

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

RESPONSES OF UNITED STATES POSTAL SERVICE
WITNESS FRONK TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T33-1 THROUGH 3)

The United States Postal Service hereby provides its responses to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T1-1 through 7, filed on February 1, 2000.

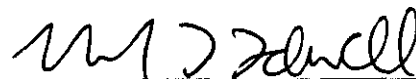
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
Chief Counsel, Ratemaking



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February 15, 2000

**RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO
INTERROGATORIES OF THE OCA**

OCA/USPS-T33-1. Please refer to Table 3 on page 9 of your testimony and the percentages you cited from the "Household Diary Study: Fiscal Year 1998."

- (a) Would you agree that for fiscal year 1998, the volume of First-Class Mail generated by households was 14.9 billion pieces (0.148 X 100.434 billion)?
- (b) The 1999 RPW shows 54.3 billion pieces of single-piece First-Class Mail for fiscal year 1998. Is it the case that about 39.4 (54.3-14.9) billion pieces of single-piece First-Class Mail were generated by nonhouseholds? Please explain.
- (c) Please provide any documents which reconcile the percentages in the "Household Diary Study: Fiscal Year 1998" with actual volumes of First-Class Mail.

RESPONSE:

- (a) The calculation performed in the question combines two data sources and multiplies the total volume of pieces of First-Class Mail in 1998 (100.434 billion pieces from the RPW system as shown in Table 3 of my testimony) by the percentage of First-Class Mail which originated in households in 1998 (14.8% from the Household Diary Study as cited on page 6 of my testimony). I would note that the RPW data used in the calculation are on a Government Fiscal Year (GFY) basis, while the data reported in the Household Diary are on a Postal Fiscal Year (PFY) basis (see Appendices C and D of the Household Diary study). I do not think, however, that this GFY/PFY point makes any material difference to the calculation performed in this question. I agree that this calculation results in a reasonable approximation of the volume of First-Class Mail generated by households in 1998.
- (b) The 54.3 billion pieces of single-piece First-Class Mail cited in the questions refers to the letters subclass only. There were also 3.0 billion single-piece cards, as shown in the cited RPW report. Thus, a better approximation of the volume of nonhousehold single-piece First-Class Mail would be obtained by adding 3.0 billion pieces to the 54.3 billion pieces shown in the question. The result is 42.4 (54.3 + 3.0 - 14.9) billion pieces of single-piece mail generated by nonhouseholds. Also, please see response to part (a).
- (c) I am not aware of any such documents. The question appears to imply that the OCA may be aware of some discrepancy. If this is the case and the OCA can be more specific, I may be able to be of greater help in this area.

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RESPONSE to OCA/USPS-T33-1 (Continued)

Also, please see my comment about GFY data versus PFY data in my response to part (a) above. This difference becomes relevant if reconciliations are being performed.

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OCA/USPS-T33-2. Please refer to your testimony on page 6, where you discuss the "Household Diary Study: Fiscal Year 1998" and to the following table.

Year	Total First Class	Household Diary Percentages	Number of Pieces
1987	78,869	21.30%	16,799
1997	99,660	16.30%	16,245
1998	100,434	14.80%	14,864

- (a) In looking at Table 4-1 of LR-I-116 would you agree that during the period 1987 to 1998, volume growth in First-Class Mail has been generated by nonhouseholds? Please explain any negative answer.
- (b) Do you believe that increases in the single-piece First-Class Mail rate during this period have contributed to the decline (21.3 percent to 14.8 percent or 16.8 billion pieces to 14.8 billion pieces) in the percentage and absolute volume of First-Class Mail generated by households?
- (c) Are there other factors that you believe led to the decline in household generated First-Class Mail? Please explain.

RESPONSE:

- (a) Yes. I make the same point in a different way in my testimony where I state:

The growth in First-Class Mail since 1976 has been concentrated almost entirely in presorted (both automation and nonautomation) mail. Nonpresort [single-piece] letter, flat, and parcel volume has grown slowly and has fluctuated in the 54 to 57 billion piece range during the last 12 years. [USPS-T-33 at page 11]

- (b) No. When the stamp price goes up, there is a dampening effect on volume in the short-term, but I do not think that stamp price increases are responsible for the decline shown over the 1987-1998 period. Since postal reorganization in 1971, the price of a stamp has generally tracked the inflation rate. Depending on the time period selected, the increase in the price of a stamp may be somewhat higher or lower than the inflation rate over that same period. Focusing on the 1987-1998 period selected for this question, the price of a stamp went from 22 cents in 1988 to 32 cents in 1998, an increase of 45.5 percent. Over the same period, the Consumer Price Index (All Urban Consumers; Series ID CUUR0000SAO from BLS) increased by 43.5 percent (index value increase from 113.6 to 163.0). Thus, the

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RESPONSE to OCA/USPS-T33-2 (Continued)

stamp price over this particular period went up a little faster than the inflation rate, but for all practical purposes was fairly constant in real terms.

I would also note that the largest volume decrease shown in your table (16,245 million pieces to 14,864 million pieces) occurred between 1997 and 1998 when the price of a stamp did not change, remaining at 32 cents. We need to look for reasons other than the stamp price to account for this decline.

- (c) Yes. While a full exploration of these factors is beyond the scope of my testimony, I think the 1998 Household Diary Study sheds some light on reasons for the decline. Table 4-11 indicates that personal letters and cards (not greeting cards) sent by households in an average month declined from 3.1 pieces in 1987 to 1.2 pieces in 1998. Table 4-14 indicates that holiday/season's greeting cards sent by households in a season declined from 38.1 pieces in 1987 to 31.0 pieces in 1998. Table 4-48 indicates that First-Class Mail sent by households in response to advertising declined from 0.61 pieces per week in 1987 to 0.18 pieces per week in 1998. Households send less personal correspondence and greeting cards through the mail now than they did in 1987, perhaps because of lack of time or the availability of e-mail or the proliferation of cellular telephones and the decline of long-distance telephone rates.

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OCA/USPS-T33-3. Your Table 3 indicates that First-Class Mail revenue is declining as a percentage of total domestic mail revenue.

- (a) Do you envision any rate implications for First-Class Mail categories in the next few years as a result of this decline?**
- (b) What plans has the Postal Service made to replace the revenues lost if this percentage declines further? Please provide copies of any documents addressing this issue.**

RESPONSE:

(a) – (b) These are important questions, but they are beyond the scope of my testimony. The purpose of my testimony is to present the proposed First-Class Mail rate design that achieves the overall revenue requirement and the subclass cost coverage targets for First-Class Mail in Test Year 2001. I am unaware of any document that addresses how to replace lost revenues if the cited percentage declines further.

I would also note that faster growth in other mail classes, notably Standard (A), will mechanically reduce First-Class Mail's share of revenue, unless First-Class Mail prices increase more than average.

DECLARATION

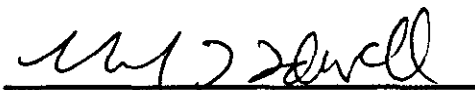
I, David R. Fronk, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

David R. Fronk
David R. Fronk

Dated: 2-15-00

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 "Michael T. Tidwell", is written over a solid horizontal line.

Michael T. Tidwell

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