Postal Regulatory Commission
Submitted 11/8/2013 3:39:07 PM
Filing ID: 88251
Accepted 11/8/2013

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

RATE ADJUSTMENT DUE TO EXTRAORDINARY OR EXCEPTIONAL CIRCUMSTANCES	)))))	Docket No. R2013-11

VALPAK DIRECT MARKETING SYSTEMS, INC. AND VALPAK DEALERS' ASSOCIATION, INC. FIFTH MOTION FOR ISSUANCE OF INFORMATION REQUEST
(November 8, 2013)

Valpak Direct Marketing Systems, Inc. and Valpak Dealers' Association, Inc. (hereinafter "Valpak"), pursuant to Rule 3001.21(a), hereby move the Commission to issue an Information Request seeking additional clarifying data and explanation from the Postal Service primarily concerning the statement of Altaf Taufique submitted with the Postal Service's request on September 26, 2013. These proposed questions seek information that will amplify and clarify the Postal Service request, and particularly Mr. Taufique's statement, and will assist the Commission in making a determination on the Postal Service's request.

In the alternative, these questions are submitted as suggested questions to be asked by the Commission at the public hearing.

1. Mr. Taufique's statement compares the across-the-board increase sought in this docket with the across-the-board increase in Docket No. R2005-1, with a footnote explaining that "In that docket only one factor (a statutory escrow funding requirement) drove the price increases, and that factor did not affect mail classes or customers differently." (P. 3, n.3.)

    a. Is it the Postal Service's position that there is "only one factor" which drives the price increases in this docket, and "that factor did not affect mail classes or customers differently"? Please explain.

b. Please explain whether the Postal Service believes that similarities between these two dockets led to seeking across-the-board increases in these two dockets, and not in any other pricing dockets.

2. In the last exigent rate increase request, Docket No. R2010-4, the Postal Service proposed rates which were not across-the-board, unlike the current docket, *e.g.*:

USPS Proposed Price Increases

	Standard Flats	Periodicals
Docket No. R2010-4	5.1%	8.0%
Docket No. R2013-10	1.809%	1.664%
Docket No. R2013-11	4.283%	4.095%
Docket Nos. R2013-10 & 11	6.169%	5.928%

a. Is it your position that the primary rationale for the exigent price increase in Docket No. R2010-4 was the same Great Recession/volume loss (*see* Order No. 547, p. 49) ("The recession and its impact on the Postal Service constitute an extraordinary or exceptional circumstance.") that is the predicate for the exigent price increase in Docket No. R2013-11 (*see* USPS Request of September 26, 2013, p. 2 ("The Commission has already found that the recent recession constituted extraordinary or exceptional circumstances.")). If you do not agree, please explain why not.

b. If the primary rationale is the same for both dockets, why were individualized rates proposed in Docket No. R2010-4, and across-the-board rates proposed in Docket No. R2013-11?

3. Mr. Taufique's statement, referring to prices in Docket No. R2013-11, says:

> "BPM Flats prices within Package Services have been proposed to increase less (0.314 percent) than average [1.565 percent], so more of the cap space can be allocated to the underwater products." [P. 7, n.5.]

Mr. Taufique's statement explains that:

> "By continuing to restrain the increase for BPM Flats the Postal Service hopes to spur additional volume growth for this profitable product (Factor 7)." [P. 33, ll. 3-5.]

a. Please explain why this same logic was not used to further "restrain the increase" for highly profitable HD/Saturation Letters and HD/Saturation Flats and Parcels in the hope of spurring "additional volume growth for" those highly "profitable products."

b. On balance, would not the Postal Service prefer to have more volume of profitable products, and less volume of unprofitable products? Please explain (i) any disagreement, and (ii) whether and how the price signals in an across-the-board increase promote such an outcome.

4. Mr. Taufique's statement contends that objective no. 4 ("pricing flexibility") is met by the use of 39 U.S.C. section 3622(d)(2) to allow additional revenues in "extraordinary and exceptional" circumstances. (P. 27, ll. 10-13). His statement contends that factor no. 7 ("pricing flexibility") is met by having the same across-the-board increase for Standard Mail products (*e.g.*, Standard Flats) that are underwater (P. 31, ll. 20-24) be the same as for Standard Mail products that pay high coverage.

a. Does the Postal Service's deliberate underwater pricing of Standard Flats so that losses will continue to be incurred and help trigger the need for additional revenues in "extraordinary and exceptional circumstances," demonstrate how the Postal Service properly uses its pricing flexibility?

b. With hundreds of Postal Service prices to be set in each pricing adjustment, is the selection of an "across-the-board" price increase considered to be: (i) a sophisticated exercise of pricing flexibility designed to maximize contribution; (ii) a tactical decision to minimize mailer opposition; or (iii) motivated by something else? Please explain.

