

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

RECEIVED  
APR 6 4 31 PM '00  
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  
THE FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION  
(FGFSA/USPS-T18-1, 2, and 4-13)

The United States Postal Service hereby provides the responses of witness Bradley to the following interrogatories of the Florida Gift Fruit Shippers Association: FGFSA/USPS-T18-1, 2, and 4-13, filed on March 23, 2000. Interrogatory FGFSA/USPS-T18-3 was redirected to the Postal Service.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking



Susan M. Duchek

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2990 Fax -5402  
April 6, 2000

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFSa

FGFSa/USPS-T18- 1. Do you agree that the proportions of transportation capacity used by the various classes and subclasses of mail are properly determined by a sound sampling process which establishes the cubic-foot-miles that each mail category utilizes the transportation capacity? If you do not agree, please fully explain.

FGFSa/USPS-T18-1 Response:

I find this statement difficult to agree with because it seems to be implying that the proportions of transportation capacity used by the various classes and subclasses are determined by a specific sampling process. I believe that any specific sampling process has little to do with the determination of what proportion of transportation capacity is caused by any subclass of mail.

I do, however, agree that a sound sampling procedure, like TRACS, can be used to *measure* the proportions of capacity caused by the various classes and subclasses of mail.

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFS

FGFS/USPS-T18- 2. Refer to page 15 of T-18.

- a. Identify when the changes from restructuring the purchased highway accounts were implemented.
- b. Are those changes reflected in the cost data for the base year, FY 1998?
- c. Are those changes reflected in the cost data for the most recent year, FY 1999?

FGFS/USPS-T-18-2 Response:

- a. I am informed that the change took place in Fiscal Year 1997.
- b. Yes.
- c. Yes.

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFSa

FGFSa/USPS-T18- 3. For each purchased highway transportation contract covering each Intra-BMC and Inter-BMC transportation entered into or renewed during the 12 months immediately preceding August, 1998, provide:

- a. All data concerning mail volume, such as pieces, weight and cubic feet, actually experienced during the year before the new or renewal contract, as well as the volume projected for the period of the new or renewal contract, that was taken into consideration in determining the cubic foot capacity covered by the contract.
- b. All data concerning any changes in the frequency or timing for each trip for the transportation service to be provided pursuant to the new or renewal contract which was taken into consideration in determining the cubic foot capacity covered by the contract.
- c. All data concerning utilization of the transportation service during the year or other period prior to the new or renewal contract, or projected for the period of the contract, which was taken into consideration in determining the cubic foot capacity covered by the contract.
- d. All other data which was taken into consideration in determining the cubic foot capacity covered by the contract.

FGFSa/USPS-T18- 3 Response:

This interrogatory has been redirected to the Postal Service.

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFS

FGFS/USPS-T18- 4. Explain why cubic-foot-miles of mail products actually transported pursuant to a purchased highway transportation contract is not essential data to be taken into account in determining the variability of the costs of purchased highway transportation

FGFS/USPS-T18- 4 Response:

As you may be aware, the Postal Service, when contracting for highway transportation, does not purchase cubic foot-miles of what you term "actual transportation" but rather purchases cubic foot-miles of capacity. Consequently, it is changes in the cubic foot-miles of capacity that gives rise to changes in cost. In product costing terms, cubic foot-miles of capacity is known as the "cost driver" of cost. Because cubic foot-miles of capacity is the cost driver, it is sound costing practice to measure the way in which cost responds to changes in the amount of the cost driver purchased.

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGfSA

FGfSA/USPS-T18-5. Confirm that the variability analysis which you make does not reflect actual or projected mail volumes transported or to be transported. If you do not confirm, please fully explain.

FGfSA/USPS-T18-5 Response:

If the term "the variability analysis which you make" is referring to my econometric analysis, I would concur that my analysis, like those presented to and accepted by the Commission in Dockets No. R87-1 and R97-1, does not make use of actual mail volumes. It is more problematic, however, to confirm that the analysis does not "reflect" actual or projected mail volumes, as this would appear to deny any relationship between those volumes and the transportation capacity that I do use. I believe that such a relationship exists and that is why it is appropriate to use the cost driver, "cubic foot-miles" as a substitute for actual volume in the econometric analysis. Consequently, in this sense, I believe that my analysis reflects actual or projected mail volumes.

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFS

FGFS/USPS-T18-6. Explain how cubic feet of mail actually or projected to be transported under purchased highway transportation contracts is reflected in the determination of the cubic feet capacity of the vehicle being contracted for.

FGFS/USPS-T18-6:

In Docket No R97-1, Postal Service witness Young gave a complete description of how the Postal Service purchases transportation capacity. There, he explains that the Postal Service uses the mail actually or projected to be transported along with other factors in determining the capacity of the truck being contracted for. He also describes these other factors and how they influence the contracted transportation. For your convenience, I repeat the relevant portion of his testimony here (Docket No. R97-1, Tr.35/18855-57):

There are a number of considerations that go into purchasing transportation capacity, but average utilization on a segment is not one of them.

