

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 UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF UNITED PARCEL SERVICE
(UPS/USPS-2-7)

The United States Postal Service hereby provides its responses to the following interrogatories United Parcel Service UPS/USPS-2-7, filed on November 10, 2001. Objections to UPS/USPS 2(a) and (b) were filed on November 13, 2001. A Partial Objection to UPS/USPS-7 was also filed on November 13, 2001. Responses to UPS/USPS-8-11 are forthcoming.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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November 15, 2001

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UPS/USPS-2. Refer to DFC/USPS-1, Response of United States Postal Service to Interrogatory of Douglas F. Carlson and the attachment thereto. Provide the following Final Reports referenced in that interrogatory response:

- (a) Interim Audit Results of FedEx Transportation Agreement (1st letter), Issued 6/26/01, Final Report No. TR-LA-01-001, Project No. 01 NR008TROOO.
- (b) Interim Audit Results on Excise Taxes and Third Party Ground Handling Costs Under the FedEx Transportation Agreement (2nd letter), Issued 8/8/01, Final Report No. TR-MA-01-002, Project No. 01NR008TROO1.
- (c) Transition Planning for the Priority Mail Processing Center Network, Issued 9/28/01, Final Report No. MK-AR-01-003, Project No. OONAOI6MK000.
- (d) Review of Purchasing Process for Advertising Contracts, Issued 8/14/01, Final Report No. CA-MA-01-003, Project No. OOHROI2CA000.
- (e) FY 2001 Audit of Statistical Tests - Cost & Revenue Analysis, Tennessee District, Issued 6/15/01, Final Report No. FF-AR-01-041, Project No. 01 NA016FF008.
- (f) Audit of Statistical Tests for FY 2001, Cost & Revenue Analysis - Central New Jersey District, Issued 7/13/01, Final Report No. FF-AR-01-050, Project No. 01NA016FF018.
- (g) Audit of Statistical Tests for FY 2001 - Cost & Revenue Analysis - Seattle District, Issued 8/3/01, Final Report No. FF-AR-01-074, Project No. 01 NA016FF003.
- (h) Audit of Statistical Tests for FY 2001, Cost & Revenue Analysis - Salt Lake City District, Issued 8/24/01, Final Report No. FF-AR-01-086, Project No. 01 NA016FF028.
- (i) Audit of Statistical Tests for FY 2001 - Cost & Revenue Analysis - Fort Worth District, Issued 8/29/01, Final Report No. FF-AR-01-099, Project No. 01 NAOI 6FFO19.
- (j) Audit of Statistical Tests for FY 2001 - C&RA - New Orleans District, Issued 9/5/01, Final Report No. FF-AR-01-107, Project No. 01 NA016FF020.
- (k) Audit of Statistical Tests for FY 2001 - C&RA - Las Vegas District, Issued 9/5/01, Final Report No. FF-AR-01-110, Project No. 01 NA016FF026.
- (l) Audit of Statistical Tests for FY 2001 - Cost and Revenue Analysis - Boston District, Issued 9/20/01, Final Report No. FF-AR-01-121, Project No. 01 NA016FF023.

RESPONSE:

- a.-b. Objection filed on Nov. 13, 2001.
- c. This document will be filed within USPS-LR-J-178.
- d. After informal consultations, UPS has agreed to withdraw its request for this document, which consists merely of the review of complaints raised by a

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disappointed bidder regarding alleged deficiencies in procurement procedures with respect to a particular solicitation.

e.-l. These documents will be filed within USPS-LR-J-178.

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UPS/USPS-3. Refer to (a) the PRC version of the FY 2000 CRA (tab "FY 2000 - PRC(3)" of the spreadsheet that can be found at <http://www.prc.gov/periodic/cra.exe>) and (b) the PRC version of the BY 2000 CRA (file "prccosts.xls" in USPS LR-J-74). Describe all methodological differences between these two reports.

Response:

Differences, although not necessarily limited to methodological differences, between the FY 2000 and the BY 2000 PRC CRA are as follows.

- The general ledger, an input into the BY 2000 PRC CRA, was adjusted to move an inadvertent charge of \$5.85 million from postage printing costs to stamped envelope printing costs. Accordingly, this change is reflected in the BY 2000 PRC CRA.
- The density for International Other became available after the FY 2000 USPS CRA audit was completed and was updated accordingly in the USPS and PRC Base Year in Workpaper B, 8.1.2, cell D57.
- RPW stamped and metered volumes inputs replaced ODIS inputs for window service distribution of costs (I-Forms stamped and metered percentages Cost Segment 3).
- In response to the PRC's request to separate the cost of special services from their ancillary services, elemental load calculations in Cost Segment 7 were updated to remove return receipt costs from the special service volume variable cost.
- The equipment variabilities in Component 575 were updated.

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- The rural carrier yearly route evaluations were updated, affecting Cost Segment 10, Rural Carriers.

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UPS/USPS-4. Provide the Cost Segments and Components report that underlies the PRC version of the CRA filed in USPS LR-J-74.

Response:

The PRC version of the Cost Segments and Components report is filed in hardcopy in USPS-LR-J-74 Section 6. The mainframe data files that underlie the PRC Cost Segment and Component can be found in electronic version in USPS-LR-J-77. The mainframe base year data files and the associated CD-ROM file names are as follows: (1) ALAHQN.PS410D01.FY00BPRC.I.DATA (lr-j-77\fy00bprc\i.dat); (2) ALAHQN.PS420D01.FY00BPRC.A.DATA (lr-j-77\fy00bprc\a.dat); (3) ALAHQN.PS420D01.FY00BPRC.B.DATA (lr-j-77\fy00bprc\b.dat) and (4) ALAHQN.PS420D01.FY00BPRC.D.DATA (lr-j-77\fy00bprc\d.dat).