5. On June 19, 2013, Valpak provided the Postal Service with its revised Standard Mail Contribution Maximization model.

a. To what use was this model put in developing rates noticed in Docket Nos. R2013-10 & 11?

b. If it was not used in developing pricing for Standard Mail, please explain why it was not used.

c. If you have reviewed it, what flaws, weaknesses, or shortcomings has the Postal Service identified in the revised Valpak model?

6. Mr. Taufique's statement lists eight classes and products (p. 6) that did not cover their attributable costs according to the FY 2012 ACD. It also contains the following statement:

> As urgent as the Postal Service's financial needs are, increases that are too high could threaten the financial health and, possibly, even the survival of **key customer segments and industries.** [P. 2, ll. 20-22 (emphasis added).]

a. Excluding Stamp Fulfillment Service, of the remaining seven classes and products which were identified as not covering their attributable costs in FY 2012, please indicate which of those that the Postal Service considers to be "key customer segments and industries."

b. In light of the Postal Service's urgent financial needs, for those seven classes and products that did not cover their attributable costs in FY 2012, please explain the extent to which coverage and total contribution are considered important criteria when determining which classes and products are considered "key"?

c. Of those underwater classes and products identified as key customer segments and industries in response to preceding part a, and whose coverage is not expected to exceed 100 percent on an after-rates basis, please identify those that might have their "financial health and, possibly, even the survival" threatened by an additional exigent rate increase that exceeded 4.3 percent.

d. If financial condition of the Postal Service were so desperate that it threatened its ability to provide prompt, reliable, and effective universal postal services, would that be considered sufficient reason to abandon the across-the-board approach and instead seek greater net contribution from the same average price increase?

e. Please explain whether continued losses on underwater products — and continued toleration of those losses — will increase or reduce the urgency of the Postal Service's financial needs.

7. Mr. Taufique's statement says:

> The Postal Service's across-the-board route in this particular docket has the **virtue** of treating all mailers the same (or, as nearly as practicable, the same). This approach **balances the many considerations that affect pricing decisions,** and is **reasonable and equitable** among the users of market dominant products.... [P. 3, ll. 23-26 (emphasis added).]

a. For those classes and products that have failed to cover their attributable costs for four years or longer (excluding Stamp Fulfillment Services), please explain all "virtue" which you perceive from across-the-board rates which continue to compel profitable classes and products to continue to cross-subsidize those underwater classes and products by other classes and products.

b. Please explain whether an across-the-board approach (i) "balances" or (ii) disregards important economic considerations (*e.g.*, different levels of contribution, coverage, and elasticity) that are given heavy weight by private sector firms' pricing decisions in normal financial circumstances, and much more in urgent financial circumstances.

c. Is comparing the approach to pricing decisions by the Postal Service with those of private sector firms totally inapposite? Please explain.

d. Please explain why the Postal Service believes that a pricing structure that knowingly and deliberately contains and perpetuates cross-subsidies among mailers should be considered (i) "reasonable" and (ii) "equitable."

8. Mr. Taufique's statement says:

> The [Standard] Flats product has been particularly hard hit, with volume declines since 2008 exceeding 40 percent, driven by reductions in catalog mailings. These volume declines have helped to drive the Flats cost coverage down to only 80.9 percent in 2012. [P. 17, ll. 18-21.]

a. Are the unit attributable costs for Standard Flats not volume variable, especially over a span of 5 years? If so, please explain fully and provide all evidence.

b. If the unit attributable costs for Standard Flats are volume variable, please explain why and how a reduction in the volume of Standard Flats reduces its coverage.

c. Has the over 40 percent decline in the volume of Standard Flats helped reduce the Postal Service's aggregate annual losses from Standard Flats?

d. In view of the Postal Service's urgent financial needs, and the $0.090 unit loss of each Standard Flat in FY 2012, as well as the continuing unit loss projected by witness Nickerson in his attachments 23 and 25, (i) how could the Postal Service afford to have the volume of Standard Flats return to its previous level, and (ii) why would it want it to?

