

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

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POSTAL RATE COMMISSION
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POSTAL RATE AND FEE CHANGES, 2000

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-52 - 55)


The United States Postal Service hereby provides its response to the following interrogatories of United Parcel Service: UPS/USPS-52 - 55, filed on July 31, 2000.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



Eric P. Koetting

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August 7, 2000

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-52. (a) Confirm that in its original filing, the Postal Service provided an overall estimate for advertising costs for the test year of \$270 million. See Exhibit USPS-14K, page 52, column 16.3.5. If you do not confirm, explain and provide the correct figure.

(b) Confirm that in its filing pursuant to Order No. 1294, the Postal Service has reduced estimated overall advertising costs for the test year to approximately \$160 million. See Exhibit USPS-ST44V, page 52, column 16.3.5. If you do not confirm, explain and provide the correct figure.

(c) What accounts for the change in the amount of estimated test year advertising costs? Please provide any directives or other documents which mandate, require, support, or justify the change.

(d) Refer to page 5 of Library Reference USPS-LR-I-150, as revised on March 13, 2000. For each of the line items in that table, indicate the portion of the total savings of approximately \$110 million that is expected to be achieved in the test year.

RESPONSE:

(a, b) Confirmed, although both figures are before contingency. This change is discussed in witness Patelunas's supplemental testimony (USPS-ST-44) at page 5.

(c) In assessing its overall financial condition in light of its financial objectives, the management of the Postal Service has identified Advertising as a portion of the budget in which planned expenditure levels can and should be reduced, relative to the test year expenditure levels anticipated at the time of filing. No documents relating to this determination have been identified, other than USPS-ST-44, as cited above.

(d) The determination to reduce overall Advertising expenditures did not include any attempt to specify line items for reduction, and no line-item information reflecting how the reductions will be allocated is available.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-53. Does the Postal Service anticipate reducing advertising expenditures for Priority Mail in the test year below the level set forth in USPS-T-23, page 14, as revised on March 13, 2000?

RESPONSE:

Yes. Given the situation as described in the response to UPS/USPS-52 of an overall reduction in anticipated advertising expenditures, the total amount of Advertising dollars to be spent on the various products has been reduced. Moreover, in the absence of any better information, the conventional assumption continues to be applied, that advertising will be expended on products in the test year in the same proportions as advertising funds were expended by product in the most recent year for which information is available. In this instance, however, the most recent year for which historical information is available has been advanced from FY 1998 to FY 1999. As a result of these two changes -- the reduction in the total Advertising budget, and the more recent allocation factors from FY 1999 -- the best available estimate of the test year Priority Mail advertising costs (before contingency) is \$54.891 million, as shown in the "C/S 16.3.5 Advertising" column of the ProdSpec worksheet in the Tyaric.xls file of the IC MODEL folder of witness Kay's library reference USPS-LR-I-407 (where the FY 1999 information is also shown). Application of the 2.5 percent contingency brings this amount to \$56.263 million.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF UNITED PARCEL SERVICE**

UPS/USPS-54. Does the Postal Service anticipate reducing advertising expenditures for Express Mail in the test year below the level set forth in USPS-T-23, page 14, as revised on March 13, 2000?

RESPONSE:

Yes. Given the situation as described in the response to UPS/USPS-52 of an overall reduction in anticipated advertising expenditures, the total amount of Advertising dollars to be spent on the various products has been reduced. Moreover, in the absence of any better information, the conventional assumption continues to be applied, that advertising will be expended on products in the test year in the same proportions as advertising funds were expended by product in the most recent year for which information is available. In this instance, however, the most recent year for which historical information is available has been advanced from FY 1998 to FY 1999. As a result of these two changes -- the reduction in the total Advertising budget, and the more recent allocation factors from FY 1999 -- the best available estimate of the test year Express Mail advertising costs is zero, as shown in the "C/S 16.3.5 Advertising" column of the ProdSpec worksheet in the Tyaric.xls file of the IC MODEL folder of witness Kay's library reference USPS-LR-I-407 (where the FY 1999 information is also shown).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF UNITED PARCEL SERVICE**


UPS/USPS-55. Does the Postal Service anticipate incurring advertising expenditures for Parcel Post in the test year of less than \$18.5 million? See UPS-T-5 at 3, Tr. 25/l 1176. See also USPS-T-23 at 15-16, n. 3.

RESPONSE:

Yes. Given the situation as described in the response to UPS/USPS-52 of an overall reduction in anticipated advertising expenditures, the total amount of Advertising dollars to be spent on the various products has been reduced. Moreover, in the absence of any better information, the conventional assumption continues to be applied, that advertising will be expended on products in the test year in the same proportions as advertising funds were expended by product in the most recent year for which information is available. In this instance, however, the most recent year for which historical information is available has been advanced from FY 1998 to FY 1999. As a result of these two changes -- the reduction in the total Advertising budget, and the more recent allocation factors from FY 1999 -- the best available estimate of the test year zone rated Parcel Post Mail advertising costs (before contingency) is \$0.555 million, as shown in the "C/S 16.3.5 Advertising" column of the ProdSpec worksheet in the Tyaric.xls file of the IC MODEL folder of witness Kay's library reference USPS-LR-I-407 (where the FY 1999 information is also shown). Application of the 2.5 percent contingency brings this amount to \$0.569 million.

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.



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