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ORIGINAL

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

RECEIVED

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

SPECIAL SERVICES REFORM, 1996

Docket No. MC96-3

RESPONSE OF UNITED STATES POSTAL SERVICE
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

The United States Postal Service hereby provides the response of witness Lyons to Presiding Officer's Information Request No. 6, issued on December 16, 1996.

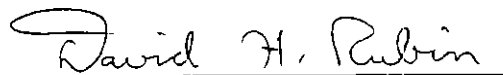
Each question is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking


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December 23, 1996



RESPONSE OF POSTAL SERVICE WITNESS LYONS
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 6

1. Please refer to the after-rates volume forecasting model in LR-SSR-135, Spreadsheet CERTFORE.WK4.

a. Provide the source of the Certified Mail base volume figure of 287.975 million pieces in Cell A:E92. Verify that this base volume figure represents the before-rates volume forecast of Certified Mail for Postal Fiscal Year 1996.

b. Provide the source of the following annual net trend projection factors in Cells A:D95 through A:F95:

Net Trend Projection Factors

Postal Cards	0.963434
Certified Mail	1.033303
Registry	0.902441

RESPONSE:

a. It is my understanding that, as suggested in the question, the 287.975 million piece figure is the before-rates volume forecast for Certified Mail for Postal Fiscal Year 1996. The source of this figure is the forecast underlying the President's Budget, presented in USPS-LR-SSR-102. The only difference is that the figure for Certified Mail shown in LR-SSR-102, 289.613 million, is the forecast for Government Fiscal Year 1996. The methodology and inputs are the same, but a PFY forecast is the output which results if the process is stopped without what would otherwise be the final step, converting the PFY forecast to a GFY forecast.

b. I am informed that the net trend factors listed in Cells A:D95 through A:F95 are the net trends which were used in the President's Budget forecast. They are 5-year mechanical net trends, calculated using a base period of 1989Q2-1990Q1 and forecasting the four-quarter period from 1994Q2-1995Q1 (the last four quarters of the regression period used in the President's

Budget forecast). For each subclass, the mechanical net trend is then calculated from the ratio of actual volume for those four quarter to the forecasted volume for those four quarters. By raising this ratio to the $(1/5)$ th power, it is converted to the annual net trend factor that would have been necessary to forecast the four-quarter period ending 1995Q1 with no error.

RESPONSE OF POSTAL SERVICE WITNESS LYONS TO
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2. The July 22, 1996, revision to USPS-T-1, WP A, page 4, adjusted the data on "Question 11 Responses" so that a missing \$800 to \$900 value range was added. However, the \$1,000 to \$1,500 Value Level Range was changed to \$900 to \$1,500, which is different than the actual survey results given in Library Reference 109. Would it be more consistent with the survey results given in LR-109 to adjust the original WP A by starting the value ranges at \$700, advance in \$100 increments until \$1,000 is reached, and then continue with the value ranges as in Question 11, Library Reference 109. The change would also be consistent with the sum given in WP A for "Total Revenue from New Pieces 700 to 2,000."

If the value ranges do start at \$700, please confirm that the Average Fee per piece for New Insured pieces will be \$13.71 versus the current \$13.13.

RESPONSE

My understanding of the survey in LR-SSR-109 is that it asked major insured parcel shippers about a possible increase in the insurance indemnity limit above \$600. Such customers would know that parcels valued at from \$501 to \$600, for example, would be insured at the \$600 level. It is thus reasonable to conclude that customers responding to question 11 would report parcels valued from \$601 to \$700 in the \$700 line in question 11, parcels valued at \$701 to \$800 in the \$800 line, parcels valued at \$801 to \$900 in the \$900 line, and parcels valued at \$901 to \$1500 in the \$1,000 to \$1,500 line. Therefore, I believe that my Workpaper A, page 4 is more consistent with the survey results in LR-SSR-109 than the alternative approach presented in the above question. The alternative approach would not take account of any additional parcels valued between \$600 and \$700. I do recognize that the sum given in WP A for "Total Revenue from New Pieces 700 to 2,000" should be labelled

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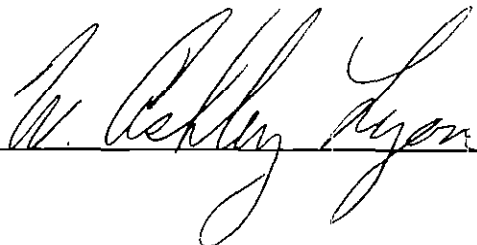
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"Total Revenue from New Pieces 600+ to 2,000", which would then be consistent with the title of that table three lines above.

If the value ranges do start at \$700, the Average Fee per piece for New Insured pieces for the first survey would be \$13.71 versus the current \$12.81.

DECLARATION

I, W. Ashley Lyons, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.



W. Ashley Lyons

Dated: 12-23-96

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.

David H. Rubin
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