

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, 2000

Docket No. R2000-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-1-13)

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-1-13, filed on January 24, 2000. OCA/USPS-14, originally filed with this set, was later withdrawn as duplicative of number 2.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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February 7, 2000

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-1. Please refer to the Statement of William J. Henderson before the Subcommittee on the Postal Service, Committee on Government Reform, US House of Representatives, dated October 21, 1999. On page 4 of the statement, Postmaster General Henderson states, "As consumers grow more comfortable with logging on to pay their bills – these efforts will reach critical mass. The result could be erosion of our total revenues. We believe nearly \$17 billion is at risk." Please provide the derivation of the \$17 billion figure.

RESPONSE:

In his statement to the House Subcommittee on the Postal Service, Postmaster General Henderson stated that "nearly \$17 billion" of Postal Service revenue is at risk. This figure is an estimate of the revenue generated by the bills, financial statements, and payments that the Postal Service carries as a part of First Class Mail. The Postal Service derived the number by estimating the amount of bills, financial statements and/or payments in each of the nonhousehold-to-household, household-to-nonhousehold, and nonhousehold-to-nonhousehold sectors of the mail stream, using data from the Household Diary Study.

The Household Diary Study is a multi-year survey of the mail sent and received by households in the United States. Table 4-10 (page IV-25 of the 1997 report) shows the contents of First Class Mail received by households as a percent of total First Class Mail. For 1997, nonhousehold (business and charitable) bills to households accounted for 16.1 percent of First Class Mail. Nonhousehold financial statements mailed to households made up 4.8 percent of First Class

Mail. Nonhousehold payments sent to households were an additional 1.3 percent of First Class Mail, for a total of 22.2 percent of First Class Mail.

Table 4-48 (page IV-122 of the 1997 report) shows mail sent by households. Households sent 7.8 percent of total First Class Mail as business transactions not in response to advertising. Almost all of this volume is assumed to be payments.

Using table 3-1 (page III-2 of the 1997 report) and assuming a proportional amount of non-household-to-nonhousehold mail is bills, financial statements, and payments, an estimate of nonhousehold-to-nonhousehold mail at risk can be developed. For bills and statements, this works out to about 12.7 percent of First Class Mail, and for payments, about 5.6 percent, for a total of 18.3 percent of First Class Mail.

Combining the above estimates yields a total of about 48.3 percent of First Class Mail in the bills, financial statements, and payments stream. Applying this to GFY 1999 First Class Mail total revenues of \$34.9 billion gives just under \$17 billion at risk.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
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OCA/USPS-2. Please refer to the Statement of Bernard L. Ungar, General Accounting Office, before the Subcommittee on the Postal Service, Committee on Government Reform, US House of Representatives, dated October 21, 1999. On page 5 of the Statement, Mr. Ungar states that the Postal Service provided GAO with a "detailed explanation of its volume forecast scenario and why it projects a substantial decline in First-Class Mail in the next decade." Please provide a complete copy of the volume forecast, including all assumptions utilized in the forecast. Provide all supporting workpapers and calculations.

RESPONSE:

The volume forecast scenario presented by the GAO in testimony before the House Subcommittee on the Postal Service in October 1999 included absolute volume declines for First Class mail and a slowdown in the growth of Standard (A) Mail, both beginning in Fiscal Year 2003. This scenario grew out of the effort to quantify the possible financial effects of postal reorganization as envisioned in HR 22. For that process, PricewaterhouseCoopers was asked to develop a simulation that would test a number of different scenarios regarding the environment in which the Postal Service will operate in the future, and enable comparisons to be made between them.

One of the elements embedded in these scenarios is a marked increase in diversion of traditional letter mail due to the increasing popularity of electronic alternatives, such bill presentment and payment and alternative advertising media. With some refinement, we have incorporated these assumptions into the long-term forecasting process, which has as its base the model used by the Postal Service its rate cases before the Postal Rate Commission. This became

the basis for the electronic diversion of First Class and Standard (A) mail in the scenario that the Postal Service sent to the GAO.

For First Class mail, the basic assumption is that the Postal Service will lose around half of its bills, statements, and payments by 2008. We arrived at the diversion estimate by first developing a consensus long-range forecast based on third party estimates of the growth of various types of electronic transactions. We then considered the relative rates at which these transaction types would likely supplant First Class mail, and combined these to calculate the number of pieces diverted. Finally, we used this number to devise an estimate of the percentage of First Class Mail volume that would be lost.

