

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 BRADLEY TO INTERROGATORIES OF
UNITED PARCEL SERVICE
(UPS/USPS-T22-6 - 9(a.-b.))

The United States Postal Service hereby provides the response of witness Bradley to the following interrogatories of the UPS: UPS/USPS-T22-6 - 9(a.-b.), filed on March 23, 2000. Parts c. and d. of UPS/USPS-T22-9 have been redirected to the Postal Service.

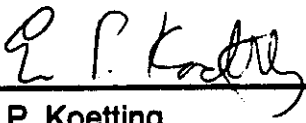
The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.
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April 6, 2000

**Response of United States Postal Service Witness Bradley
to
Interrogatories of UPS**

UPS/USPS-T22-6. Refer to page 34 of your testimony, where you state that it is "[your] understanding that the Eagle network exists for the purpose of providing air transportation for Express Mail." USPS-T22, at 34, lines 16-17. Explain the basis for your understanding.

UPS/USPS-T22-6 Response:

My understanding is based upon the testimony of Witness Takis on this subject in Docket No. R97-1 and discussions with Postal Service transportation experts.

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UPS/USPS-T22-7. Please refer to page 2 of the testimony of witness Pickett, USPS-T19, where he states that "premium costs of the Eagle and Western networks are treated as incremental to Express Mail." USPS-T19, at 2, lines 2-3. Is it your understanding that the Western network exists for the purpose of providing air transportation for Express Mail. If so, provide the basis for your understanding.

UPS/USPS-T22-7 Response:

My testimony presents the new Postal Service method of computing incremental cost and provides the mathematical basis for calculating incremental costs. It was not necessary for me to review the details of the Western network to develop that mathematical basis. However, because the Postal Service treats the premium cost of the Western network as incremental to Express Mail, then I would infer that the network exists for the purpose of "providing air transportation for Express Mail."

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UPS/USPS-T22-8. Refer to the testimony of witness Xie, USPS-T-1, page 24, Table 9. Confirm that, in BY98, Express Mail accounted for 9 percent (\$1,161,000/\$12,398,000) of non-premium Western Network costs.

UPS/USPS-T22-8 Response:

In response to your interrogatory, I obtained a copy of witness Xie's testimony. On page 24 of witness Xie's testimony, I found a table entitled "BY98 Western Network Costs and Confidence Intervals." I found the numbers \$1,161,000 (associated with Express Mail) and \$12,398,000 (associated with the Total). When I divided the two numbers I obtained 9.36%.

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UPS/USPS-T22-9 Refer to footnote 28 on page 38 of your testimony, where you state that "It is my understanding that the air network is sized for a minimum scale." Refer also to the response of the Postal Service to Interrogatory UPS/USPS-T1-17, redirected from witness Xie, in which the Postal Service indicates that on August 29, 1999, the aircraft deployed on the Western network were upgraded from DC-9-30s and DC-9-15s to 727-200s.

- a. On page 38, footnote 28, of your testimony are you referring to the scale of the Western Network prior to August 27, 1999 or its current scale?
- b. If you were referring to the scale of the Western Network as it existed in BY98, is it your opinion that currently, following the upgrade to 727-200s, the Western Network is still at the minimum efficient scale needed for the transportation of Express Mail?
- c. Provide supporting data by mail class and subclass to show how rising mail volumes have affected the scale of the Western network.
- d. Provide volume data by mail class for the Western Network from August 20, 1999, through AP4, PY2000.

UPS/USPS-T22-6 Response:

- a. Neither. I was not aware of the physical configuration of the aircraft on the Western network. I was just providing a general statement for the context of the following mathematical expression:

$$C = \alpha_j \bar{D}_j,$$

In this expression, C is the accrued cost, D is the cost driver (pound miles of dedicated air transportation), the bar on the driver indicates that its amount is fixed with respect to small changes in volume, and α_j represents the cost of a pound mile of dedicated network air transportation.

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- b. **My testimony provides the analytical structure for calculating incremental costs. On pages 37-38, I present the mathematical basis for calculating incremental costs for the dedicated air network under the condition that small changes in volume do not bring forth changes in its capacity. I did not undertake, as it was not required for my testimony, an investigation of the nature of the Western network either before or after August 27, 1999.**

In response to your inquiry, however, I investigated why the aircraft were changed in the Western network. The response from Postal Service air transportation experts indicated that it did not have to do with volume but with technical aspects of network transportation. I do not purport to be an expert in this area, but I was able to obtain information that was responsive to your question. In particular, I was informed that alternative aircraft were specified due to the following reasons:

- 1. The fact that DC-9s use different sized cargo containers than other aircraft. This apparently makes it difficult and time consuming to connect between DC-9s and other aircraft. In addition, I am told that it also reduces efficiencies when the Postal Service has to have multiple-sized containers on site.**

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- 2. DC-9s apparently have a reduced presence in the marketplace. The Postal Service believes that DC-9's cost and cargo displacement have made them less attractive to the industry. Therefore, the Postal Service was concerned that a solicitation requiring DC-9s would have been met with a lot less competition and availability.**
- 3. I was told that a reduced presence for the DC-9 in the marketplace results in a higher cost, that is then comparable to the cost of the larger 727-100. For example, Postal Service transportation experts indicated that reduced availability can cause maintenance difficulties as parts and trained mechanics are more difficult to find. In fact, the Postal Service apparently had occasions in which they had contract bids including 727s that were priced less than the current cost of using DC-9s.**
- 4. The requirements for the Western Network solicitation did not specify the type of aircraft. Rather, I was told that it required containers that were compatible with the "A-2" container. DC-9s are not compatible with this type of container as they apparently carry "A-6" containers. In addition, I was told that the solicitation required that ability to carry eight "A-2" containers, which**

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could be satisfied by a 727-100. The Postal Service believes, however, that many offerors bid the equipment that they had available. Because of the prevalence of 727-200s in the industry, these larger aircraft (which apparently can hold twelve "A-2" containers) were included in the bids. Finally, I was informed that the Postal Service believes that it obtained the services of the larger aircraft at a cost that it expected to pay for the smaller aircraft. That is, they did not specify and pay for larger aircraft for volume reasons.

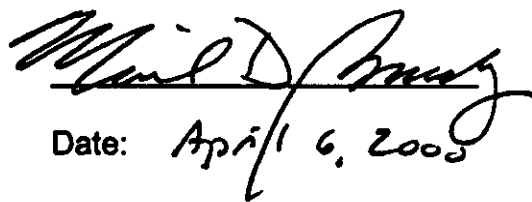
Given this information, it seems reasonable that the Western network is sized for technical efficiencies associated with providing network transportation and not due to changes in the volume of Express Mail or any other class or subclass.

- c. This part of the interrogatory has been redirected to the Postal Service

- d. This part of the interrogatory has been redirected to the Postal Service

DECLARATION

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


Date: April 6, 2000

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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