

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

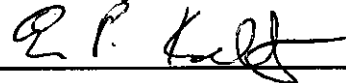
RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS THRESS
TO GCA INTERROGATORY GCA -T10- 8,
REDIRECTED FROM WITNESS BERNSTEIN
(December 10, 2001)

The United States Postal Service hereby provides the response of witness Thress to the following interrogatories of GCA: GCA/USPS-T10-8, filed on November 26, 2001, and redirected from witness Bernstein. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992; Fax -5402
December 10, 2001

RESPONSE OF POSTAL SERVICE WITNESS THRESS TO
GCA INTERROGATORY RE-DIRECTED FROM WITNESS BERNSTEIN

GCA/USPS-T10-8. You state your testimony does not address "past technological developments such as the telephone", page 2, line 8.

- a. Isn't telecommunications deregulation over the past twenty (20) years right through to the present a major factor reducing the growth in demand for First-Class letter mail communications?
- b. Is the growth of long distance communications from the reduction in long distance prices the past two decades a variable that has ever entered RCF's demand equation work? Please fully detail your answer.
- c. If your answer to b. is "No.", please explain why you have not included what is arguably the strongest substitute for FCM letter mail in your demand work.
- d. Was it to make the own price elasticity appear lower than it really is?
- e. In your view, over the longer term has the advent of "universal" telephone service acted as a strong substitute for FCM letter mail, e.g. personal letters, holiday calls and greetings, birthday calls, etc.

RESPONSE:

- a. It would seem likely that telephone deregulation would have some impact on First-Class Mail volumes. The evidence suggests, however, that this has not been a "major factor reducing the growth in demand for First-Class letter mail communications."
- b. Long-distance telephone communications have never been included in any demand equations used by the Postal Service in any rate cases. See, however, my response to subpart (c) below.
- c. Telephone prices have been investigated in the Postal Service's First-Class Mail equations on several occasions in the past. Generally, these experiments have been unsuccessful, with the estimated telephone price elasticity either having an unexpected sign or being statistically insignificant or, most often, both.

A simple look at long-distance telephone prices and First-Class Mail volume reveals why this is likely to be the case. My econometric regressions for single-piece

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and workshared First-Class letters use a sample period starting in the first quarter of Postal Fiscal Year 1983.

From Postal Fiscal Year (PFY) 1983 through PFY 1991, real long-distance telephone prices declined at an average annual rate of 6.89 percent. Over this same time period, First-Class letter volume grew at an average annual rate of 4.18 percent. From PFY 1991 through PFY 2000, the declines in long-distance telephone prices slowed considerably, to an average annual rate of 2.15 percent.

If First-Class letters and long-distance telephone communication are close substitutes, then less rapid declining long-distance telephone prices should benefit First-Class letter volume. In fact, however, from 1991 through 2000, First-Class letter volume grew at an average annual rate of only 1.54 percent, or more than 60 percent slower than over the previous eight years.

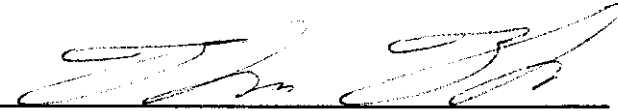
d. No.

e. I would agree that, over the longer term, the advent of "universal" telephone service provided a substitute for First-Class Mail. The existence of universal telephone service pre-dates the time period analyzed within my econometric regressions, however.

As noted above, my econometric regressions for single-piece and workshared First-Class letters use a sample period starting in 1983Q1. The percentage of households with telephone service has barely changed over this time period, however, rising from 93.0 percent in 1980 to 94.1 percent in 1998. (source: Statistical Abstract of the United States, 2000 edition, Table 910).

DECLARATION

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

A handwritten signature, likely of Thomas Thress, written in dark ink. The signature is stylized and cursive, with a horizontal line drawn underneath it.

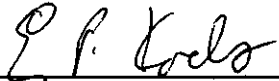
(Signed)

12-8-01

(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.



Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
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