Similarly, we examined Standard (A) mail. We believe that the increasing use of the Internet as an advertising medium will negatively affect the growth of Standard (A) mail volume. Management's consensus diversion estimate represented an estimate of the rate at which electronic advertising will supplant ad mail, relative to the volumes projected by the then-existing model. Subsequent to that time, additional modeling has allowed us to modify the Standard (A) equation, obviating the need for an adjustment such as the management consensus Standard (A) adjustment.

Attached is the forecast as provided to GAO. Provided as USPS-LR-I-179 is the electronic spreadsheet supporting the forecast.

M. RICHARD PORRAS
Chief Financial Officer
Senior Vice President

Attachment to
Response to
OCA/USPS-2
Page 1 of 2



Mr. Bernard Ungar
Director, Government Business Operations
Issues
United States General Accounting Office
Washington, DC 20548-0002

Mr. Ungar:

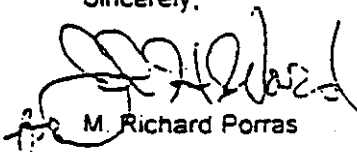
In response to your recent request, enclosed is a volume-forecast scenario by major class of mail for inclusion in GAO's testimony at the upcoming oversight hearing.

As you know, the Postal Service worked with the Subcommittee on the Postal Service, the Postal Rate Commission, and PricewaterhouseCoopers to develop a model that allows the user to assess alternate scenarios related to postal reform. This model (the H.R. 22 scenario model) allows analysts to vary essential assumptions concerning economic drivers, including mail volume. The enclosed volume forecast scenario assumes that electronic diversion accelerates in the out-years consistent with the baseline assumptions adopted for the H.R. 22 scenario model. This formed the basis for consultations about the financial impact of H.R. 22. This scenario includes assumptions about a new and vastly different environment in which the Postal Service will operate. Changes in technology and business create a climate in which current hypotheses about mailing behavior may no longer hold. In it, a variety of technological and general business factors will combine to create an environment that is detrimental to the growth of letter mail. Specifically, the following assumptions must be held:

- *Potential Year 2000-related complications are largely avoided, increasing business and consumer confidence in electronic alternatives to traditional mail-based bill and statement streams.*
- *Businesses increase research and development and technology spending as a result of the easy Year 2000 transition, resulting in rapid implementation of on-line banking and financial applications, and the spread of Internet-based small business Electronic Data Interchange (EDI).*
- *First-Class letter advertising reaches a saturation point because of consolidation in the banking sector, and the diversion of bills and payments away from the mail stream.*
- *Advertisers move away from traditional media to Internet-based platforms because of increased consumer use of the Internet.*

Under this set of assumptions, growth of population and income will still aid total volume growth. However, the impact of diversionary trends and the cessation of positive ones combine to create a net decline in First-Class Mail volume and diminishing growth in Standard (A) beginning in Fiscal Year 2003. The combination of consumer movement to alternative bill payment methods and the consolidation of the financial sector will reduce the number of bills, statements, and payments in the mail stream. At the same time, movement of advertisers to the Internet will cause a slowdown in the growth of Standard (A). Meanwhile, growth in Priority Mail and Parcel Post will continue to be robust, as the consumer embraces electronic commerce, and more packages are shipped by Internet retailers.

Sincerely,



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USPS Volume Forecast 1999 - 2008

Postal Fiscal Years
Millions of Pieces

FORECAST

VOLUMES

CLASS/YR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL (FROM RPWFORECAST NOT SUM OF DISPLAYED LINES)	201,004	208,254	215,868	222,432	227,884	230,325	231,731	232,170	230,505	230,554
First-Class	102,021	104,408	105,525	107,220	107,035	104,050	101,284	98,335	94,329	92,030
Priority	1,201	1,239	1,325	1,423	1,529	1,637	1,764	1,887	2,031	2,171
Express	68	70	72	74	77	80	84	87	90	93
Periodicals	10,275	10,366	10,412	10,522	10,659	10,838	10,961	11,067	11,160	11,264
Std A	85,051	89,732	96,042	100,645	105,972	111,029	114,903	117,964	119,977	121,999
Std B	1,056	1,109	1,165	1,224	1,288	1,357	1,423	1,486	1,563	1,632
Parcels	333	355	379	414	453	497	540	583	627	673
Total Domestic	200,105	207,341	214,950	221,497	226,936	229,356	230,746	231,163	229,482	229,507
International	899	913	916	934	948	969	984	1,007	1,023	1,047

