

ORIGINAL

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

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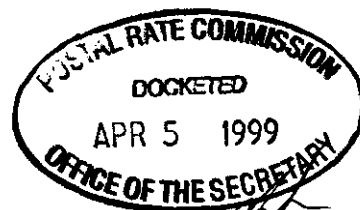
APR 5 3 13 PM '99

MAILING ONLINE SERVICE

Docket No. MC98-1

NOTICE OF UNITED STATES POSTAL SERVICE
OF FILING A REPORT ON
THE TECHNICAL CONFERENCE
CONCERNING ACCOUNTING PERIOD REPORTS
(April 5, 1999)

On March 25, 1999 and pursuant to Commission Order No. 1234, the United States Postal Service hosted a technical conference concerning its accounting period (AP) reports. The Postal Service hereby gives notice of filing its *Report of United States Postal Service on Technical Conference Concerning Accounting Period Reports*. This report, a draft of which was circulated at the commencement of the technical conference, answers the questions raised by participants prior to and during the conference. The report addresses the background furnished by Commission Order No. 1234, how the AP reports were compiled, how the costs should be interpreted, data sources, and descriptions of the respective tables that comprise each report.




The technical conference report should be read together with the revised AP reports, which are also being filed today.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

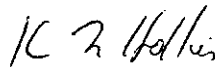
Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



Kenneth N. Hollies

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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April 5, 1999

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ORDER 1234, AT PAGE 19: "The Postal Service is directed to consult with the participants and select a mutually agreeable day between March 22 and March 26 on which to hold an informal conference open to participants at Postal Service Headquarters on those reports." The Postal Service must "be prepared to provide explanations of how those [Accounting Period] reports were compiled, what the data represent, and how they should be interpreted."

Background

In the Postal Rate Commission's Opinion and Recommended Decision on Market Test ("PRC Opinion"), dated October 7, 1998, the Commission directed the Postal Service to report "costs specific to Mailing Online and other services (Advertising and Marketing, Processing Center, Help Desk, Communications and Printer Site) to be reported each accounting period...[J]oint costs that benefit Mailing Online should be considered as potentially relevant to either the attributable costs or the appropriate markup of Mailing Online. They should be collected and reported to the Commission on an accounting period basis....[A]ll set up costs and on-going expenses for equipment, software, communications and processing activities that involve Mailing Online should be collected and reported to the Commission." PRC Opinion at 48. The Commission requested that "[t]he reports are to be submitted promptly after the close of the reporting period." PRC Opinion at 50.

The Mailing Online Market Test began on October 30, 1998 (Accounting Period 2 Week 3).

The Postal Service provided Accounting Period (AP) reports for APs 2, 3, and 4 on March 10, 1999. The Postal Service provided AP reports for AP 5 and 6 on March 15, 1999 and additions to complete those reports on March 19, 1999. Also provided on that date were revisions to AP 2, 3, and 4 reports to correct minor errors and to respond to some of the questions raised by the OCA at the hearings on March 11, 1999.

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How are the Accounting Period Reports Compiled?

AP reports are compiled on behalf of the Postal Service by PricewaterhouseCoopers (PwC) in accordance with the PRC Opinion. The AP report format was developed and individual AP reports are compiled as described below:

1. The PRC Opinion was reviewed by PwC, in consultation with Mailing Online program management and postal attorneys involved in the litigation to determine what data were required to be reported. Relevant data providers were notified of their reporting responsibilities and a schedule was developed for reporting those costs.
2. Consistent with the PRC Opinion, responsible providers were instructed to divide reported costs as follows:
 - **MOL-Specific Costs:** These are costs that are specific to MOL. They would disappear in their entirety if MOL no longer existed.
 - **Shared Costs:** These are costs that are incurred to support the POL channel, a portion of which are caused by Mailing Online. These costs would not disappear if MOL did not exist, but would change because the Mailing Online portion of these costs would no longer be needed.
 - **Non-MOL Costs:** These are POL-specific or SOL-specific costs. These costs are not caused by MOL, because they would remain the same regardless of whether MOL existed or not.

Data providers were also instructed to note which costs are set-up costs and which costs are ongoing. PwC, as well as postal managers and attorneys, worked with these providers to provide a clear understanding of what is needed to set up and maintain a process for reporting these costs.

