

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 ASSOCIATION OF ALTERNATE POSTAL SYSTEMS
WITNESS WHITE TO INTERROGATORIES OF
UNITED STATES POSTAL SERVICE
(USPS/AAPS-T1—13-25)**

The Association of Alternate Postal Systems hereby provides the responses of
witness White to the following interrogatories of the United States Postal Service:

USPS/AAPS-T1—13-25.

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

Respectfully submitted,

Bonnie S. Blair

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Attorney for Association of Alternate
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June 29, 2000

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the following document upon all
participants in this proceeding in accordance with section 12 of the Rules of Practice.

Bonnie S. Blair

Bonnie S. Blair

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USPS/AAPS-T1-13. Who, or what entity, owns Distribution Systems of Oklahoma?

Response

The Oklahoma Publishing Company.

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USPS/AAPS-T1-14. Please provide a list of the members of AAPS.

Response

A copy of the AAPS membership directory is being filed as Library Reference
AAPS-LR-1.

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USPS/AAPS-T1-15. Please provide the per-piece rates that would be charged by Distribution Systems of Oklahoma for the following distributions:

- a. Delivery of a 4-ounce advertising piece (that would qualify for saturation Standard Mail (A)) to all 282,000 houses in your service area.
- b. Delivery of a 5-ounce advertising piece (that would qualify for saturation Standard Mail (A)) to all 282,000 houses in your service area.
- c. Delivery of a 6-ounce advertising piece (that would qualify for saturation Standard Mail (A)) to all 282,000 houses in your service area.
- d. Delivery of a 4-ounce advertising piece (that would qualify for saturation Standard Mail (A)) to 10,000 houses in your service area.
- e. Delivery of a 5-ounce advertising piece (that would qualify for saturation Standard Mail (A)) to 10,000 houses in your service area.
- f. Delivery of a 6-ounce advertising piece (that would qualify for saturation Standard Mail (A)) to 10,000 houses in your service area.

Response

I assume that you mean a flat (not bulky) item that is or is folded to 8 ½ X 11 or smaller.

- a) 7.3¢ per piece
- b) 8.5¢ to 9¢ per piece
- c) 9¢ to 11¢ per piece
- d) 10.8¢ in some areas, up to 13.8¢ in specially requested areas
- e) 12¢ in some areas, up to 15¢ in specially requested areas
- f) 13.5¢ in some areas, up to 17¢ in specially requested areas

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USPS/AAPS-T1-16. For each rate identified in USPS/AAPS-T1-15 (a) through (f), state whether or not the rate can be negotiated with customers, or whether the rate is uniform for all customers. If rates for any categories are not uniform, provide the range of rates for each category.

Response

The rate is negotiated with customers based on weight and upon the identifiable physical limitations of the delivery area due to the geography, topography, the area's lot sizes, and DSO penetration in that area. The range of rates for (b) through (f) are noted in Response T1-15.

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USPS/AAPS-T1-17. Please see your testimony at page 25, line 21, where you mention your "carriers".

- a. Please explain the nature of the relationship between Distribution Systems of Oklahoma and the carriers. For example, are they employees, or subcontractors, or both? If both, what percentage, roughly, of pieces are delivered by employees of DSO?
- b. How are the carriers compensated? For example, are they paid an hourly wage? If so, provide the average hourly wage paid. Or are they paid on a per-piece basis? If so, provide the per-piece compensation they receive for the delivery of i) saturation advertising pieces, ii) phone books, iii) address specific newspapers, and iv) doorhangers.
- c. State whether and how compensation to carriers varies according to the weight of the piece delivered.

Response

- a) They are independent contractors.
- b) Per piece delivered, based upon size, weight and delivery type for each piece. (i) saturation pieces are paid at 5¢ to 13¢ per piece (ii) phone books vary greatly by weight and are paid from 10¢ to 30¢ per book (iii) from 6¢ to 30¢ per piece (iv) 3¢ to 9¢ per piece.
- c) No actual formula is really applicable. Compensation is based on a piece by piece basis, with weight below 5 ounces or above 5 ounces being a break point (for contract purposes) along with the actual dimensions of product itself. Our pay per piece is relative to our overhead in our market. Our overhead is relative to the local real estate costs, salaries, etc.

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USPS/AAPS-T1-18. Please see your testimony at page 5, line 8, where you state that you "wonder when it's our turn" to file a rate case.

- a. Are you referring to a rate case that would involve Postal Service rates?
- b. Please confirm that, if the market situation dictates or otherwise allows, you are free to increase or decrease the rates you charge for delivery, and that these rates can vary by customer. If you cannot confirm, please explain.

Response

- a) *I meant it would be nice if we could just file a request to increase our rates whenever our costs increase (as the Postal Service does when it requests a raise in First Class rates) and then get a recommended decision by the Postal Rate Commission for an increase that would leave our customers with no alternatives and no choice but to pay more.*
- b) Of course we are free in a legal sense to charge as much or as little as we want on a customer-by-customer basis, but there are practical and market forces that limit our flexibility. Unlike the Postal Service, we have no statutory or other monopoly.

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USPS/AAPS-T1-19. Please see your testimony at page 26, lines 1-3 where you state that "you can't say what the effect of weight on costs actually is..."