GROWTH

CLASS/YR	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
TOTAL (FROM RPWFORECAST NOT SUM OF DISPLAYED LINES)	2.7%	3.6%	3.7%	3.0%	2.5%	1.1%	0.8%	0.2%	-0.7%	0.0%
First-Class	2.2%	2.3%	1.1%	1.6%	-0.2%	-2.8%	-2.7%	-2.9%	-4.1%	-2.4%
Priority	2.8%	3.2%	6.9%	7.4%	7.5%	7.1%	7.7%	7.0%	7.6%	6.9%
Express	3.4%	2.4%	2.9%	3.0%	3.7%	4.1%	4.4%	3.9%	4.0%	3.3%
Periodicals	0.0%	0.9%	0.4%	1.1%	1.3%	1.7%	1.1%	1.0%	0.8%	0.9%
Std A	3.8%	5.5%	7.0%	4.8%	5.3%	4.8%	3.5%	2.7%	1.7%	1.7%
Std B	2.4%	5.0%	5.1%	5.1%	5.2%	5.3%	4.9%	4.4%	5.1%	4.4%
Parcels	4.1%	6.6%	6.8%	9.1%	9.6%	9.7%	8.6%	7.9%	7.6%	7.4%
Total Domestic	2.7%	3.6%	3.7%	3.0%	2.5%	1.1%	0.6%	0.2%	-0.7%	0.0%
International	-4.0%	1.5%	0.4%	2.0%	1.4%	2.3%	1.5%	2.3%	1.6%	2.4%

* 1997 and 1998 data have been recast to reflect improvements in volume and revenue estimation methodology.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORIES
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OCA/USPS-3. Please provide the fiscal year 1999 CRA and supporting documentation equivalent to that for base year 1998.

Response: The FY 1999 CRA is not yet available. When it is available, it will be provided in accordance with the Commission's periodic reporting requirements contained in 39 C.F.R. § 3001.102. Any supporting documentation required by that rule will also be provided.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO INTERROGATORIES
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OCA/USPS-4. Please provide the equivalent of library references I-130 through I-149 for fiscal year 1999.

Response: USPS-LR-I-131, PRC Version/Roll Forward Model, already contains the information for interim year FY 1999 required by Rule 54(a)(1).

**RESPONSE OF UNITED STATES POSTAL SERVICE
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OCA/USPS-5. The edition of the "F8 Handbook" on file in the Commission docket room entitled "General Classification of Accounts" is dated September, 1993 and was filed as USPS-LR-237 in Docket No. R97-1. Please provide a current "F8 Handbook" for the USPS chart of accounts. Include in the copy provided all changes that have occurred since the edition dated September, 1993. If the current F8 Handbook is available in electronic format, please provide that as well.

RESPONSE:

The current handbook, dated 8/29/96, is available only in electronic format and is being filed as part of Library Reference I-183. Transmittal letters indicating subsequent changes are available only in hard copy and are included in the library reference as well. (To the extent it appears that there are missing transmittal letters, they are changes in finance numbers only and not changes to the handbook.)

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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OCA/USPS-6. Please provide the billing determinants for fiscal year 1999 in a format similar to LR-I-125.

RESPONSE: The FY 1999 billing determinants are not yet available.

**RESPONSE OF UNITED STATES POSTAL SERVICE TO
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OCA/USPS-7. The Office of the Inspector General's web site contains a link to the "Semiannual Report to Congress" for the period ending March 31, 1999. Please provide copies of all other semiannual reports issued to date. Please provide a copy of the semiannual report for the first half of 2000 as soon as it is issued.

RESPONSE:

Copies of the requested semiannual Inspector General reports are provided in USPS LR-I-181. The semiannual report for the first half of 2000 will not be available until later in the spring.

