

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

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS KAY TO INTERROGATORY OF
UNITED PARCEL SERVICE
(UPS/USPS-T23-1)

The United States Postal Service hereby provides the response of witness Kay to the following interrogatory of United Parcel Service: UPS/USPS-T23-1, filed on January 31, 2000. Interrogatory UPS/USPS-T23-2 has been redirected to the Postal Service. Following informal discussions with counsel for UPS (see P.O. Ruling No. R2000-1/2, Feb. 14, 2000), the Postal Service has been authorized to represent that UPS is withdrawing UPS/USPS-T23-3 and 4, without prejudice to its rights regarding those or any similar questions.

The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Eric P. Koetting

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March 13, 2000

**RESPONSE OF POSTAL SERVICE WITNESS KAY
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-T23-1.

Refer to Library Reference I-150, folder "Support Materials," file "By98Data.xls," worksheet tab "advertising," and Library Reference I-150, folder "IC MODEL," subfolder "R00-1," file "IC_Forms.xls," worksheet tab "PROD SPEC."

(a) Confirm that the total advertising expenditures of the Postal Service in FY1998 were \$300,800,216.

(b) Confirm that the Postal Service considers \$87,701,000 of total advertising expenses in FY1998, or approximately 29 percent, to be product-specific advertising.

(c) Refer to Docket No. R97-1, Appendices to Opinion and Recommended Decision (May 11, 1998), Volume 2, Appendix J, at 15, which shows Test Year 1998, After Rates, total advertising costs of \$299,001,000, of which \$64,312,000 (or approximately 22%) were attributed to Priority Mail. The Base Year 1998 total advertising costs reported in Library Reference I-150 are \$300,800,216, -- slightly higher than the Test Year 1998 estimate in Docket No. R97-1 -- of which \$36,633,000 are attributed to Priority Mail.

(i) Please explain the reasons for the decrease of approximately \$27,679,000 in Priority Mail advertising costs from the Test Year 1998 estimate in Docket No. R97-1 to the Base Year 1998 amount which the Postal Service attributes to Priority Mail in this proceeding.

(ii) What factors contributed to the apparent decrease in Priority Mail advertising in Base Year 1998 from the level estimated in Docket No. R97-1, while the overall level of advertising costs remained essentially as estimated in Docket No. R97-1?

RESPONSE:

a) Confirmed.

b) Not confirmed, in light of the revisions to my testimony, my workpapers, and LR-I-150, filed on March 13, 2000. With these revisions, the total amount of product specific advertising costs (if International Mail as a whole is considered a specific product, as is the case in domestic ratemaking) for BY 1998 is \$137.286 million, which consists of the following:

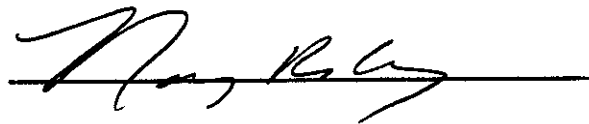
Money Orders	\$ 8.928 million
Post Office Boxes	\$ 1.116 million
Priority Mail	\$ 79.252 million
Parcel Post	\$ 20.064 million
Express Mail	\$ 1.003 million
International	\$ 26.923 million

Moreover, there are an additional \$39.747 million of advertising expenses which I include in product group specific costs when I calculate the incremental costs for certain groups of products. These consist of \$27.802 million allocated to the Advertising group of products, \$10.829 million allocated to the Correspondence group of products, and \$1.116 million allocated to the Total Special Services group, beyond the amounts allocated specifically to Money Orders and PO Boxes. (The amounts shown above for specific products are also included, where appropriate, in product group incremental cost estimates.)

- c) Given the above response, this subpart is no longer applicable.

DECLARATION

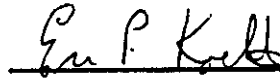
I, Nancy R. Kay, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in cursive script, appearing to read "Nancy R. Kay", is written over a horizontal line.

Dated: 3/13/2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

A handwritten signature in black ink, appearing to read "Eric P. Koetting", is written over a horizontal line.

Eric P. Koetting

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