

**BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON DC 20268-0001**

RATE ADJUSTMENT DUE TO)
EXTRAORDINARY OR) Docket No. R2010-4
EXCEPTIONAL CIRCUMSTANCES)

**QUESTIONS PROPOSED BY
THE AFFORDABLE MAIL ALLIANCE
FOR HEARINGS ON AUGUST 10-12, 2010
(August 5, 2010)**

Pursuant to 39 C.F.R. § 3010.65(c) and Order No. 485 at 6, 75 Fed. Reg. 40853, 40854 (July 14, 2010), the Affordable Mail Alliance proposes that the Commission ask the Postal Service the following questions during the public hearings on August 10-12, 2010.

The Affordable Mail Alliance is a coalition of 948 large and small businesses, nonprofit organizations and associations of mailers that together account for a majority of the mail sent in the United States.

PROPOSED QUESTIONS

Is The Proposed Rate Increase Reasonable And Equitable And Necessary For The Continued Provision Of Postal Services?

1. On August 5, 2010, the Postal Service issued a press release projecting that “given current trends,” the Postal Service “will not be able to pay all 2011 obligations.”

- a. When in FY 2011 does the Postal Service currently project it will run out of cash to operate if no price increase is approved and no relief is obtained from Congress?
 - b. (If witness responds that USPS may run out of cash even before the payment due on September 30, 2011, to the Retirement Health Benefit Fund) Could you provide us with the calculations and assumptions underlying that projection?
2. This question concerns the following statement on page 8 of the Postal Service's August 2 response to the AMA motion to dismiss: "the Postal Service has responded to its financial challenges by pursuing a broad-based and balanced plan, which shares the burden of closing the financial gap."
 - a. What share of the burden will Postal Service ask its bargaining employees to bear under your plan? What is the dollar value of what the Postal Service will be asking its employees to give up?
 - b. What share of the burden will Postal Service ask its non-bargaining employees to bear under your plan? What is the dollar value of what the Postal Service will be asking its employees to give up?
 - c. What share of the burden will Postal Service ask stakeholders *other than* employees and mailers to bear under your plan?

What is the dollar value of what the Postal Service will be asking these other stakeholders to give up?

- d. If we approve the rate increases that you've proposed, what basis does the Commission have for believing that postal employees and the other stakeholders will end up bearing the share of the burdens that you say the Postal Service plans to ask them to bear?

Are The Size And Capacity Of The Mail Processing Network Consistent With "Best Practices Of Honest, Efficient And Economical Management"?

3. How many of the Postal Service's main mail processing facilities (i.e., Network Distribution Centers and Processing & Distribution Centers) did the Postal Service close in Fiscal Year 2009?
4. What percentage of the Postal Service's mail processing capacity did the closings represent?
5. Does the Postal Service have studies or analyses of the savings from these closings? Could the Postal Service produce these documents?
6. How many of the Postal Service's main mail processing facilities (i.e., Network Distribution Centers and Processing & Distribution Centers) does the Postal Service plan to close in FY 2010?
7. What percentage of the Postal Service's mail processing capacity will the closings represent?

8. Does the Postal Service have studies or analyses of the savings from these closings? Could the Postal Service produce these documents?
9. How many of the Postal Service's main mail processing facilities (i.e., Network Distribution Centers and Processing & Distribution Centers) does the Postal Service plan to close in FY 2011?
10. What percentage of the Postal Service's mail processing capacity will the planned closings represent?
11. Does the Postal Service have studies or analyses of the savings from these closings? Can the Postal Service produce these documents for the record?
12. In February 2010, the Postal Service stated that it expected to have "excess capacity in buildings, equipment, and vehicles in the summer of 2010," and the "postmaster network will have significant excess capacity." Docket No. R2010-3, *Notice of Price Adjustment*, USPS Notice of Market-Dominant Price Adjustment (Feb. 26, 2010) at 6-7 and App. A at 2.
 - a. What has the Postal Service done since February 2010 to reduce the anticipated excess capacity in buildings?
 - b. What share of the excess building capacity will these steps eliminate?