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OCA/USPS-8. Please refer to the attachment. Please provide the cost of preparing, processing, transporting, and delivering this mail.

RESPONSE: No study of the cost of processing, transporting or delivery of this particular mailing has been performed. Its mail processing, transportation and delivery cost characteristics should be similar to those of other Standard A Saturation ECR mail pieces. Research concerning the cost of preparing the mail piece continues.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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OCA/USPS-9. The revised Government Fiscal Year 1999 Revenue, Pieces and Weight Report, dated December 20, 1999, and filed with the Commission December 27, 1999, indicates that 380,103,000 pieces were mailed in the service category of "U.S. Postal Service Mail" in GFY 1998 and 382,283,000 in GFY 1999. Please provide breakdown of these mailings for each year, including a description of each mailing or type of mailing. Indicate how many were nationwide in scope and/or intended to be delivered to every domestic delivery address.

RESPONSE: The requested data are not available. The volume estimates cited in OCA/USPS-9 are based on Domestic RPW sample results and represent national aggregates. They cannot be broken down by specific originating mailings or by scope of delivery (actual or intended). Additionally, no administrative system exists that collects the requested information.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
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OCAUSPS-10. In the rebuttal testimony of Postal Service witness Michael W. Miller, USPS-RT-17 in Docket No. R97-1, at page 18, lines 30-31, Mr. Miller states that "at least one CEM-specific direct mailing (\$11 million) would need to be sent to every household and business in the United States."

- (a) Please update the \$11 million figure based on data from the Test Year in R2000-1.
- (b) Please identify the costs or components of, or otherwise explain the derivation of the updated figure.

RESPONSE: (a&b) The \$11 figure can be updated by multiplying an estimated TY volume variable unit cost for Standard A Mail Saturation ECR by 130,000,000 (estimated number of domestic delivery addresses).

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
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OCA/USPS-11. Dr. Tolley and Dr. Thress provide information supporting volumes and revenues for the Test Year.

- (a) Various witnesses indicate efforts in the areas of efficiency improvements by the Postal Service and market development. Please explain how these factors are accounted for in the Postal Service volume and revenue projections. Are there any other efforts beyond those outlined in the filed testimony which are wholly, partially, or prospectively under consideration and/or implementation?
- (b) Reference is also made to electronic media: are there any studies, consideration, or information on the potential impact of the emerging technological changes in electronics and telephony on the demand for existing and/or new services? If so, please provide copies of any such documents.

RESPONSE

a) Efficiency improvements which affect postal prices, for example, through reductions in postal costs, are accounted for in the volume forecasts by the price elasticities of demand. Efficiency improvements which have no impact on postal prices would have no impact on the projections of Postal Service volumes and revenues in the Test Year. To the extent that efficiency improvements continue to increase demand for mail services, as for example, advances which encourage the use of automated mail, these improvements are included in the historical volume data and reflected in the future volume forecast.

Market development initiatives are taken into consideration in the volume forecasts. For example, Dr. Tolley's forecasts of parcel post volume take account of the success of the Postal Service's drop-ship discount program, reflected in the net trend included in the forecast of DBMC parcel post volume.

We are not aware of any other efforts beyond those outlined in the filed testimony which are under consideration for implementation in the Test Year.

b) The testimony of Dr. Tolley (USPS-T-6) contains extensive discussions of the role of technological changes on mail volumes. Please see, for example, his discussion of electronic diversion of First-Class letter volume at page 43, line 6 to page 56, line 11 and his discussion of the impacts of Internet advertising on Standard A Regular volume at page 120, line 5 to page 123, line 15.

Other materials relating to this general topic are shown on the list provided as an attachment to this response. Copies of a few of the items on the list (those originating with AD Little or Christensen Associates) will be included (because of their length) within USPS-LR-I -182, to be filed shortly. However, most of the items on the list are produced by organizations other than the Postal Service, and are not necessarily under the control of the Postal Service. To avoid potential contractual complications, copies of those documents should be obtained from the originating organization. Addresses and phone numbers are provided to assist in that effort.

Another recent document included within LR-I-182 will be a summary of the Price Waterhouse Coopers analysis of the impact of electronic media done in connection with the HR 22 scenario model.