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3. PwC prepared a template for the AP reports. Consistent with the Opinion and Recommended Decision, this template splits costs into the following tables: Advertising and Marketing, Help Desk, Hardware and Software, Communications, and Print Site. Processing Center costs (San Mateo) are covered in the personnel logs reported on a bi-weekly basis. The report template divides these tables further into MOL-specific and shared costs, and within these categories, further into set-up and ongoing costs (as appropriate). Within these categories cost items are itemized.
4. As providers deliver the data, PwC reviews the data to ensure that it adequately complies with the PRC's requests. Discrepancies and/or omissions in the data are noted and these issues are addressed and resolved as necessary with appropriate assistance from MOL management.
5. PwC compiles the reports by filling the relevant sections of the template with the appropriate data. These reports are internally reviewed, then submitted to the MOL program management and postal attorneys for their review.
6. Postal attorneys formally file these reports with the PRC.

What do the data represent?

Except for Hardware and Software costs and as otherwise noted, the data provided in the AP reports generally represent the Postal Service's incurred costs for the period in question. Consistent with the PRC Opinion, the AP reports consist of costs that are incurred for Mailing Online, split into Advertising and Marketing, Help Desk, Hardware and Software, Communications, and Print Site. For these cost categories, one can obtain the total POL cost by adding the MOL-specific, shared, and non-MOL costs. Processing Center costs (San Mateo) are covered in the personnel logs reported on a bi-weekly basis. The reports divide costs into MOL-specific, shared, and non-MOL costs, and within these

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categories, itemized costs are further divided into set-up and ongoing costs (as appropriate).

How Should These Costs Be Interpreted?

The data presented in the AP reports for Mailing Online consist of costs received from a variety of sources. Data are not just MOL-specific but also include shared and non-MOL costs. PwC's role in providing the reports has been to assist in identifying the data required, to assist in their proper collection, and to compile these costs in AP reports for formal filing with the PRC. PwC does not conduct an audit level review on the costs provided by the various providers. Nor does it suggest that participants use the data in any particular way.

Please note that the Reports contain historical costs gathered and presented in accordance with the criteria set forth by the Commission in its Opinion. The POL Cost Report prepared in accordance with Commission Order No. 1234, Attachment A, cannot be compared directly to the AP reports, because the criteria outlined in the Opinion will differ from those in Order No. 1234. In addition, the AP Reports are historical while the POL Cost Report is a projection. Finally, any preparation for the experiment that incurs costs during the Market Test will appear in the AP reports.

Description of Tables

All tables are broken into "MOL-Specific", "Shared", and "Non-MOL" costs. "None" appears in the detail under these breakouts when these breakouts do not apply.

Table 1: Advertising and Marketing Costs (Source: Customer Segment Advertising, USPS)

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This table provides advertising and marketing expenditures for the Market Test period. They represent the total costs associated with creation, production, and publishing, airing, or mailing of the advertisements for the various POL advertising media. These media are direct mail, spot cable, magazines, business journals, newsprint and Internet banners. No marketing by customer service representatives for the market test has yet been conducted (and none is expected).

The advertising costs are incurred to promote the PostOffice Online channel and not any one product in particular. No MOL-specific advertising occurred during the Market Test, and no MOL-specific advertising is planned for the remainder of the market test.

Costs are divided into media, creative, and production. Media costs are for airtime, display space, purchasing address lists for direct mail and related postage. Creative costs are incurred to design the advertising and to manage the contractor account. Production costs are incurred to construct, print, tape, retouch and otherwise process the advertisements.

Except for production costs, costs are reported during the same period that the advertising appears in the media. Some advertising was delayed as a result of PostOffice Online reaching 5,000 registrants, and is planned for release in AP 7, AP 8 and AP 9. These costs will appear in the appropriate AP report when the advertising is released. Besides these costs, no additional advertising expenditures are planned for the remainder of the market test.

Table 2: Help Desk Costs (Sources: Impact Innovations and Compaq)

This table provides the total costs incurred by the Postal Service to set up and run a Help Desk/Support Center for PostOffice Online, including facilities (rent),

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communications (voice and fax charges), labor, equipment, software, and management.

The contractor-provided Help Desk supports the needs of PostOffice Online customers. Costs include a combination of actual billing statements (e.g. desktop publishing software) and calculated costs (mostly labor costs, which are the number of hours worked multiplied by an hourly rate).

Costs are separated into MOL-specific and shared costs. Costs reported include setup costs—which are one-time costs—and ongoing (recurring) costs of maintaining the help desk. There are no non-MOL costs. No MOL-specific costs were incurred during AP 2 and AP 3.