- a. Are you referring to the costs the Postal Service incurs as weight increases?
- b. What is the effect of weight increases on your costs? What studies and analyses support your conclusion? Please identify the studies by title, author, and date and provide copies.

Response

- a) Yes.
- b) We have to pay our contractors more per piece, as increasing weight *requires additional time to restock their bags and deliver their routes and increases their transportation costs.* As independent contractors, their automobile costs (gasoline) have nearly doubled for them in the past year, which raises the question, has any consideration been given to skyrocketing fuel costs since the recommendation to lower pound rates in the USPS was submitted in January, 2000?

No formal studies have been funded, nor are they necessary. Apt business practices based on years of delivery experience in each AAPS member's market supports the concept to charge more if it weighs more than your weight limit. Please see my response to Advo/AAPS-T1-19 for the results of an informal study I performed.

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USPS/AAPS-T1-20. Please see your response to USPS/AAPS-T1-1(a).

- a) What is a "fair and appropriate share of the product" that you should be able to obtain?
- b) Of what market share information are you privy with regard to products competing with Standard Mail (A)? Please identify such information by title, author, and date.
- c) Provide a copy of each document identified in subpart (b).

Response

- a) I can't quantify it, and I'm afraid that my response might be a bit circular. But the best answer I can give is that a fair and appropriate market share for us is that share that we would obtain when we operate efficiently and the Postal Service's rates against which we compete are in compliance with the law.
- b) My only market share "information" is that alternative delivery has roughly 2-3% of the market for the primary materials we are permitted to and strive to deliver. There is no title author or date for this conclusion. It results from my efforts about a year ago to estimate our market share.
- c) There are none.

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USPS/AAPS-T1-21. USPS Please see your response to USPS/AAPS-T1-3(b). Is it your belief that the proposed rate increase for Periodicals, which is based on a markup of less than 2%, is an effort by the Postal Service to exact an inappropriate amount of revenue from mail for which competition has been "eliminated"? Please explain your response.

Response

No. I understand, however, that Periodicals mailers believe that the claimed attributable costs are too high, so that in their view the requested markup is actually higher than 2%.

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USPS/AAPS-T1-22. Please see your response to USPS/AAPS-T1-5(g). Define the "alternatives" to a "strict pound rate."

Response

There is a wide range of possible alternatives to a rate based exclusively on weight, which is what I meant by a "strict pound rate." If by "define" you mean "list," I cannot of course list every conceivable approach, but some that come to mind are a piece plus pound rate, a rate based upon pages (which is something of a proxy for weight), a rate based upon a combination of weight and bulk and a rate based upon a combination of weight and volume/frequency.

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USPS/AAPS-T1-23. Please see your response to USPS/AAPS-T1-7(a) where you state that the market will become "less competitive" if the pound rate is lowered. In your opinion, what would happen to the level of competitiveness if the pound rate were increased?

Response

From our perspective, it would become more competitive, by which of course I mean that we could compete more successfully, assuming that the increase is meaningful. Please note, however, that AAPS has not proposed an increase.

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USPS/AAPS-T1-24. Please see your response to USPS/AAPS-T1-9(b) where you state that you have been driven out of the light weight market.

- a. Would a higher per-piece rate increase the level of competition for lighter-weight pieces? Why or why not?
- b. Please confirm that, all else equal, a lower pound rate leads to a higher per-piece rate. If you cannot confirm, please explain.

Response

- a. Yes, assuming that the increase is big enough. As for why, it should be obvious that if our competitor's rate increases, our ability to compete increases as well (as long as the ultimate rate is one that permits competition).
- b. I assume that you are not suggesting that "all else equal" includes net revenues from the pound rate, because if that were held equal a lower pound rate should not affect the piece rate. I suppose that if you hold everything else equal as you suggest, including the volume of pound rated mail and the total revenues from ERC mail, what you suggest follows mathematically.

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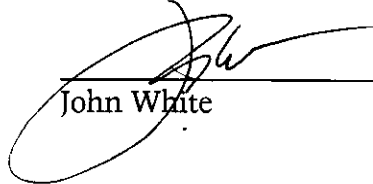
USPS/AAPS-T1-25. Please see your response to USPS/AAPS-T1-10(d), where you state your doubt as to whether criterion (b)(4) is relevant in Periodicals since there is "really no competition at this time for periodical delivery..." If delivery of advertising were to become similarly lacking in competition, would it then be appropriate for the Commission to recommend a lower cost coverage for ECR? Please explain your response.

Response

I have not testified about cost coverage and do not claim to understand the interrelationships of the statutory criteria sufficiently to give a strong opinion on the appropriate cost coverage for ECR. To use your "everything else equal" assumption from question 24, it does seem to me that if as I believe criterion 4 might justify a higher coverage than might otherwise be applied, in the absence of any competition there could be a reason to lower the coverage, but I can certainly not say by how much. I can say, however, that if we are driven from our remaining markets as we were driven from the periodicals market, I really won't care what the cost coverage is and my opinion will not be offered in a rate case, because I'll have to be in another line of work.

DECLARATION

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



John White

Date: Jan - 27, 2000