- c. What has the Postal Service done since February 2010 to reduce the anticipated excess capacity in equipment?
 - d. What share of the excess equipment capacity will these measures eliminate?
 - e. What has the Postal Service done since February 2010 to reduce the anticipated excess capacity in vehicles?
 - f. What share of the excess vehicle capacity will these measures eliminate?
 - g. What are the projected cost savings from steps taken by the Postal Service since February 2010 to reduce excess capacity in buildings, equipment and vehicles?
 - h. Has the Postal Service prepared any written studies or analyses of the projected cost savings? Can you provide them for the record?
 - i. What assumptions did the Postal Service make about the savings that it will achieve from eliminating excess capacity in buildings, equipment and vehicles from February 2010 through the 2011? Where in your workpapers or exhibits for this case can we check these assumptions?
13. Does the Postal Service have plans to accelerate the rationalization of its network that are not included in its projections filed in this case? If

so, what are they? Please produce Postal Service documentation for those plans.

14. On page 28 of the Postal Service's August 2 Response to the Motion to Dismiss of the Affordable Mail Alliance, the Postal Service states that "there can be language in House or Senate reports on an Appropriations bill that is to be construed as a Congressional directive." As examples of this practice, you state that Congressional appropriations language has blocked the closing of specific postal service facilities in Quincy IL, Aberdeen SD, Yakima WA, Sioux City IA, Bronx NY, Canton OH, and Detroit/Flint MI.

- a. What other mail processing facilities had their closings blocked by Congressional appropriations language in the past three years? Can you provide us a list?
- b. What percentage of total Postal Service mail processing capacity is at facilities that are being kept open by Congressional appropriations language?
- c. Page 28 of the same pleading states that the closing of the specified facilities has been delayed "pending further study by GAO." What is the status of the GAO study? When is the GAO report expected?
- d. Instead of cooperating with the GAO study, didn't the Postal Service simply abandon some of its plant closing plans?

15. Hasn't opposition to the closing of mail processing facilities been exacerbated by the Postal Service's failure to develop and apply objective criteria for plant closing decisions?
16. Didn't the Postal Service's Office of Inspector General report earlier this year that public opposition to the closing of mail processing facilities has been exacerbated by the Postal Service's failure to develop and apply objective criteria for plant closing decisions?¹

Is The Size of The Postal Service's Work Force Consistent With "Best Practices Of Honest, Efficient And Economical Management"?

17. How many employees does the Postal Service now have?
18. What would be an optimal number of employees if the Postal Service's workload returned to its FY 2007 level?

¹ See OIG Audit Report—Status Report on the Postal Service's Network Rationalization Initiatives (Report Number EN-AR-10-001) (January 7, 2010) at 2-3:

Another contributing factor is the lack of specific criteria for identifying consolidation opportunities the Postal Service can consistently apply nationwide. Additionally, the Postal Service has cancelled some AMPs without providing their rationale. If management does not consistently apply established criteria to identify consolidation opportunities, stakeholders may question the credibility of the process. Development of objective criteria and implementation of a top-down approach would provide a more consistent and defensible approach to AMP consolidations that may reduce stakeholder resistance, accelerate the AMP consolidation process, and reduce excess capacity in the P&DC network.

19. What would be an optimal number of employees if the Postal Service's workload does not increase much above its current level?
20. What is the employee count assumed in the financial projections underlying the Postal Service's request in this case? Where do those calculations appear in your workpapers?
21. The first full sentence on page 28 of the Postal Service's August 2 Response to the Motion to Dismiss of the Affordable Mail Alliance states: "Even mid-term, the Postal Service has negotiated changes to increase efficiency."
 - a. The quoted sentence refers to the renegotiation of the terms of collective bargaining agreements before their expiration. Correct?
 - b. (If yes) Can you provide a list of what changes the Postal Service has negotiated "mid-term," when the changes have taken (or will take) effect, and how much money the Postal Service expects to save from each change?
 - c. (If no) Then what does the phrase "Even mid-term" refer to?
22. Has the Postal Service in the past two years asked its unions to renegotiate the no-layoff, no-furlough provisions of existing collective bargaining agreements?

