

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 BRADLEY
(USPS-T-13) TO INTERROGATORIES OF FLORIDA GIFT FRUIT SHIPPERS
ASSOCIATION
(FGFSA/USPS-T13-40, 42-52, and 54-56)

The United States Postal Service hereby provides responses of witness Bradley (USPS-T-13) to the following interrogatories of Florida Gift Fruit Shippers Association: FGFSA/USPS-T13-40, 42-52, and 54-56, filed on September 3, 1997. Interrogatory FGFSA/USPS-T13-53 was redirected to the Postal Service. An objection to interrogatory FGFSA/USPS-T13-41 was 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 17, 1997

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T13-40 Provide the contracted for capacity of the highway network, separately for Inter-SCF, Intra-BMC and Inter-BMC, in each of the years 1992 through 1996.

FGFSA/USPS-T13-40: Response:

As the term "contracted for capacity" does not have a definitive meaning, I assume that you are referring to the total cubic foot-miles of contracted highway transportation purchased by the Postal Service. To the best of my knowledge, such data do not exist. To calculate it, one would have to examine, *ex post*, the contracts actually in force in a given year, calculate the cubic foot-miles purchased on each of those contracts during the year and sum the cubic foot-miles. The Postal Service does not do this calculation. However, because I collected a cross-sectional database to update the Commission's variability for purchased highway transportation, I do provide data you can use to estimate the contracted for capacity in FY 1995.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-41 Your testimony refers to 12,846 contracts in force in 1986, and there were 14,781 in your analysis.

- a) Provide a breakdown by account type of the 1986 contracts
- b) Provide the number of contract in force each year between 1986 and 1996, with a breakdown by account type.

FGFSA/USPS-T-13-41 Response:

An objection to this interrogatory has been filed.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-42 The TRACS data for both FY95 (MC97-2) and FY96 (R97-1) reflect a high empty average for all Intra-BMC and linter-BMC (sic) transportation service. This also was the situation in FY92 (R94-1) .

- a) How has this excess (unused) capacity been reflected in the contract negotiations?
- b) Has the contracted capacity been reduced as a result of this unused capacity?
- c) If so, to what extent?

FGFSA/USPS-T-13-42 Response:

- a. Please see my responses to FGFSA/USPS-T13-7, FGFSA/USPS-T13-8, FGFSA/USPS-T13-9 and FGFSA/USPS-T13-10 which all discuss how capacity on a contract is specified by the Postal Service. In particular, please see my response to FGFSA/USPS-T13-10 which explains how underutilization of capacity of purchased capacity is taken into account at the time of negotiation of replacement contracts.
- b. & c. Because the specification of contracts is done at the local level, it is impossible to determine a quantitative relationship between unused capacity and contract specifications. Please recall that the my analysis, like the Commission's earlier analysis, is designed to measure how cost varies with contracted cubic foot-miles.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-43 Refer to your response to FGFSA/USPS-T-13-7.

- a) Explain how the "historical experience with the contract" is recorded and what information is reflected in the records.
- b) Is the actual capacity utilized on each route recorded? If so, where?
- c) In the "forecast" which is prepared, does this reflect the average or highest peak utilization?

FGFSA/USPS-T-13-43 Response:

- a. Because contract specifications are set on the local level, there is no system of recording historical experience. In fact, historical experience does not require written documents; it may be recorded only in the relevant experts' memories.
- b. Not to my knowledge. All inquiries that I have made to the Postal Service resulted in my being told that capacity utilization is not recorded on a route basis.
- c. In my response to FGFSA/USPS-T13-7, I placed the word forecast in quotation marks to indicate that I was referring to an informal or subjective forecast. As I said:

In the case of a new service, there is a "forecast" required, but this forecast is developed informally and on a case-by-case basis. In other words, the formation of the "forecast" differs by the situation in each case and there is not a standard formula for determination of transportation capacity.

Thus, the "forecast" could involve a variety of factors which may or may not include the average or highest peak utilization.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-44 Refer to your response to FGFSA/USPS-T-13-8.

- a) Are the "service standard commitments" for Inter-BMC and Intra-BMC contracts those applicable to Standard A and Standard B mail? If not, please identify the service standards which are applicable
- b) Confirm that the Postal Service does not contract for Untra-BMC(sic) and Intra-BMC transportation on the basis of the volume of mail.

FGFSA/USPS-T-13-44 Response:

- a. It was my intention to refer to service standards generally, as they apply to all classes and subclasses mail.
- b. My answer depends upon the meaning of the words "contract for Untra-BMC (sic) and Intra-BMC transportation on the basis of mail volume." If this statement is intended to mean that the Postal Service contracts for truck capacity and not for individual mail movements, I can confirm. If this statement means that the Postal Service does not take the volume of mail into account when specifying transportation capacity, I do not confirm. The Postal Service does take volume into account when specifying purchased highway transportation capacity.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-45 Your response to FGFSA/USPS-T-13-9 refers to increases in volume on a route. Please address how the purchased capacity responds to decreased (sic) in volume.

FGFSA/USPS-T-13-45 Response:

The converse applies.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-46 Explain how "The cubic foot-miles in my analysis are directly related to mail volume."

