

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 UNITED STATES POSTAL SERVICE  
WITNESS TOLLEY TO INTERROGATORIES OF  
PITNEY BOWES  
(PB/USPS-T6-1)

The United States Postal Service hereby provides the response of witness Tolley to the following interrogatories of Pitney Bowes: PB/USPS-T6-1, filed on March 7, 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



Eric P. Koetting

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March 21, 2000

**RESPONSE OF POSTAL SERVICE WITNESS TOLLEY  
TO INTERROGATORIES OF PITNEY BOWES**

**PB/USPS-T6-1 Please refer to your testimony at page 7, lines 18-20, where you state that**

**Rather than occurring immediately, response to price occurs over a period of time. A change in real or deflated price is estimated to lead to a volume response in the quarter in which the price change occurs *and in subsequent quarters.* (Emphasis added.)**

**a. Do the Test Year volume forecasts for all the classes and subclasses of mail contained in Table 1 at pages 6-7 of your testimony reflect the full impact that the recommended rates are expected to have? If so, what are the extent of the lags in the various models that you use to forecast volumes?**

**b. Alternatively, would any of your forecasting models project further responses to price changes to occur over periods subsequent to the end of Test Year 2001 owing to the lagged effect discussed in your above-quoted testimony? That is, do any of the lagged effects extend beyond the end of the Test Year? If your answer to this question is affirmative for any of the forecasts contained in your Table 1, please indicate the extent of further volume adjustments expected for each of the volume forecasts contained in your Table 1.**

**RESPONSE:**

**a. The after-rates Test Year volume forecasts assume that R2000-1 rates are implemented on the first day of the Test Year, October 1, 2000 (in the first quarter of fiscal year 2001). Some categories of mail are affected by changes in price as long ago as three quarters earlier. Hence, the full impact of the R2000-1 rate change will not be felt until as late as the fourth quarter of the Test Year for some categories of mail.**

**The specific lag price elasticities used in my forecasts are presented in the testimony of my colleague, Thomas Thress (USPS-T-7). See particularly, Tables II-2 through II-25 on pages 31 - 34, 42 - 45, 58 - 60, 73 - 76, and 81 - 88 of Mr. Thress's testimony.**

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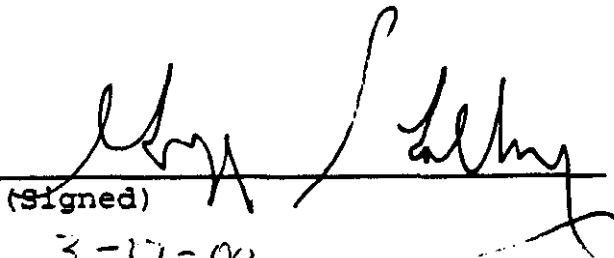
b. Because R2000-1 rates are not expected to take effect until the first day of the Test Year, virtually all of my forecasting models would project further responses to price changes to occur over periods subsequent to the end of Test Year 2001.

The impact of the Postal Service's proposed prices on mail volume in Government Fiscal Year 2002 can be ascertained by comparing the Postal Service's before- and after-rates volume forecasts for 2002, which are presented in USPS-LR-I-121 at pages 16 - 19.

The after-rates volume forecasts for GFY 2002 should reflect the full impact of the recommended R2000-1 rates on mail volumes. In total, my testimony shows that after-rates total domestic mail volume is 1.7 percent lower than before-rates volume in GFY 2001, while it would appear, based on an examination of the GFY 2002 forecasts appearing in LR-I-121, that after-rates total domestic mail volume is 2.3 percent lower than before-rates volume in GFY 2002.

DECLARATION

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

  
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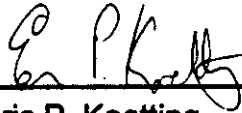
(Signed)

3-17-00

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(Date)

**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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