Study Title	Date	Publisher
The Internet and Future of Transaction Documents - Abstract	11/23/99	CAP Ventures, Inc.
The Internet and Future of Transaction Documents - Final Report (PDF) #2488a	11/01/99	CAP Ventures, Inc.
The Internet and Future of Transaction Documents - Forecast Tables (XLS) #2488b	11/01/99	CAP Ventures, Inc.
The Internet and Future of Transaction Documents - Questionnaires (PDF) #2488c	11/01/99	CAP Ventures, Inc.
The Internet and Future of Transaction Documents - E-commerce, ERP and Electronic Billing Interviews (PDF) #2488d	11/01/99	CAP Ventures, Inc.
The Internet and Future of Transaction Documents - Print Center Interviews (PDF) #2488e	11/01/99	CAP Ventures, Inc.
The Internet and Future of Transaction Documents - Final Presentation to USPS (PDF) #2488f	11/01/99	CAP Ventures, Inc.
Electronic Bill Payment and Presentment: The Consumer Perspective (PDF) #2670	10/28/99	Synergistics
Assessing the Impact of Internet Integration on the Small and Medium Business Market	08/20/99	Yankee Group
1999 DSS The State of the Market in Retail Financial Services - Delivery Systems (PDF) #2598	04/14/99	PSI
1999 DSS The State of the Market in Retail Financial Services - Delivery Systems (PPT) #2598	04/14/99	PSI
Web Advertising 1998-99: Market Analysis and Forecast #2009	04/01/99	Simba Information Inc.
Electronic Bill Payment and the Impacts on Mail Volume - Evidence from the Household Diary Study 1995-1997 #2628	04/01/99	Christensen Associates
Internet/On-line Usage and the Impacts on Mail Volume - Evidence from the Yankee Group Interactive Consumer Survey 1998 #2629	04/01/99	Christensen Associates
Electronic Bill Payments and the Impacts on Mail Volume - Evidence from the Household Diary Study 1995-1997 (PDF) #2628	04/01/99	Christensen Associates
Internet/On-line Usage and the Impacts on Mail Volume - Evidence from the Yankee Group Interactive Consumer Survey 1998 (PDF) #2629	04/01/99	Christensen Associates
Enterprise e-Billing and Payments Markets: New Opportunities for Billers, Merchants and Their IT Suppliers #2476	03/19/99	Kliten
Electronic Bill Presentment and Payment: Market Readiness Part One: The Consumer Perspective (PDF) #2554	02/18/99	Yankee Group
Electronic Bill Presentment and Payment Opportunities and Threats (PDF) #2475	01/27/99	Kliten
Internet Advertising, 1998 #2377-18115	01/01/99	IDC/Link
The Sellers Speak: Learning from the Leaders #2377-17973	01/01/99	IDC/Link
1998 SMART Program: Defining E-Commerce (PDF) #2513	12/29/98	Merita Corporation
PSI Payments: Market Sizing Analysis (PDF) #2412d	12/28/98	PSI
1998 SMART Program: Disaster Recovery Strategies and Solutions for Banking (PDF) #2512	12/23/98	Merita Corporation
1998 SMART Program: Information and Communication Technology Expenditures: Projections for 1998 through 2002 (PDF) #2511	12/23/98	Merita Corporation
Mass-Customization Marketing: Maximizing Value of Customers #2377-17816	12/01/98	IDC/Link
Why Personalized Content Matters #2377-17816	12/01/98	IDC/Link
PSI Payments: Market Sizing Analysis #2412d	12/01/98	PSI
1998 DSS Topical Reports - The Future of Online Banking #2542	12/01/98	PSI
1998 SMART Program: Financial Services Industry Convergence (PDF) #2539	12/01/98	Merita Corporation
1998 SMART Program: The Developing Role of the Branch as a Sales Center (PDF) #2540	12/01/98	Merita Corporation
1998 Electronic Bill Presentment and Payment Program: Data Tables (PDF) #2483b	12/01/98	Merita Corporation
1998 SMART Program: Paper Payments: Trends and Strategies for the New Century (PDF) #2541	12/01/98	Merita Corporation
1998 Electronic Bill Presentment and Payment Program: Executive Summary Report (PDF) #2483a	12/01/98	Merita Corporation
US Consumer Internet and Online Services Forecast, 1997-2002 #2377-17970	12/01/98	IDC/Link
Online Nation: 1998 US Internet User Survey #2377-17884	12/01/98	IDC/Link
1998 Hologic Consumer/TAF Report (PDF) #2501	12/01/98	Yankee Group
1998 SMART Program: Defining E-Commerce #2513	12/01/98	Merita Corporation
1998 DSS Topical Reports- The Future of Online Banking (PDF) #2542	12/01/98	PSI
1998 SMART Program: Information and Communication Technology Expenditures: Projections for 1998 through 2002 #2511	12/01/98	Merita Corporation
Online Brokerage Forecast, 1997-2002: Redefining the Brokerage Landscape #2377-17485	11/01/98	IDC/Link
PSI PAYMENTS Consumer Analysis (PDF) #2412b	11/01/98	PSI
1998 DSS Topical Reports - Migrating Consumers to Alternative Delivery (PDF) #2490	11/01/98	PSI
1998 SMART Program: Consumer Payment Methods: The Changing Role of Debit, Credit, and Smart Cards #2458	10/08/98	Merita Corporation
The US Segment of the 1998 Global IT Survey #2377-17174	10/01/98	IDC/Link
PSI PAYMENTS Consumer Analysis Executive Summary (PDF) #2412c	10/01/98	PSI
Electronic Bill Presentment and Payments: Markets, Framework, and Suppliers (PDF) #2474	10/01/98	Kliten
Evaluation of the Mailing Industry Current Situation and Future Trends #2335	10/01/98	Arthur D. Little, Inc.
Remittance Mail Forum (PDF) #2468	10/01/98	USPS Internal Data
PSI Payments Biller Executive Interview Analysis #2412a	09/01/98	PSI