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UPS/USPS-5. Refer to the Response of United States Postal Service to UPS Interrogatories Redirected from Witness Kay (UPS/USPS-T21-6(a)). Confirm that the estimated annualized cost of the Postal Service Sales Function is \$147.1 million. If not confirmed, provide the correct number.

RESPONSE:

Confirmed.

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UPS/USPS-6. Refer to the Response of the United States Postal Service to UPS Interrogatories Redirected from Witness Kay (UPS/USPS-T21-6(b)), where the Postal Service states that "No known basis exists to identify the costs of sales-related or customer service activities associated with promoting individual products." Has the Postal Service studied Sales Function Costs? If so, has it determined whether it is possible to attribute these costs? Provide copies of all reports or analyses produced in this study.

RESPONSE:

No.

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UPS/USPS-7. Refer to the Postal Service's response to Interrogatory UPS/USPS-1.

(a) Confirm that the total cost for Market Research Services in Fiscal Year 1999 was \$42,882,736. If not confirmed, provide the correct number.

(b) Confirm that the Fiscal Year 1999 cost for Market Research Services does not include the costs associated with internal Postal Service employees. If not confirmed, explain why not.

(c) In addition to the costs for Market Research Services, what were the internal Postal Service costs that were incurred in Fiscal Year 1999 to inform, support, or manage Market Research Services? Include the cost of all staff and staff-related costs in your answer.

(d) What is the cost of Market Research Services in Fiscal Year 2000? Provide the exact source, including page numbers, for your answers.

(e) In addition to the costs for Market Research Services, what are the internal Postal Service costs for Fiscal Year 2000 to perform, support, or manage Market Research Services? Include the costs of all staff and staff-related costs in your answer.

(f) Describe how the total costs for market research, including contractual services and internal Postal Service costs, are assigned to Postal Service products. If the costs for market research, including contractual services and internal Postal Service costs, are not assigned to Postal Service products, describe the reasons for not attributing these costs and all efforts made by the Postal Service to determine that it is not possible to attribute these costs.

(g) Describe each individual market research project conducted in 1999. Describe any questionnaires, discussion outlines, or other study instruments that were used in each project. Provide the cost of each project.

(h) Describe each individual market research project conducted in 2000. Describe any questionnaires, discussion outlines, or other study instruments that were used in each project. Provide the cost of each project.

RESPONSE:

a. Confirmed that the FY 1999 amount reported for the account labeled "Market Research Services" is the amount quoted. As discussed below in response to subparts f.-h. of this question, however, that account may include expenses which would not conform with everyone's expectations of what constitutes market research.

b. Confirmed.

c. The best available estimate of this amount for FY 1999 is \$1.58 million.

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d. The amount shown in USPS-LR-J-8 (pg. 151) for that account for FY00 is \$40,414,755.

e. The best available estimate for this amount for FY 2000 is \$1.34 million.

f.-h. Regardless of whether they are actually market research costs, most of the costs identified above are allocated to products. Specifically, in FY 1999, \$17.71 million from the Market Research Services account were identified as specific to First-Class Mail, as those were the contractor costs of conducting the EXFC program. Similarly, in the same year, \$7.62 million were identified as specific to Priority Mail as the contractor costs of conducting the PETE program. The corresponding amounts associated with those programs and identified as specific to First-Class Mail and Priority Mail in FY 2000 were \$17.57 million and \$9.24 million. On the other hand, there were approximately \$8.2 million of costs in both FY 1999 and FY 2000 which appeared in the Market Research Account, but were actually expenses related to the Stamps on Consignment program. Those costs were not allocated to products, but, as they relate to the program which allows consumers to purchase stamps in non-postal locations such as grocery stores, do not constitute true market research costs.

The balance of costs in the Market Research Services account, and, by extension, the postal personnel costs identified in subparts c. and e., relate to a variety of activities. For example, there are programs to monitor particular market segments (e.g., the advertising industry). These do not necessarily relate to any specific postal products, although they may provide information that could be useful to those responsible for a variety of postal products. There are also funds used to purchase the

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results, such as on a subscription basis, of market research conducted by other entities.

There are also research programs relating to products and services that the Postal Service currently offers, and some relating to products that the Postal Service does not currently offer but is considering offering.

None of these costs are identified as specific to particular products. In contrast with the EXFC and PETE costs, for example, they tend to be for considerably smaller amounts – very rarely over \$1 million, and quite often less than \$100,000. Given the nature of the research, it is in most instances almost impossible to relate the costs of market research to specific classes or subclass of mail. Without analysis in detail, it would be difficult even to relate many of these projects to groups of products. In those limited instances in which that could be done, the products in question might not be CRA-products, in which case the costs would only affect the costs reported in some type of a residual category (e.g., “Other”). Alternatively, even if costs relate to a group of products (such as advertising products), there would usually be no legitimate way to break the costs out at the CRA-product level. It is reasonable to treat the costs of these programs, unlike the costs of the EXFC and PETE programs, as institutional. Many of the Postal Service’s customers routinely use a variety of postal products, and the Postal Service’s market research often seeks to obtain knowledge simultaneously about a broad array of customer needs. Given the relatively small level of funds involved, and the fact that a service organization like the Postal Service has an institutional need to maintain contact with its customer base at a variety of levels, further efforts to link these costs to specific products on a purported causal basis would seem unlikely to be fruitful,

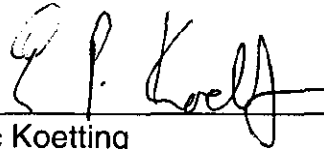
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and are not warranted.

Note that the Postal Service filed a partial objection regarding this portion of the interrogatory on November 13, 2001.

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 "E. P. Koetting", written over a horizontal line.

Eric Koetting

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