

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, 2001

Docket No. R2001-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BERNSTEIN
TO GCA INTERROGATORIES GCA -T10-1 - 7
(November 21, 2001)

The United States Postal Service hereby provides the response of witness Bernstein to the following interrogatories of GCA: GCA/USPS-T10-1 - 7, filed on November 8, 2001. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



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November 21, 2001

RESPONSE OF POSTAL SERVICE WITNESS BERNSTEIN
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GCA/USPS-T10-1. Please refer to your testimony at pages 7 through 10. Is it a fair reading of your testimony that the effect of e-mail on use of the postal system is evolving as is the recognition of that effect? If you do not agree that it is, please explain why.

RESPONSE:

Yes.

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GCA/USPS-T10-2. Please refer to page 17 of your testimony. Do you agree that the restraints on the adoption and use of the Internet include restraints associated with cultural and social factors? If you do not agree, please explain why?

RESPONSE:

Yes.

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GCA/USPS-T10-3. Please refer to page 17 of your testimony. Do you agree that the restraints on the adoption and use of the Internet are such that the number of Internet users and the nature and extent of their uses have evolved and will continue to evolve with time? If you do not agree, please explain why?

RESPONSE:

Yes.

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GCA/USPS-T10-4. Please refer to page 20 of your testimony. Have you prepared any table corresponding to Table 4 for the subject of personal correspondence of a non-commercial nature? If you have, please provide it together with an explanation of how the table was developed?

RESPONSE:

Data for personal correspondence corresponding to the data presented in my Table 4 are not available from the Household Diary study or any source of which I am aware. Furthermore, the share of personal correspondence sent electronically (by E-mail, for example) is not in my opinion a particularly relevant number. Unlike an electronic bill payment, which generally substitutes one-for-one for a mailed payment, an electronic correspondence does not necessarily displace one mailed correspondence.

Nonetheless, personal correspondence mail has declined during the recent period in which Internet access grew substantially. Data from the Household Diary Study show that Household-to-Household mail volume declined from 1995 through 2000. Though this decline is consistent with a longer-term trend away from mailed correspondence, it is also likely to be driven by increased use of new communication alternatives.

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GCA/USPS-T10-5. Please refer to page 20 of your testimony. In the preparation of your testimony, did you review any studies of the effects of Internet usage upon the use of mails to exchange greetings or other personal non-commercial uses? If you did, please identify those studies and explain your usage of them.

RESPONSE:

I reviewed a number of studies discussing the impact of Internet usage on the use of mail for personal correspondence. Among them were a December, 2000 report by the Pew Internet and American Life Project, "The Holidays Online: E-mails and E-Greetings Outpace E-Commerce." Among the findings of this report are that more than 51 million people sent e-mails to relatives and friends to discuss the holidays and more than 30 million people sent E-greetings. Other information was obtained from Nielsen/Net_Ratings which periodically releases information regarding use of the Internet. Nielsen found that in October, for example, AmericanGreetings.com was the 12th most popular website with more than 21 million unique visitors in that month. PC Data Online reported that more than 10 million people visited greeting card sites on last Valentine's day.

A June 2001 Gallup Poll survey, "Almost All E-Mail Users Say Internet, E-Mail Have Made Lives Better," found that sending E-mail was the most common online activity and that two-thirds of E-mail users say they have reduced their use of the U.S. Mail with one in five saying that they now use the mail "a great deal less."

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GCA/USPS-T10-6. Please refer to your testimony at page 30, lines 17 to 20. Please provide your understanding, if any, of how Internet access fees are structured for household users.

RESPONSE:

As I noted in my testimony, there are a variety of fee structures for Internet access. Fees vary by method of connection to the Internet. The most common methods of connections are dial-up modem, cable modem, and through a DSL. Second, for any given method of connection, fees may vary by the number of hours of Internet access.

Dial-up modems typically cost from \$10 to \$25 per month. There are few "free" Internet service providers still in business, and the most famous, NetZero, now charges a monthly fee of \$9.95 for access of more than 40 hours a month. America Online currently charges \$23.95 for unlimited access, but has lower priced plans for households that make only limited use of the Internet. Broadband access, through a cable modem or DSL, typically costs between \$40 and \$60 per month for unlimited usage. In addition to monthly access fees, some plans have one-time charges (often referred to as "activation charges") which may be waived or reduced depending on changing market conditions.

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GCA/USPS-T10-7. Please refer to page 69 of your testimony.

- a. Does your statement regarding the nature of the single-piece and workshare price elasticities (page 69, lines 7-9) assume that any single-piece letter may migrate to workshare? If your answer is negative, please explain.
- b. If it were the case that no single-piece letter could migrate to workshare, would the price elasticity of single-piece letters then be an "own-price elasticit[y] in the usual sense"? If your answer is negative, please explain.

RESPONSE:

- a. My statement regarding the nature of the single-piece and workshare price elasticities is not based on an assumption, but rather on an observation that when only the single-piece price is increased, the workshare discount is also raised. Therefore, the volume impact on single-piece is a mix of the impacts of the higher price and higher discount. A further observation is that higher discounts cause some (though not necessarily "any") single-piece letters to migrate to workshare.
- b. If there were no migration between single-piece and workshare letters, then the discount elasticity would be zero and the own-price elasticity of single-piece letters would be an own-price elasticity in the usual sense of showing the impact of a change in own-price only. However, the magnitude of this "usual" own-price elasticity may not be the same as the magnitude of the own-price elasticity that results when the discount elasticity is not zero, as was found by witness Thress.

DECLARATION

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



(Signed)

11-20-01

(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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