Attached
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 OCA/USPS-11
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Retail Delivery News #2459
 1998 SMART Program: Mining for Gold: Customer Profitability Strategies in Retail Banking #2447
 Home Office Internet Use Reaches Record Level #2377-17141
 Insurance Systems and Technology Data Tables (PDF) #2427a
 1998 SMART Program: Trends in Community Banking Automation (PDF) #2464
 1998 SMART Program: Consumer Payment Methods: The Changing Role of Debit, Credit and Smart Cards #2456
 Cards #2456
 PSI PAYMENTS Biller Executive Interview Analysis (PDF) #2412a
 1998 Insurance Systems and Technology - Research Report and Sourcebook (PDF) #2427
 1998 Insurance Systems and Technology - Research Report and Sourcebook (PDF) #2427b
 1998 SMART Program: Mining for Gold: Customer Profitability Strategies in Retail Banking (PDF) #2447
 1998 SMART Program: Consumer Payment Methods: The Changing Role of Debit, Credit and Smart Cards (PDF) #2456
 1998 Electronic Bill Presentation and Payment Pym: Comparative Profiles of EBPP Service Providers (PDF) #2463
 1998 SMART Program: Issues and Opportunities in Small Business Banking #2413
 1998 SMART Program: Issues and Opportunities in Small Business Banking (PDF) #2413
 Online Segmentation Analysis #2377
 Adoption of Information Security Technology in the Enterprise #2377-16879
 The Forrester Report #2431
 Web Usage Trends #2407
 PSI Payments Business Analysis #2412
 1998 SMART Program: Beyond the PIN: #2414
 US Home Office Market Review and Forecast, 1997-2002 #2377-16648
 The Global Market Forecast for Internet Usage and Commerce #2377-16589
 1998 SMART Program-Beyond the PIN: (PDF) #2414
 PSI PAYMENTS Business Analysis (PDF) #2412
 PSI PAYMENTS Business Analysis Executive Summary (PDF) #2412a
 The Electronic Marketplace 2002 #2383
 1998 SMART Program: The Government Converts from Paper to Electronic Transactions: Evaluating the Effects of
 EFT99, EBT, and EFTPS #2356
 1998 SMART Program: The IT Balancing Act: Finding the Optimal Central IT Role in a Distributed Financial Services Organization #2355
 Card Security and Fraud Prevention Source #2382
 1998 SMART Program: The IT Balancing Act: Finding the Optimal Central IT Role in a Distributed Financial Services Organization (PDF) #2355
 1998 SMART Program: The Government Converts from Paper to Electronic Transactions: Evaluating the Effects of
 EFT99, EBT, and EFTPS (PDF) #2356
 1998 DSS Topical Reports: Capitalizing on POS Debit Growth (PDF) #2376
 Card Industry Directory #2508
 Origin and Destination Remittance Volume Study: Executive Summary #2099
 Profiting From Change in the US Payments System (PDF) #2337
 The Interactive Consumer Survey #2432
 1997 Remote Electronic Banking: Executive Summary #2291
 Growth Indicators for Electronic Commerce #2441