- a. Have any other public sector employers—i.e., state, county or municipal governments—made similar requests to their unions in the past couple of years?
 - b. Have any unionized private sector employers made similar requests to their unions in the past couple of years?
23. With which unions does the Postal Service have collective bargaining agreements that will expire this year? How many Postal Service employees do those agreements cover?
24. Will the Postal Service, in negotiating contracts to replace the collective bargaining agreements that expire in 2010 and 2011, seek inclusion of an “exigency clause” that allows for compensation reductions, furloughs, or layoffs in extraordinary or exceptional circumstances?
25. Will the Postal Service, in negotiating contracts to replace the collective bargaining agreements that expire in 2010 and 2011, seek to eliminate the existing wage and compensation premium?
26. How many times since 2006 has the Postal Service exercised its rights to arbitration and other remedies under 39 U.S.C. § 1207 in an effort to achieve cost savings?
27. Page 33 of the Postal Service’s August 2 Response to the Motion to Dismiss of the Affordable Mail Alliance indicates that current law does

not require interest arbitrators to take the Postal Service's financial condition into account.

- a. Does current law *forbid* interest arbitrators from taking the Postal Service's financial condition into account? (If witness answers yes, ask for citations to legal authorities.)
 - b. When was the last time that the Postal Service sought to raise the issue of the Postal Service's financial condition in interest arbitration with a labor union?
 - c. When was the last time that the Postal Service asked any of its customers, or their trade associations, to provide testimony on its behalf in interest arbitration with postal labor?
28. Has the Postal Service considered laying off or furloughing management-level employees not covered by collective bargaining agreements?
29. Does the Postal Service have any craft employees not covered by collective bargaining agreements? (If so) Has the Postal Service considered laying off or furloughing any of those employees?
30. Page 39 of the Postal Service's August 2 response to AMA's motion to dismiss refers to a Postal Service discovery response in Docket No. N2010-1 indicating that some non-bargaining employees received Reduction-In-Force ("RIF") notices in FY 2009 and FY2010.

- a. The response indicated that not all employees who received RIF notices were ultimately RIF'd. Correct?
 - b. How many non-bargaining employees were actually RIF'd?
31. On July 28, the Postal Service announced a freeze on hiring for all administrative positions.
- a. When was this decision made? Before or after the filing of this exigent rate increase?
 - b. How much savings does the Postal Service project from this decision?
 - c. Have these savings been incorporated into the savings projections included with the exigent filing?

Are The Levels Of Compensation Paid To Postal Service Employees Consistent With “Best Practices Of Honest, Efficient and Economical Management”?

32. Page 32 of the Postal Service’s August 2 Response to the Motion to Dismiss of the Affordable Mail Alliance discusses the existence of a “compensation premium” paid by the Postal Service.
- a. The Postal Service believes that its employees on average receive a premium over the compensation available in the private sector for comparable work. Correct?

- b. In 2003, Professor Michael Wachter submitted testimony about the compensation premium to the President's Commission on the Postal Service. Correct?
 - c. Professor Wachter's testimony was sponsored by the Postal Service. Correct?
 - d. Professor Wachter testified that the wage premium paid by the Postal Service in 2001 was in the range of 21.2 to 33.9 percent. Correct?
33. What is the Postal Service's best estimate of the wage premium received by the average Postal Service employee today? What is the basis for this estimate?
34. What is the Postal Service's best estimate of the total compensation premium received by the average Postal Service employee today?
35. In 2003, Postal Service witness Prof. Michael Wachter testified to the President's Commission on the Postal Service that the extremely low quit rate of Postal Service employees was evidence of the attractiveness of the compensation offered by the Postal Service.
- a. What is the average quit rate today?
 - b. How does it compare with the quit rate in 2003?

36. In 2003, Postal Service witness Prof. Michael Wachter testified to the President's Commission on the Postal Service that the large backlog of applicants for Postal Service employment was evidence of the attractiveness of the compensation offered by the Postal Service.
- a. What is the average applicant backlog today?
 - b. How does it compare with the backlog in 2003?
37. The calculations underlying the Postal Service's request in this case appear to assume that the above-market compensation rates paid to postal employees will persist for the indefinite future.
- a. Can the Postal Service comply with the price cap going forward if above-market compensation rates persist indefinitely?
 - b. If not, what actions does the Postal Service plan to take to reduce these compensation levels?
38. Has the Postal Service proposed to renegotiate existing compensation levels before the expiration of its existing collective bargaining agreements on the ground that the Postal Service can no longer afford to pay existing compensation levels? What happened?
39. This question concerns the following statement on page 38 of the Postal Service's August 2 response to AMA's motion to dismiss: "employer's contribution to health insurance premiums are being reduced every year with every union."

