

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, 2001

Docket No. R2001-1


RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO UPS INTERROGATORY UPS/USPS -1
(October 24, 2001)

The United States Postal Service hereby provides its response to the following interrogatory of United Parcel Service: UPS/USPS-1, filed on October 10, 2001. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
October 24, 2001

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UPS/USPS-1. Refer to the Annual TFP Tables for GFY 1999, which were filed with the Postal Rate Commission on December 5, 2000.

(a) Confirm that total "Advertising and Market Research" expenditures for 1999 were \$1,322,800,000. If not confirmed, please explain.

(b) Describe in detail all of the types or categories of expenditures that are included in "Advertising and Market Research" and the expenses associated with each of those categories.

(c) Provide a cross-walk of where the expenditures within "Advertising and Market Research" are recorded in the annual Cost Segments and Components report, and in what amounts these expenditures are assigned to individual Postal Service products and services.

(d) What factors caused "Advertising and Market Research" costs to increase from just \$30.7 million in 1980 to \$1.322.8 million in 1999?

RESPONSE:

- a. Confirmed that the cited figure appears in the cited document.
- b. The title of the column appearing in Table III-4, "Current Dollar Expenditures on Materials" of the cited document under the caption "Advertising and Market Research" may be somewhat misleading. The particular accounts aggregated in this column of the table are grouped solely for the purpose of calculating total factor productivity (TFP). These grouped account balances are then deflated using a common price index in the TFP calculation. Thus, the purpose of this aggregation for the TFP exercise was to create a grouping for which the application of a common price index would be appropriate, and the label subsequently applied to this grouping has no significance other than it was intended to be descriptive at the time the grouping was created. This account grouping does not directly correspond to the cost segments used in our rate filing.

The expense accounts summarized under the caption "Advertising and Market

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Research" include 15 accounts used to record contractual services other than equipment repairs and maintenance. The specific accounts and the associated expenses are listed in the attachment to this response. Note that Advertising and Market Research appear to constitute less than one-quarter of the expenses reported in FY 1999, and that the majority of the expenses in that year related to Miscellaneous Professional Services, Outside Consultants, and ADP (in the year leading up to Y2K).

c. The listed accounts can be crosswalked into cost components using the information provided in USPS-LR-J-8, Reconciliation of FY 2000 Statement of Revenue and Expense to Audited Financial Statements and Reallocation of Expenses by Component, and the treatment of those cost components can be traced through the USPS-LR-J-1, the Summary Description, and the presentations of witnesses Meehan and Kay, although these materials would pertain to FY 2000, not FY 1999.

d. Between 1980 and 1999, total Postal Service expenses increased by \$42.8 billion, or 319 percent, so some of the expense growth was due to the natural growth of the business. Much more significant than that however, are the changes in the nature of the business and the competitive environment since that time. In 1980, the Postal Service still enjoyed a substantial public service appropriation, Express Mail was a relatively new product, competitors such as Federal Express were a fraction of their current size, and alternative messaging technologies such as fax and email did not widely exist. In short, the competitive landscape was vastly different. Because the business world has changed so extensively in the last two decades, the share of our expenses devoted to contractual services has increased. Moreover, the total annual

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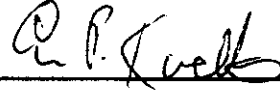
amounts reported for this particular set of accounts would also appear to be largely a function of management decisions regarding whether certain professional or technical functions should be performed by employees or by contractors. The reasons why those types of decisions might vary over a twenty-year period are well beyond the scope of this proceeding.

FY 1999 Account Numbers	Account Name	Amount
52321	Contractual Services Other Than Equipment Repairs and Maintenance- Outside Consulting Fees	103,387,542.86
52322	Contractual Services Other Than Equipment Repairs and Maintenance- Outside Consulting Travel	19,349,571.77
52323	Contractual Services Other Than Equipment Repairs and Maintenance- Market Research Services	42,882,736.44
52324	Contractual Services Other Than Equipment Repairs and Maintenance- Priority Mail Processing Centers - Office Space Not provided	4,535.03
52325	Contractual Services Other Than Equipment Repairs and Maintenance- Advertising and Sales Promotion	241,426,326.98
52326	Contractual Services Other Than Equipment Repairs and Maintenance- Consint svcs-by indiv-office spc prov	4,858,224.19
52327	Contractual Services Other Than Equipment Repairs and Maintenance- Value-in-Kind Expense	22,177,698.17
52331	Contractual Services Other Than Equipment Repairs and Maintenance- ADP Services — Commercial	190,426,974.01
52338	Contractual Services Other Than Equipment Repairs and Maintenance- ADP Services — Commercial Sftwr pkgg maint pilot test	8,698,149.76
52339	Contractual Services Other Than Equipment Repairs and Maintenance- Personal Services —Individuals	2,036,957.57
52342	Contractual Services Other Than Equipment Repairs and Maintenance- Professional Services —Office Spc Prov	37,570,641.26
52357	Contractual Services Other Than Equipment Repairs and Maintenance- Applicant Background Investigations	11,789,719.18
52359	Contractual Services Other Than Equipment Repairs and Maintenance- Professional and Other Miscellaneous Service	638,141,782.16
56611	Contractual Services Other Than Equipment Repairs and Maintenance-	
52344	Contractual Services Other Than Equipment Repairs and Maintenance- Advertising and Sales Promotion- Development	
	Total	1,322,750,859.38

ATTACHMENT TO RESPONSE
UPS/USPS-1

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.



Eric P. Koetting

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(202) 268-2992; Fax -5402
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