09/01/98 Philippe Publishing International
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 08/03/98 IDC/Link
 08/01/98 IDC/Link
 07/03/98 Forrester Research
 07/01/98 IDC/Link
 07/01/98 PSI
 07/01/98 Mentis Corporation
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 06/01/98 Mentis Corporation
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 06/01/98 PSI
 06/01/98 Faulkner and Gray
 05/01/98 NPD Group, Inc.
 05/01/98 PSI/BAI
 04/01/98 Yankee Group
 03/01/98 Mentis Corporation
 02/01/98 Arthur D. Little, Inc.

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Tele. - 703-645-3846

Killen & Associates, Inc.
1212 Parkinson Ave.
Palo Alto, CA 94301
Tele. - 650-323-3842

CAP Ventures, Inc.
600 Cordwainer Drive
Norwell, MA 02061
Tele. - 781-871-9000

IDC/Link
5 Speen Street
Farmingham, MA 01701
Tele. - 508-872-8200

Synergistics Corporation
3400 Peachtree Road, NE
Suite 325
Atlanta, GA 30326
Tele. - 800-423-4229

Simba Information Inc.
11 Riverbend Drive South
P.O. Box 4234
Stamford, CT 06907
Tele. - 203-358-9900

The Yankee Group
31 St. James Avenue
Boston, MA
617-956-5000

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE**

OCA/USPS-12. Postal Service projections appear generally to be based on the development of databases and regressions. Has the Postal Service engaged in any other type of forecasting – for example ARIMA and the variety of other time series techniques used for projections? If so, please discuss the use of such types of forecasting and its relation to projections appearing in the rate filing.

RESPONSE:

Postal volume forecasts are based on regression analysis because it is the belief of the Postal Service that understanding the factors that drive mail volume is the key to good forecasting. An ARIMA-type forecast, on the other hand, simply examines historical trends in mail volumes, without regard for the cause of these trends, and simply assumes that these trends will continue into the future. The Postal Service believes that such an assumption is unnecessarily naive and will lead to less accurate volume forecasts. Furthermore, such forecasts would be particularly difficult to employ in a rate case, as after-rates forecasts must take account of the effect of the Postal Service's proposed prices on mail volumes.

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OCA/USPS-13. A properly specified and competently performed econometric analysis can provide a prediction of future demand, assuming that the exogenous variables are correctly modeled. However, the effects of major turning points in the economy have not been captured by the data. Accordingly, a regression which is correct may still fail in providing correct forecasts if there has been a major discontinuity in the exogenous variables.

- (a) Does this possibility apply to any of the Postal Service regression equations as presented by the various witnesses?
- (b) Has the issue been considered by Postal Service management, economists, and other personnel? If so, are there any studies or evaluations of the issue? Please provide copies of any documents.

RESPONSE:

(a) Most of the important exogenous variables used in the volume forecasts are provided by DRI, Inc. DRI is a well-regarded economic forecasting firm but, as is the case with any forecast, the possibility exists that major turning points in the economy could occur that would cause actual volumes to differ from those projected for this case.

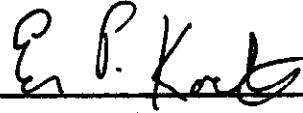
However, this would be the case only if the turning points were unexpected. For example, if a major cyclical decline were correctly projected by DRI for the Test Year, the forecasts would capture this turning point through the application of the estimated elasticities to the projected declines in income, consumption, retail sales and other macroeconomic variables.

(b) The sensitivity of forecast volumes to possible changes in the economy is always a concern of Postal Service economists. There are no formal studies of this sensitivity, which is generally measured by examining the impact on forecast volumes resulting

from changes in one or more of the forecast variables or through the inclusion of net trend terms designed to measure the effects of possible changes in the market for postal services.

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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