- a. Is this statement referring to the one percent reduction in the employer contribution to health insurance premiums?
 - b. How much does the Postal Service expect to save per employee each year from a one-percent reduction in the employer contribution to health insurance premiums?
 - c. How much does the Postal Service expect to save *in total* from a one percent reduction in the employer contribution to health insurance premiums?
40. Has the Postal Service made, but omitted from its financial projections filed in this case, any other plans to reduce labor costs? (If so) Please produce the plans and workpapers sufficient to verify them.
41. Knowing that postal reform legislation was likely to include a price cap mechanism, did the Postal Service ever consider incorporating an “exigency clause” into its labor contracts allowing for compensation reductions, furloughs, or layoffs in extraordinary or exceptional circumstances?

How Has The Postal Service’s Response To The Recession Compared With “Best Practices Of Honest, Efficient And Economical Management”?

42. This question concerns page 50 of the Postal Service’s August 2 response to the AMA motion to dismiss, where the Postal Service

states that it cut over \$6 billion in costs in FY 2009, and \$7.7 billion for the three-year period ending September 2009.

- a. During the same period, Postal Service volume and revenue declined faster than Postal Service costs. Correct?
 - b. (If witness fails to give an affirmative answer) Postal inflation—the increase in cost per unit of output—exceeded six percent in FY 2009. Correct?
 - c. In FY 2009, the Consumer Price Index (All Urban Consumers) declined. Correct?
 - d. Over the three-year period ending in September 2009, postal inflation was 13 percent. Correct?
 - e. Over the three-year period ending in September 2009, the CPI (All Urban Consumers) increased by only 4.6 percent. Correct?
 - f. Postal Service total factor productivity declined in both FY 2008 and FY 2009. Correct?
43. AMA, in its July 26 motion to dismiss, argued that the Postal Service moved much more slowly than UPS and FedEx in cutting its costs in response to the recession. On pages 43-48 of the Postal Service's August 2 response to the motion, the Postal Service contends that these comparisons are "misleading." This question focuses on page 47 of the response.

- a. There the Postal Service contends that the comparison with UPS and FedEx is unfair because the Postal Service isn't free to cut its costs as quickly as the two private firms. Correct?
 - b. The Postal Service doesn't dispute, however, that UPS and FedEx responded to the recession faster than the Postal Service did. Correct?
44. On page 46 of its August 2 Response to the AMA motion to dismiss, the Postal Service compares USPS volume declines with FedEx and UPS. Correct?
45. The Postal Service contends that FedEx and UPS saw smaller declines in volume during the recession than did the Postal Service?
46. The UPS and FedEx units of volume that you include in your comparison are the number of pieces per day, correct?
47. You don't compare the Postal Service with FedEx and UPS in terms of declines in *revenue*, right?
48. But a meaningful assessment of the financial impact of a change in mail volume during a recession requires looking at changes in revenue per piece as well as changes in the number of pieces, right?
49. In fact, both FedEx and UPS experienced large declines in average revenue per piece in 2009, correct?

50. The average revenue per piece received by FedEx Express, which accounts for most of FedEx's revenues, declined by 16 percent from the quarter ending November 2008 to the quarter ending November 2009, right? (Source: Federal Express Statistical Book (FY2010, Q4) downloaded from <http://www.fedex.com/us/investorrelations/> on August 3, 2010.)
51. This decline occurred because "FedEx Express package yields and FedEx Freight LTL Group yields were negatively impacted by a more competitive pricing environment, as competitors are seeking to protect market share and sustain operations during the current recession." Correct? (Source: 2009 FedEx Annual Report at 11.)
52. The average revenue per piece received by UPS declined by 8.1 percent between 2008 and 2009. Correct? (Source: UPS 2009 Annual Report (at 23).)
53. This decline occurred because "As our customers sought to effectively manage their own businesses, they shifted to less expensive UPS shipping services. Additionally, average package weight and fuel surcharge revenue declined significantly." Correct? (Source: UPS 2009 Annual Report at 4.)
54. On pages 44-46 of its August 2 Response to the Affordable Mail Alliance, the Postal Service states that
- both UPS and FedEx have annually increased their published prices by approximately the same amount as the Postal Service's

5.6 percent overall increase in the exigent request (although these increases were generally accompanied by reductions in the fuel surcharge).