9. Mr. Taufique's statement says:

> As shown in the following table, the burden of this 4.3 percent increase is being **spread equally** to all classes of mail and, as much as practicable, to all products and even to each rate cell, with the small exceptions discussed elsewhere. **Therefore, the price adjustments are clearly equitable.** [P. 11, ll, 9-12 (emphasis added).]

a. Are prices which are deliberately and knowingly underwater, and the cross-subsidies imposed on other products and classes that inevitably accompany such underwater prices, "clearly equitable?" If so, please explain.

b. If the existing price structure, including all existing cross-subsidies between products and classes, were not "clearly equitable," please explain why an across-the-board price increase would produce a "clearly equitable" result?

c. Please explain whether (i) across-the-board price adjustments, *per se*, are always equitable, regardless of the existing price structure to which the across-the-board increase is applied, or (ii) the **results** of across-the-board price adjustments in this case, when superimposed on the existing price structure, are equitable.

d. Does a position claiming that the **results** of an across-the-board price increase to be equitable require as a foundation that the existing rate structure, with its existing cross-subsidies and widely varying coverages, be considered equitable? Please explain fully any disagreement.

e. Is an across-the-board price increase necessarily equitable — regardless of any and all existing differences in: (i) contribution; (ii) short-run and long-run elasticity; (iii) differences in coverage; (iv) susceptibility to diversion and (v) effect on volume?

10. Mr. Taufique's statement says:

> The **goal** was to keep the overall increases for each product and each class of mail as close to 4.3 percent as practical without going over; some products may have increased slightly higher than the self-imposed 4.3 percent ceiling, but the change for each class of mail is very close to 4.3 percent. [P.5 (emphasis added).]

a. Does the Postal Service have (i) a goal and (ii) a tentative time table for eliminating cross-subsidies and increasing the coverage on all products so as to at least equal 100 percent?

b. If the Postal Service has such a goal, please indicate the minimum number of years that it expect to be required before all underwater products and classes (except Stamp Fulfillment Services) achieve 100 percent coverage.

c. If neither such a goal nor a time table exist, please explain why not, in view of what you refer to as the Postal Service's urgent financial needs.

d. If the Postal Service does have a goal to eliminate cross-subsidies and increase the coverage on all products to at least equal 100 percent, please explain how it expects to live within the rate cap established in PAEA.

e. If the rate cap at the class level prevents elimination of cross-subsidies and achievement of 100 percent coverage, and if the Postal Service cannot significantly reduce unit attributable costs, please explain how the Postal Service expects to eliminate cross-subsidies other than by this, or another, exigent rate case.

11. Mr. Taufique's statement says:

> In my opinion, the across the board approach is **fair**, notwithstanding the underwater condition of certain classes and products. [P. 6, ll. 4-5 (emphasis added).]

a. Please explain every sense in which continuing cross-subsidies between products and classes should be considered "fair." If the answer relies on any outside sources (*e.g.*, economic literature), please provide full citations.

12. Mr. Taufique's statement says:

> We cannot afford to adopt a short-term perspective and take actions that will "fix" a coverage problem by **permanently** driving mail — mail that we believe will become profitable as the Postal Service and the mailing community adjust to operational and marketplace realities — or mail that is valued in the mailbox — out of the system. The only way the Postal Service will be able to price mail so that it makes a contribution is if it remains in the mailstream. [P. 6, ll. 5-11 (emphasis added).]

a. Assuming the price increases sought in Docket Nos. R2013-10 and R2013-11 are approved, and no legislation affecting costs is enacted, for how many months will the Postal Service continue to subsidize underwater products at the current rate of loss without requesting yet another exigent price increase?

b. For purposes of this question, assume that a coverage problem is "fixed" by increasing the price of all underwater products to a level that covers attributable cost, and as a result of the price increase some volume becomes marginal and ceases to be mailed. Please explain why such mail would be driven out of the system "**permanently**" if the Postal Service were to subsequently find a way to reduce it costs and reduce the price accordingly. That is, explain why mail that leaves the system because of a price increase would not be expected to return if the price subsequently were to be reduced.

c. If the Postal Service cannot reduce its costs be an amount sufficient to make underwater mail profitable, please explain why it is fair and equitable to have revenue from other mail continue covering losses from underwater mail.

d. If the Postal Service deliberately encounters losses on mail products today in the belief that revenues from such product or class someday may become profitable, (i) should future Postal Service pricing be designed to recoup today's losses from the underwater products which caused them, or (ii) should the Postal Service be satisfied with future rates which barely cover costs for currently underwater products, resulting in Postal Service debt incurred due to those losses being repaid from extra contribution extracted from profitable products?

Respectfully submitted,

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