake in the hypothetical in question. For reasons suggested above, and subsequently, Mr. Mitchell's escape route from that hypothetical – that the escrow obligation did not happen "suddenly and unexpectedly" – does not dispose of the problem.

one of these classes when the deficit simply equals the *aggregate* deficiency in contribution. He then uses his finding of insolvency to argue that an extrinsically-imposed liability, not connected in any way to the provision of postal services for any class, cannot be identified as the "cause" of a deficit. He thus ignores the vital distinction between (i) identifying a *class* as the cause of the deficit and (ii) identifying a *discrete cost, not caused by any class*, as its cause.<sup>10</sup> But the escrow obligation is just such a discrete cost. Mr. Mitchell's hypothetical, accordingly, simply addresses a different problem from the one confronting the Postal Service and the Commission.

Postal Service witness Tayman, on the other hand, testifies that "in the absence of the additional escrow expense required by Public Law 108-18, the Postal Service's success in improving productivity would have allowed it to operate without a general rate increase in FY 2006." USPS-T-6, at 16. Messrs. Tayman and Mitchell appear to be invoking different criteria: Mr. Tayman is characterizing the Service's reasons *for filing this case*, and Mr. Mitchell is discussing (in a much more theoretical vein) the possibility *vel non* of identifying reasons *for the existence of a deficit*. Put another way:

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<sup>10</sup> The difficulties inherent in Mr. Mitchell's hypothetical can be appreciated more generally by imagining a "conventional" rate case in which *only* the information he provides – base year and test year figures for the contributions made by the various classes – was available. It would, as he says, be impossible to fix responsibility for the test year deficit on any one of the classes. But it would also be impossible to set new rates conforming to the requirements of the Act. Since those rates would have to recover attributable cost, and make statutorily appropriate contributions to institutional costs, the classes' costs, volumes, and revenues (along with much else) would have to be known as well. That the Commission, in real-world rate cases, does come to know these things, and succeeds in recommending rates that do conform to the statute, shows that by considering only changes in contribution (a resultant of several different inputs) the hypothetical is too abstract to be helpful in addressing this case.

Mr. Tayman in effect testifies (as does Postmaster General Potter) that *but for* the escrow payment, this case would not exist, while Mr. Mitchell argues<sup>11</sup> that the Service cannot validly claim that the Test Year deficit *is caused by* the escrow payment.

GCA suggests that the Commission take the more practical, case-oriented view of the question. First, the Postal Service can claim extensive discretion over the timing and magnitude of rate filings. 39 U.S.C. § 3622(a). In the not-too-distant past, the Service has avowedly pursued "rate stability," accepting periodic deficits (sometimes quite substantial) in the interest of making rate changes less frequent. Conversely, the Service has been judicially upheld in making use, with the Commission's approval, of financial management discretion to recover prior years' losses via a multi-year amortization process. *National Association of Greeting Card Publishers v. U.S. Postal Service*, 607 F.2d 392, 430-432 (D.C. Cir., 1979), *certiorari denied*, 444 U.S. 1025 (1980). Neither the fact nor the size of a rate filing, therefore, follows automatically from the existence of a projected deficit. A policy decision intervenes; and if that decision is driven by a single factor (here, as stated by witnesses Potter and Tayman, the escrow payment), the Commission is well justified in giving that factor appropriate weight in its treatment of the case.<sup>12</sup> In addition, Valpak's argument from the generalized accounting

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<sup>11</sup> Fallaciously, as shown above.

<sup>12</sup> Of course, the degree of recognition the Commission should extend to Postal Service financial decisions may indeed vary from one proceeding to another, and in a case where the amount, legal force, or managerial prudence of a claimed obligation could be reasonably questioned, it might well be restricted. It bears repeating, accordingly, that this is a case in which no party appears to question either the amount of the escrow obligation or the Postal Service's legal obligation to meet it.

nature of deficits is simply too abstract to justify ignoring the unique nature of the "deficit basis" of this filing.

## CONCLUSION

As we noted at the beginning of this Brief, GCA's object has been to rebut certain arguments against the proposed across-the-board treatment of the escrow-based revenue increase requested in this Docket. We recognize that such treatment is unusual, but we also believe the Commission can and should rely on the reasoning supporting it, as presented in Postal Service testimony. The objections made by Valpak rest on a misreading of the legislation creating the escrow obligation, a mischaracterization of the "operating expense" conjured up by that legislation, and an overly abstract view of the process by which a rate proposal (and particularly a proposal responding to an anomalous cost situation) is brought before the Commission. GCA urges the Commission to reject these objections and consider the across-the-board treatment of the proposed revenue increase on its own merits. We believe the result of such consideration will be approval of the across-the-board proposal.

Respectfully submitted,

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