- a. The price figures cited by the Postal Service are the percentage increases in the two private carriers' *published* prices, right?
- b. Both FedEx and UPS are permitted to offer discounts from their published prices?
- c. And both companies do in fact offer discounts from their published prices?
- d. Because shippers negotiate prices with FedEx and UPS, the published prices are higher than the average prices that FedEx and UPS actually charge, right?
- e. The Postal Service's pricing witness – James Kiefer – admitted during the July 23 Technical Conference that widespread discounting from list price by FedEx and UPS made the published price increases meaningless? (Source: Video of technical conference posted on PRC website, approximately 37 minutes after the beginning of the video.)
- f. In fact, the average revenue per piece received by UPS and FedEx Express declined from Calendar Year 2008 to Calendar Year 2009. Correct?

- g. The published price increases were further offset by reductions in fuel surcharges, correct? (Source: USPS Response to AMA (filed August 2, 2010) at 45.)

Respectfully submitted,

Ian D. Volner
David M. Levy
Matthew D. Field
VENABLE LLP
575 Seventh Street, N.W.
Washington DC 20004
(202) 344-4800
idvolner@venable.com
dlevy@venable.com

*Counsel for Affordable Mail Alliance,
Alliance of Nonprofit Mailers,
Association for Postal Commerce,
and Magazine Publishers of America*

David R. Straus
THOMPSON COBURN LLP
1909 K Street, N.W.
Suite 600
Washington DC 20006
(202) 585-6921
dstraus@thompsoncoburn.com

*Counsel for American Business
Media*

Jan Poling
VP, General Counsel & Corporate
Secretary
AMERICAN FOREST & PAPER
ASSOCIATION
1111 19th Street, NW, Suite 800,
Washington, D.C. 20036
(202) 463-2590
Jan.poling@afandpa.org

*For American Forest & Paper
Association*

Anthony W. Conway
Executive Director
ALLIANCE OF NONPROFIT MAILERS
Suite 610
1211 Connecticut Avenue, N.W.
Washington DC 20036-2705
(202) 462-5132
Tony@nonprofitmailers.org

For Alliance of Nonprofit Mailers

C. Hamilton Davison
President & Executive Director
AMERICAN CATALOG MAILERS
ASSOCIATION, INC.
PO Box 41211
Providence RI 02940-1211
(800) 509-9514
hdavison@catalogmailers.org

*For American Catalog Mailers
Association, Inc.*

Jerry Cerasale
Senior Vice President for Government
Affairs
DIRECT MARKETING ASSOCIATION, INC.
1615 L Street, N.W., Suite 1100
Washington DC 20036
jcerasale@the-dma.org

*Counsel for Direct Marketing
Association, Inc.*

Maynard H. Benjamin, CAE
President and CEO
ENVELOPE MANUFACTURERS ASS'N
500 Montgomery Street, Suite 550
Alexandria VA 22314-1565
(703) 739-2200
mhbenjamin@envelope.org

*For Envelope Manufacturers
Association*

Mury L. Salls
DST MAILING SERVICES
1100 Investment Blvd
El Dorado Hills, CA 95762

President, Major Mailers Association

William B. Baker
WILEY REIN LLP
1776 K Street NW
Washington DC 20006
(202) 719.7255
wbaker@wileyrein.com

*Counsel for National Postal Policy
Council*

Joseph E. Schick
Director, Postal Affairs
QUAD/GRAPHICS, INC.
N63W23075 State Hwy 74
Sussex, WI 53089
(414) 566-4134
joe.schick@qg.com

For Quad / Graphics, Inc.

August 5, 2010

Ken Garner
President & CEO
MAILING & FULFILLMENT SERVICE
ASSOCIATION
1421 Prince Street, Suite 410
Alexandria VA 22314-2806
(800) 333-6272

*For Mailing & Fulfillment Service
Association*

Tonda F. Rush
KING & BALLOW
PO Box 50301
Arlington VA 22205
(703) 237-9801
trush@americanpressworks.com

*Counsel to National Newspaper
Association*

Michael Makin
President & CEO
PRINTING INDUSTRIES OF AMERICA
200 Deer Run Road
Sewickly PA 15143
(412) 741-6860
mmakin@printing.org

For Printing Industries of America

Gian-Carlo Peressutti
Senior Vice President, Public Affairs
RR DONNELLEY
99 Park Avenue
New York NY 10016
(212) 502-1391

For RR Donnelley