

DOCKET SECTION

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, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TOLLEY TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T6-1-3)

The United States Postal Service hereby provides responses of witness Tolley to the following interrogatories of United Parcel Service: UPS/USPS-T6-1-3, filed on September 15, 1997.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 29, 1997

RESPONSE OF POSTAL SERVICE WITNESS TOLLEY
TO INTERROGATORIES OF UPS

UPS/USPS-T6-1. Please refer to your testimony, page 153, lines 25 through 27, where you provide an estimate of the long-run own-price elasticity of Parcel Post.

(a) Did you compute confidence levels or any other statistical measure of the uncertainty associated with this estimate?

(b) If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measure was computed.

(c) If the answer to (a) is no, please provide an estimate of the range within which the estimate of long-run own-price elasticity for Parcel Post, in your opinion, likely falls.

RESPONSE:

Please see witness Thress's response to NAA/USPS-T7-9. Witness Thress calculates a 90 percent confidence interval for the parcel post own-price elasticity between -0.683 and -1.246.

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UPS/USPS-T6-2. Please refer to your testimony, page 163, lines 12 through 15, where you provide estimates of Parcel Post volumes in the Test Year.

(a) Did you compute confidence levels or any other statistical measure of the uncertainty associated with these estimates?

(b) If the answer to (a) is yes, please provide such estimates. If the answer to (a) is no, please explain why no such measure was computed.

(c) If the answer to (a) is no, please provide an estimate of the range within which the estimate of Parcel Post volume would, in your opinion, likely fall.

RESPONSE:

(a) No.

(b) and (c)

The use of my volume forecasts by the Postal Service in evaluating the financial position of the Postal Service in 1998 with and without a rate increase requires me to produce forecasts that are point estimates as opposed to ranges. The forecast of parcel post mail volume presented in my testimony is my best estimate of what the Test Year volume of parcel post mail will be. It has not been my mandate to develop a confidence interval for the forecast, nor does it appear feasible to do so.

The methodology with which I forecast parcel post volume does not lend itself to statistical measures of uncertainty. I do not forecast parcel post volume by simply fitting an econometric equation. Rather, I forecast Inter-BMC, Intra-BMC, and DBMC parcel post volumes separately, from separate base volumes, whereas the econometric demand elasticities testified to by witness Thress in this case are calculated for total parcel post mail. In addition, I include non-econometric net trends in forecasting each of these categories. Because these net trends are not estimated statistically, there are no estimated standard errors for them.

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UPS/USPS-T6-3. In its Opinion and Recommended Decision in Postal Rate and Fee Changes, 1994, Docket No. R94-1, the Commission presented, at page II-39, a table comparing forecasted volume estimates of Postal Service witnesses Tolley and Musgrave with actual volumes. On page II-38, the Commission concluded that:

- The excellent overall volume forecasting performance masked large but offsetting forecast errors among individual mail categories
- Percentage errors for major categories of mail were within a range of plus or minus 3%
- Forecasting errors for smaller categories of mail tended to fall within a larger range
- Forecasting accuracy has improved
- No bias was apparent

(a) Do you agree with the Postal Rate Commission's assessment summarized above? If not, please explain.

(b) With respect to the forecasts provided in the present proceeding, Docket No. R97-1, do you anticipate that the same conclusions might apply? Please explain your answer.

(c) With respect to the forecasts provided in the present proceeding, do you anticipate that the differences between the forecasts and the actual volumes for the larger mail categories will fall within a range of plus or minus 3% and the errors for the smaller categories will fall within a wider range? Please explain your answer.

RESPONSE:

(a) Yes.

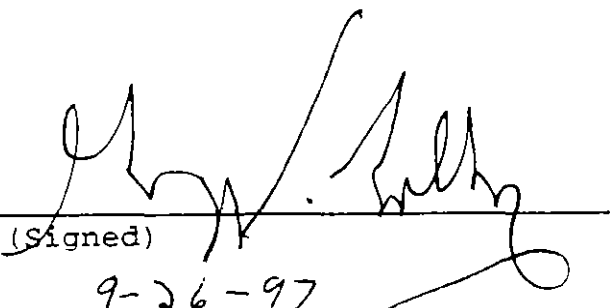
(b)-(c) I believe that the present forecasts will prove to be at least as accurate and probably more accurate than the forecasts which I presented in Docket No. R94-1. The econometric demand equations for most of the important categories of mail have been improved in this case (see section II of witness Thress's testimony in this case). I

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believe that these improvements should result in improved forecasts for the present case. In addition, the methodology used in this case to forecast mailers' use of presortation and automation is more advanced than was the case in R94-1. Hence, I would hope the error range for the larger mail categories will be less than the 3% identified by the PRC in R94-1. I would expect that forecasting errors for smaller categories of mail will continue to fall within a larger range than the errors associated with the major mail categories.

DECLARATION

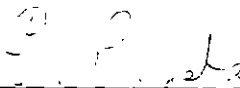
I, George Tolley, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.


(Signed)

9-26-97
(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

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