In November (AP 2 and AP 3) the PostOffice Online Help Desk moved to Columbia, MD and changed its name to the "Customer Support Center." This change is represented in the AP reports for AP 2 and AP 3. As such, from AP 4 onward the line item for PostOffice Online Help Desk is no longer included, as all the costs were incurred under the new name. The Support Center uses Remedy as its management tool. "Remedy Support Renewal" stands for the subscription cost to renew support and technical services from Remedy software engineers. As costs are incurred, the relevant line items appear in the table. There is no reason to expect significant changes in terms of new line items added or old ones deleted for the remainder of the Market Test. The facilities, communications, management and labor costs to run a Help Desk/Support Center costs are ongoing, and the Postal Service expects to continue to incur costs for the remainder of the market test.

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Table 3: Hardware and Software Costs (Sources: USPS San Mateo Integrated Business Systems Solutions Center (IBSSC), Compaq, Marconi)

This table provides the total costs incurred by the Postal Service for the acquisition of the necessary hardware and software, the development of the system architecture, the writing of code for, and the testing and integration of the PostOffice Online system. The AP 2 report includes hardware and software costs incurred prior to and during that period to set up the PostOffice Online system for the market test period.

Costs are divided into "MOL-Specific", "Shared", and "Non-MOL" costs. Costs are then divided into hardware, software, and development and coding costs, and further into the production system (which supports live POL customers) and a test system (for testing any incremental improvements to the market test version [2.0] of POL). Development and coding represents the costs incurred to have contractors develop the system architecture, write code, and test and integrate the PostOffice Online system.

The NETFTP1 servers are used to transfer data files between the POL system, the MOL and SOL databases, and the San Mateo FTP server. The backup server is used for duplicating the databases for disaster recovery purposes. WWW/WWW2 are internet servers that house the PostOffice Online web pages. Database Hub is a hardware component that allows the various POL databases to communicate with one another.

The POM server takes its name from PostOffice Mailing, which is the predecessor name for MOL. NCC server is the Network Control Center. The POM and NCC servers comprise the core MOL product, while the MOL database stores the necessary transaction data and the printsite server allows the printer

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to process the batched MOL jobs properly as they come in over the T-1 communications line to the printsite.

Since most of the hardware and software costs were incurred to acquire and set up the PostOffice Online system, the Postal Service does not expect any additional hardware costs and minimal software costs for the remainder of the Market Test. For development and coding, the Postal Service expects to incur continued costs to develop the Version 3.0 system for the remainder of the Market Test.

Table 4: Communication Costs (Sources: USPS testimony for Mailing Online, IBSSC, primary research)

This table provides the best estimate of costs incurred by PostOffice Online for communications purposes. IBSSC does not break down communications costs by postal product and the IBSSC telephone bills cover all programs that use communications lines. Therefore, a combination of witness Lim's testimony and primary research had to be used to determine what the communications costs are for POL.

PwC derived the communications costs as follows:

- The costs for the T1 line to the print site are taken directly from the testimony of witness Lim. These include the installation costs associated with installing a T-1 line (appears in the AP 2 report) and the ongoing monthly T-1 service charges.
- The cost for the POL payments line (used to communicate electronically with credit card companies for purchases involving all products on the POL channel) is a shared cost based on the average rates for a standard business line in San Mateo, California. The rates are applied to the POL payment call volume for the AP to obtain a payment line cost.

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- The cost for the communications line to the Internet Service Provider represents the cost for all Postal Service internet initiatives. There is no attribution made either to MOL specifically or to the POL program as a whole.

It is important to note that there is currently no T-3 in use for PostOffice Online purposes, and therefore the T-3 cost is not included in the AP reports.

Aside from the installation of communications lines, communications costs are ongoing and the Postal Service expects to incur additional communications costs for the remainder of the Market Test.

Table 5: Print Site Costs (Source: *Printsite Invoices*)

This table provides the costs incurred by MOL for printsite printing and processing of Mailing Online jobs, as well as any costs incurred by IS personnel for printsite support, including travel to the printsite. These costs are MOL-specific and are taken directly from printer invoices. Costs are broken down to show the volume successfully printed/mailed for each possible element of the MOL jobs processed in that given AP, and the corresponding billing amount.

Please note that the volumes reported are not taken from the bi-weekly reports but rather represent the volumes reported in the actual invoices themselves. As such, the volumes will not match with the bi-weekly reports as the day of printing may be different from the day of processing for the batches involved.

Printsite costs are ongoing, as costs are incurred whenever an MOL job is processed successfully. The Postal Service expects continued printsite costs for the remainder of the Market Test.