

## USPS-R2010-4R-9

### **Revenue and Volume Forecast Materials**

#### **I. PREFACE**

##### **A. Purpose and Content**

These materials document the process and methodologies used to develop revenue and volume forecasts for Market Dominant Products. In conjunction with Mr. Nickerson's Statement and other materials supporting that Statement, these materials provide the basis to explain the Postal Service's current financial condition and the need for an Exigent rate increase.

##### **B. Predecessor Document**

This Folder performs the same role as the Folder of the same name (USPS-R2010-4/8) that was filed with this case originally on July 6, 2010. These materials also correspond closely to the demand analysis and forecasting materials filed by the Postal Service with the Commission on January 22, 2013.

##### **C. Methodology**

The methodologies used in this Model are numerous and are explained in 'Volume Forecasting Methodology.doc' and 'Revenue Forecasting Methodology.doc' in the 'Public Forecasts' subfolder.

##### **D. Input/Output**

The regression inputs are described in the 'Public Econometrics' subfolder. The outputs from the regressions are used as inputs in the revenue and volumes forecasts. The 'Public Forecasts' subfolder shows the output, the revenue and volume forecasts.

##### **E. Public/Nonpublic Version**

The non-public version of these materials is presented as USPS-R2010-4R\_NP3, and includes demand equations, and revenue and volume forecasts for Competitive products. Some Market Dominant special services rely on certain Competitive product volumes as an input into their demand equations. In these cases, these equations are included only in the non-public version of this Folder, and the outputs of these equations are simply presented as hardcoded values in the Public versions of the revenue and volume forecasts.

## II. ORGANIZATION

The organization of these materials is as follows:

The files are provided in the folder 'USPS-R2010-4R/9.' This folder contains one Word file, 'Data Dictionary.doc,' which provides a glossary of terms used throughout this documentation.

### Subfolder: Public Econometrics

This subfolder contains a Word file, 'FileListing(Public Econometrics).docx', which lists and briefly describes the files contained in this subfolder. The output from the econometric demand equations presented here can be found in the text file, 'out\_p.txt'.

Econometric demand equations are estimated using the statistical software EViews (version 8.0). The program which generates the econometric output is DEQN.prg. The files PRE\_EQS.prg and PROGGUTS.prg are called from DEQN.prg and contain the bulk of the methodological framework used for estimation. The equation-specific explanatory variables, restrictions, et al., are identified in the VOL\*.prg files. A separate VOL\*.prg file exists for each of the Postal Service's unique demand equations for market dominant products. A glossary of suffixes for the VOL\*.prg files can be found in the Word document, DataDictionary.doc.

The data used to estimate these demand equations is read into EViews from the Excel spreadsheet, RCFDATA.xls. The econometric output generated by EViews can be found in the text file, out\_p.txt.

### Sub-Folder: Public Forecasts

This subfolder contains a Word file, 'FileListing(Public Forecasts).docx', which lists and briefly describes the files contained in this subfolder. The file 'Volume Forecast Methodology.doc' is a Microsoft Word document which describes the Postal Service's methodology for making volume forecasts.

The file 'Revenue Forecast Methodology.doc' documents the Postal Service's methodology for making revenue forecasts.

The file Prices.xlsx is a Microsoft Excel spreadsheet which provides the calculation of before-rates and after-rates price indices which are used in making revenue and volume forecasts.

The file Other\_Revenue.xlsx is a Microsoft Excel spreadsheet which shows the forecast for items identified as Other Income. The companion Microsoft Word file, 'Other Revenue Exigent Case.doc' explains these categories and the way they are forecast.

The remaining files in this sub-folder are Microsoft Excel spreadsheets which generate volume and revenue forecasts for five quarters from Postal Fiscal Year (PFY) 2013Q4 through 2014Q4. Three versions of the forecast are made: Before-Rates, which assumes that all Postal rates will remain unchanged through the end of PFY 2014; After-Rates-Jan, which assumes that Exigent rates take effect on January 26, 2014; and, After-Rates-Oct, which assumes that Exigent rates take effect on October 1, 2013 (the first day of Postal Fiscal Year 2014).

The Postal Service's revenue and volume forecasts are made in the three spreadsheets, BeforeRates.xlsx, AfterRates-Exig-Jan.xlsx, and AfterRates-Exig-Oct.xlsx. The three similarly-named files suffixed "-RFI" are used to convert the volume and revenue forecasts into the format used in the Postal Service's Product Cost & Contribution Estimation Model.