When the Postal Service purchases transportation capacity, it generally operates from an historical knowledge base. We know, for example, the requirements of downstream mail processing and delivery facilities. These requirements are determined by service commitments to customers. We also know how many containers of mail each downstream facility normally receives on the busiest day or night of the week. Finally, we know what plants can handle which types and sizes of highway equipment.

Using this historical knowledge, the Postal Service has a good idea of the times of day and days of the week for which we need maximum transportation capacity on a given route. Let me give you an example. Beginning in the evening, a BMC

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFS

will begin to process mail for its service area. This intra-BMC mail is sorted to containers to be loaded onto intra-BMC highway trucks. These trucks in turn will be dispatched to local processing and distribution centers (PDCs) and their large subordinate offices. Dispatch times will fall in a window of time that is determined by the downstream facilities' operating plans.

Dr. Merewitz, for the Florida Gift Fruit Shippers, describes postal transportation in terms of linehauls and backhauls, where the linehauls are outbound trips and the backhauls are inbound trips. (Tr. 22/11504). This is an oversimplification. Generally speaking, a contract contains pairs of trips. Each trip pair contains an outbound trip and an inbound trip<sup>1</sup>. When the BMC processes mail for its service area, it is likely, particularly on its peak weekly volume day, to dispatch vehicles full, although it is certainly possible that the last dispatch of the day will be less than full. This last scheduled dispatch, called the dispatch of value, must be met since any further delay would result in mail being unavailable to meet downstream processing and delivery schedules. The same truck is likely to return in mid-morning less than full, often carrying empty equipment.

In the evening, the same activity occurs, but moving in the opposite direction. (Moreover, the actual routing may not be the same as those on the early morning "outbound" trips.) Vehicles run routes that load mail at P&DCs and other subordinate facilities, and unload at the BMCs. On the inbound peak day of the week, these vehicles typically are full on arrival at the BMC. A return trip from the BMC carries smaller volumes of mail. Generally speaking, these two routings are independent of each other. That is, a large outbound load from the BMC on Thursday night has little to do with a large inbound load to the BMC on Friday morning.

---

<sup>1</sup> The inbound trips do not necessarily retrace the path of the outbound runs. It should also be noted that there are numerous one way trips that are exceptions to this rule of thumb.



Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGSA

In some situations, the size of the truck itself is driven by factors other than mail volume. For instance, certain facilities cannot handle tractor trailers. Other facilities require special tailgate equipment to allow the truck to access the platform. Certain roadways restrict the maximum weight a vehicle may carry. Aside from these considerations, for any given routing, the Postal Service will buy as big a truck as we need to meet peak weekly volumes, since there is very little difference in cost between, for example, a 40-foot trailer and a 45-foot trailer. (Footnote included).

In addition he testified that (Docket No. R97-1, Tr. 35/18858):

The size of the truck selected by the Postal Service is not independent of other routing considerations, however. Truck size is dependent on service requirements (i.e., the processing window), the distance between and number of downstream facilities served, and the number of containers of mail expected to be transported.

Let me give you another example. An intra-BMC trip runs between the Washington BMC, the Merrifield (VA) P&DC, and the Norfolk (VA) P&DC. Suppose the transportation needs of Norfolk increase because the Norfolk P&DC begins to receive two more containers on the peak night. In the short term, this may require an extra trip, but over time, we can re-work the routing of this truck to skip a stop at the Merrifield P&DC and divert Merrifield's mail to another contract (or another trip on the same contract). That second contract (or trip) might need a bigger truck, but the first one simply alters its mileage. Total cubic feet of truck space may be increased, but the effect on cubic foot miles is complicated, because we have reduced mileage on one route and increased cube (and perhaps also mileage) on another. (Footnote omitted).

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFSa

FGFSa/USPS-T18- 7. Refer to Table 3 on page 25 of T18. Identify the number of contracts and, separately the number of power only contracts, included for each accounts 53127, 53129, 53131, and 53133.

FGFSa/USPS-T18- 7 Response:

<b>ACCOUNT</b>	<b># of Contracts</b>	<b># of Power Only Contracts</b>
53127	353	159
53129	13	10
53131	183	16
53133	3	0

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFSa

FGFSa/USPS-T18- 8 Refer to page 42 of T18. Do you concur with the material quoted from the PRC Op., R97-1, Vol. 1, at 213 concerning the purchased cost of a route being a joint cost for the outhaul and the backhaul? If not, please fully explain.

FGFSa/USPS-T18- 8 Response:

I concur with the following statement made by the Commission in PRC OP, R97-1, Vol1 at 213:

Transportation services for route trip destination days are purchased jointly by routes or in other blocks specified in the HCSS contracts. In the simplest case, an outhaul from a facility and a backhaul to the same facility comprise a pair of route trip destination days that must be purchased together. The purchased cost of the route is a joint cost of the mail carried on both the outhaul and the backhaul

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGfSA

FGfSA/USPS -T18- 9 Do you agree with the statement that "When TRACS assigns the cost to the mail found on the truck at its destination, it is making as arbitrary division of a joint cost."? If not, please fully explain.

FGfSA/USPS-T-18-9 Response:

The statement, as it is written, is easily refuted because it fails to specify *what* cost TRACS is assigning to the mail found on the truck at it destination.

