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

Rate Adjustment due to Extraordinary or Exceptional Circumstances	))	Docket No. R2010-4

VALPAK DIRECT MARKETING SYSTEMS, INC. AND
VALPAK DEALERS' ASSOCIATION, INC.
SUGGESTED QUESTIONS TO BE ASKED OF POSTAL SERVICE
WITNESS MASSE DURING PUBLIC HEARING
(August 5, 2010)

Pursuant to Order No. 485 (July 8, 2010), Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. ("Valpak") submit the following suggested questions to be asked of Postal Service witness Stephen J. Masse during the public hearing on August 11, 2010.

BACKGROUND

Witness Masse provides "a financial context for the Postal Service's request…." P. 1, ll. 23-24. Witness Masse also sponsors financial projections that are pertinent to consideration of the rate adjustments proposed by the Postal Service in this docket. The Motion to Dismiss filed by the Affordable Mail Alliance states that the primary reason the Postal Service has filed its rate increase is its failure to reduce losses aggressively by cutting costs, as well as increasing prices and other means. AMA Motion, p. 17-64. On the other hand, the primary cause of the Postal Service's current financial difficulties could be said to be the burden imposed on the Postal Service to pre-fund the health benefits costs of all future retirees over a

10-year period.[1] The degree to which the obligation to fund the Postal Service Retiree Healthcare Benefits Fund ("PSRHBF") dominates the future financial picture of the Postal Service is an issue of great importance.

QUESTIONS

1. Your testimony describes the Postal Service's business model as being "in a dire state." P. 6, l. 6. You also discuss the financial outlook for the Postal Service in FY 2010 and FY 2011. Pp. 17-64.

   a. If the Postal Service were **not required** to make any contribution to the Postal Service Retiree Healthcare Benefits Fund ("PSRHBF") in **September 2010** (*i.e.*, next month), what would be the Postal Service's expected net profit (or loss) — approximately — for fiscal year 2010?

   b. If the Postal Service were **not required** to make any contribution to the PSRHBF in **September 2011** (*i.e.*, next fiscal year), what would be the projected net profit (or loss) — approximately — for fiscal year 2011?

   c. If the Postal Service were **not required** to make any further contributions to the PSRHBF, would you still describe the Postal Service's business model as being "**in a dire state**"?

   d. If the Postal Service were **not required** to make any further contributions to the PSRHBF, would you still describe the current exigent rate request as **necessary**?

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[1] *See* Answer of Saturation Mailers Coalition, Valassis Direct Mail, Inc., Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association to Motion of the Affordable Mail Alliance to Dismiss Request (Aug. 2, 2010), pp. 2-3.

2. Assume that Congress provided the Postal Service with **no fiscal relief** from PAEA's pre-funding schedule for the PSRHBF.

   a. Even if the exigent rate increase were approved, is not the Postal Service threatened with insolvency not only in FY 2011, but also through FY 2016 (when PSRHBF payments originally were scheduled to end)?

   b. Would it be fair to say that PAEA's pre-funding schedule for the PSRHBF almost pre-ordained insolvency for the Postal Service before FY 2016?

3. Your testimony indicates that in addition to a request for authority to implement five-day delivery and defer statutorily mandated pre-funding payments into the PSRHBF, the Postal Service is pursuing "other **revenue-generating** and **cost-cutting** initiatives." P. 12, ll. 19-20 (emphasis added).

   a. Please describe any major **revenue-generating** initiatives to which you refer that the Postal Service is pursuing that might have a substantial impact on the Postal Service's fiscal condition during FY 2011 and FY 2012.

   b. Aside from the cost-cutting initiatives described in USPS-R2010-4/9, Flats Strategy, and the 5-day delivery proposal, please describe any **other** major **cost-cutting** initiatives to which you refer that the Postal Service is pursuing that might have a substantial impact on the Postal Service's fiscal condition during FY 2011 and FY 2012.

4. Your testimony states that "price increases … would drive away mail volumes …" P. 12, ll. 28-29. Suppose that Postal Service price increases were more focused on

those products that are "underwater," and — just as you surmise — those increases drove away some of that money-losing volume.

a. In the After-Rates projections in Attachments 11 and 12, would the Postal Service be better off, or worse off, financially from a reduction in this money-losing volume?

b. In view of the fact that the Postal Service is faced not only with an imminent liquidity crisis, but also a possibly recurring one, at least until FY 2016, why do you believe it is **reasonable** for the Postal Service to continue nurturing **money-losing volume** (*e.g.,* Standard Flats which receive a 5.1 percent rate increase, *see* Kiefer Testimony, p. 10) with rate adjustments that are **below the systemwide increase** for market dominant products (*i.e.,* 5.6 percent, *see id.*).

5. Please refer to Attachments 11 and 12 to your testimony:

a. For all market dominant products shown in those two attachments, do the After Rates projections of volume and revenue reflect the full effect of all lags in own-price elasticity as developed in USPS-R2010-4/8?

b. If either of those two projections do not reflect the full effect of all lags contained in USPS-R2010-4/8, please indicate all products for which volume and revenue effects do not reflect the full effect of own-price elasticity lags.

6. USPS-R2010-4/9, Flats Strategy, discusses a number of possible cost reduction initiatives, some of which are indicated as having an effect in FY 2011. For those attachments to your Statement that show projected costs in FY 2011 — *i.e.*, Attachments 10, 11, and 12 — do any of them omit, or fail to include, the effect of any

cost reduction initiative discussed in that Flats Strategy document? If so, please describe.

Respectfully submitted,

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