

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, 1997

Docket No. R97-1

OBJECTION OF THE UNITED STATES POSTAL SERVICE TO
NEWSPAPER ASSOCIATION OF AMERICA INTERROGATORY NAA/USPS-2(g)
(September 8, 1997)

The United States Postal Service hereby objects to Newspaper Association of America interrogatory NAA/USPS-2(g), filed on August 29, 1997. The interrogatory is vague as drafted. Further, the requested information is not relevant to any issues in this proceeding. Also, with regard to FY 1997, the information is commercially sensitive.

NAA/USPS-2(g) states:

Please indicate whether for FY 1996 and FY 1997, whether the sums expended in the national and each regional advertising budget were within the appropriate budget set by the responsible postal official.

First, the wording of the interrogatory is unclear. What is meant by the "appropriate budget"? Does this mean the set amount budgeted for total advertising? What is the time period envisioned by the question? For example, a set amount may be budgeted for advertising at the beginning of the year, but subsequently modified. Does the interrogatory imply that the set amount cannot be modified? Who is the responsible postal official? Does this refer to the Chief Marketing Officer, who determines advertising strategy? Does it refer to the Chief Financial Officer, who is responsible for the overall budget? Does it refer to the Postmaster General or the

Chairman of the Board of Governors, who might be deemed to be ultimately responsible?

In any event, it is assumed that the question was motivated by reports appearing in the press that the former Chief Marketing Officer of the Postal Service, Loren Smith, allegedly exceeded his advertising budget. Whether "responsible postal officials" overspend or underspend is completely irrelevant to these proceedings. The advertising costs are what they are. It is not the function of the Commission or the parties to challenge the appropriateness of Postal Service spending or budgeting on particular items. There is no "line item veto" on these types of expenditures.

The requested information is also irrelevant because of the manner in which the Postal Service historically has treated advertising costs. Basically, a total estimated dollar amount for advertising expense is included as part of the revenue requirement. That total estimated dollar amount consists of internal projections for what might be spent on advertising. Some of those projections relate to specific classes and subclasses of mail and some do not. That total dollar amount is then input into the rollforward model and distributed to specific classes and subclasses of mail or to the "Other" category based on the distribution of those costs in the base year. The "Other" category was for general advertising costs which were not associated with a specific category of mail. The base year distribution was, of course, based on actual, historical spending.

In this case, the distribution of those costs to classes and subclasses of mail does not appear in the presentation of volume variable costs for the interim and test

years because of the Postal Service's incremental cost methodology. Under this methodology, advertising costs in total are treated as "Other" rather than as volume variable costs. (For individual subclasses, they are included implicitly as incremental costs via the ratio method used by witness Takis, USPS-T-41.) However, anyone can see what the advertising costs associated with specific classes and subclasses would have been in the interim and test years, in the absence of the incremental cost methodology, by consulting the alternate cost presentation filed by the Postal Service pursuant to Rule 54(a)(1). *See Library Reference H-215, at Part I, Section 14, page 18 (FY 97); Part II, Section 12, page 18 (TY 98 BR); Part III, Section 12, page 18 (TY 98 AR) (component 1615).* This information has seemed to suffice in past cases and should suffice here. It is hard to imagine why NAA needs to know whether advertising budgets were exceeded.

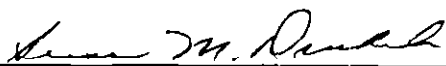
Moreover, with regard to FY 1997, confirming whether the advertising budget has been exceeded would reveal commercially sensitive information. FY 1997 is not yet over. If a competitor knew, for example, that the Postal Service had already overspent its advertising budget, it could infer that the Postal Service would not spend on advertising for the remainder of the fiscal year and into the next year. The competitor might thus begin its own heavy advertising campaign to gain an unfair competitive advantage. It is no secret that the newspapers are competitors of the Postal Service for the delivery of advertising material. The Postal Service should not be required to risk its competitive position by disclosure of this information.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

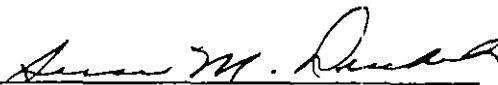
Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Susan M. Duchek

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.



Susan M. Duchek

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