In fairness, however, I believe that you were attempting to obtain my views on the Commission's statement in its Docket No. R97-1 Opinion and Recommended Decision.

There, the Commission states:

When TRACS samples either the outhaul or the backhaul as a route trip destination day, the cost of the outhaul or backhaul is part of the joint cost of the route. When TRACS assigns this cost to the mail found on the truck at its destination, it is making an arbitrary division of a joint cost. (Emphasis added).

As I understand it, TRACS does not currently assign the cost of mail found on the truck at its destination. In fact, as I state in my testimony at page 43, TRACS now produces an estimate of the cubic foot-miles caused by a subclass throughout a transportation category (like intra-BMC).

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFSA

FGFSA/USPS -T18- 10. The contracts for purchased transportation for Intra-BMC and Inter-BMC transportation provide for a capacity of cubic- feet miles to be provided. For each transportation mode (Intra-BMC and Inter-BMC) provide the total cubic-feet miles capacity included in the contracts which you analyzed for your testimony in this docket and, separately, in Docket No. R97-1.

FGFSA/USPS -T18- 10 Response:

The following table contains the values for the cubic foot-miles included in the contracts I used in the econometric regressions for intra-BMC and inter-BMC in both Docket No. R2000-1 and Docket No. R97-1.

Transportation Type	R2000-1	R97-1
Inter-BMC	6.14487 E+11	5.70694 E+11
Intra-BMC	4.93101 E+11	3.87785 E+11

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGfSA

FGfSA/USPS -T18- 11. Are the cubic foot miles of contracted for capacity related to the actual mail volume to be transported under those contracts? If so, please explain how such relationship is determined.

FGfSA/USPS -T18- 11 Response:

My response to FGfSA/USPS-T18-6 includes an explanation of how the Postal Service determines the capacity be purchased on its contracts, including the role of volume.

Please refer to my response to that interrogatory.

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFS

FGFS/USPS -T18- 12. For Intra-BMC contracts, is the capacity contracted for based on the actual or projected volume of outbound (out from the BMC) mail? If the inbound volume of mail is significantly lower than the outbound volume, does the contract provide for use of a smaller capacity on the inbound segment of the route?

FGFS/USPS -T18- 12 Response:

The role of inbound and outbound mail was explained by witness Young (who is a Postal Service transportation purchasing expert) in his Docket No. R97-1 testimony. I repeat it here for your convenience (Docket No. R97-1, Tr. 35/18856-57):

Dr. Merewitz, for the Florida Gift Fruit Shippers, describes postal transportation in terms of linehauls and backhauls, where the linehauls are outbound trips and the backhauls are inbound trips. (Tr. 22/11504). This is an oversimplification. Generally speaking, a contract contains pairs of trips. Each trip pair contains an outbound trip and an inbound trip<sup>1</sup>. When the BMC processes mail for its service area, it is likely, particularly on its peak weekly volume day, to dispatch vehicles full, although it is certainly possible that the last dispatch of the day will be less than full. This last scheduled dispatch, called the dispatch of value, must be met since any further delay would result in mail being unavailable to meet downstream processing and delivery schedules. The same truck is likely to return in mid-morning less than full, often carrying empty equipment.

In the evening, the same activity occurs, but moving in the opposite direction. (Moreover, the actual routing may not be the same as those on the early morning "outbound" trips.) Vehicles run routes that load mail at P&DCs and other subordinate facilities, and unload at the BMCs. On the inbound peak day of the week, these vehicles typically are full

---

<sup>1</sup> The inbound trips do not necessarily retrace the path of the outbound runs. It should also be noted that there are numerous one way trips that are exceptions to this rule of thumb.

Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGFS

on arrival at the BMC. A return trip from the BMC carries smaller volumes of mail. Generally speaking, these two routings are independent of each other. That is, a large outbound load from the BMC on Thursday night has little to do with a large inbound load to the BMC on Friday morning. (Footnote in original).



Response of United States Postal Service Witness Bradley  
to  
Interrogatories of FGfSA

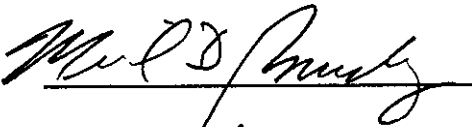
FGfSA/USPS -T18-13. In Intra-BMC transportation, where there is an imbalance between the out-bound mail volume and the in-bound mail volume, a portion of the capacity on the in-bound movement will be empty. Do you believe that the cost of an empty backhaul (in-bound) is merely a part of the cost of the out-bound movement? If your response is negative, please fully explain.

FGfSA/USPS -T18-13 Response:

I believe that when the Postal Service specifies a contract, it takes into account the factors described by witness Young in his Docket No. R97-1 testimony. Among those factors are what you describe as "inbound" and "outbound" volume. I believe that the cost of that contracted transportation is a function of all of the factors that go into determining the required capacity and the ability of the contractor to provide that capacity.

**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.

  
\_\_\_\_\_  
Susan M. Duchek

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2990 Fax -5402  
April 6, 2000