FGFSA/USPS-T-13-46 Response:

Consider the definition of a direct relationship:¹

When two variables — such as consumption and income — move in the same direction, they are set to be **directly related**. (Emphasis in original).

Now, consider my response to FGFSA/USPS-T13-19 (from which I believe this quotation was taken) where I state:

The cubic foot-miles in my analysis are directly related to mail volume. A sustained increase in mail volume will cause cubic foot-miles to increase, and a sustained decrease in mail volume will cause cubic foot-miles to decrease.

¹See, Arnold, Roger, Macroeconomics, 3rd Edition, West Publishing Co., St. Paul, MI at page 30.

Response of United States Postal Service Witness Bradley
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FGFSA/USPS-T-13-47: For Intra-BMC contracts, is the capacity contracted for based on the volume of the outbound (out from the BMC) mail? If the inbound volume is significantly lower than the outbound volume, does the contract provide for use of a smaller capacity on the inbound segment of the route?

FGFSA/USPS-T-13-47 Response:

Please see my responses to FGFSA/USPS-T13-7, FGFSA/USPS-T13-8, FGFSA/USPS-T13-9 and FGFSA/USPS-T13-10 which all discuss how capacity on a contract is specified by the Postal Service.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-48 Refer to your response to FGFSA/USPS-T-13-26

- a) How many times have trucks been added to expand capacity?
- b) How many time have the number of route/trips been increased?
- c) How many time have the frequency of the trips been increased?
- d) How many time have the routes been reconfigured?
- e) What actions have been taken to reduce the cubic capacity of the contract requirements? Please provide specifics.

FGFSA/USPS-T-13-48 Response:

a.-d. There are about 15,000 purchased highway transportation contracts. Each one holds the potential to be adjusted in the ways described above. It is thus impossible to develop the requested frequency distribution. Moreover, please recall that my analysis measures the response of cost to changes in the cubic foot-miles of purchased highway transportation. It is an update and refinement of the Commission's approach in Docket No R87-1. One of the strengths of the that approach is that accurate measurement of volume variability does not require the type of detailed information specified in the interrogatory. It is entirely consistent with using the least costly alternative to increase capacity. As the Commission stated:¹

¹ See, PRC Op., R87-1, at page 316.

Response of United States Postal Service Witness Bradley
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The record shows that managers choose from a full range of alternatives in meeting the demands caused by volume changes. Many less costly alternatives, such as requiring an extra trip, or rearranging the routes serving a number of facilities, may be employed before an additional truck is put under contract.

- e. The cubic capacity of a contract would be reduced by reducing the number of trucks specified on the contract, reducing the size of the trucks on the contract, or both. In addition, the total cubic capacity used on a contract cost segment would be reduced by the elimination of a trip

Response of United States Postal Service Witness Bradley
to
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FGFSA/USPS-T-13-49 Refer to your response to FGFSA/USPS-T-13-27.

- a) Explain how the distance between facilities influences the determination of the capacity of the vehicle for a route.
- b) Identify all factors which influence the selection of the appropriate capacity of the vehicle for a route which are equal to or greater than the volume of outbound mail for the route.
- c) How many contracts provide for one-way trips with different size trucks, in the manner you refer to in paragraph c. of your response?
- d) How many Intra-BMC contracts specified that a portion of the route be serviced with a truck of one capacity and another portion of the route serviced with a truck of a different capacity?
- e) How many other highway route contracts provide for a portion of the route to be serviced by a truck of one capacity and another portion of the route serviced with a truck of a different capacity?
- f) Identify the number of times where the volume of the outbound mail has not determined the capacity of the truck for a specific route.
- g) Where there is a large imbalance in the outbound and inbound volumes, and the capacity of the truck is determined by the outbound volume,
 - i) is the excess capacity on the inbound trip "caused" by the volume of the inbound mail?
 - ii) does the Postal Service contract for a smaller truck capacity for the inbound trip?

FGFSA/USPS-T-13-49 Response:

- a. If facilities are close together, multiple trips may be feasible. When multiple trips are possible a smaller truck (in terms of cubic capacity) could be used than when only one trip per day is possible.
- b. I know of no way of determining the relative size of the various factors that influence capacity. Thus, I cannot say which are equal to or greater than the volume of outbound mail.

Response of United States Postal Service Witness Bradley
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- c. I have not collected any such information and do not need to for my analysis of the response of cost to variations in cubic foot-miles.
- d. I have not collected any such information and do not need to for my analysis of the response of cost to variations in cubic foot-miles.
- e. Please see my responses to FGFS/USPS-T13-7, FGFS/USPS-T13-8, FGFS/USPS-T13-9 and FGFS/USPS-T13-10, FGFS/USPS-T13-42 and FGFS/USPS-T14-43, which all discuss how capacity on a contract is specified by the Postal Service.
- f. Please see my responses to FGFS/USPS-T13-7, FGFS/USPS-T13-8, FGFS/USPS-T13-9 and FGFS/USPS-T13-10, FGFS/USPS-T13-42 and FGFS/USPS-T14-43, which all discuss how capacity on a contract is specified by the Postal Service.

Response of United States Postal Service Witness Bradley
to
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FGFSA/USPS-T-13-50 Do the outstanding contracts for purchased transportation as of any date establish the capacity for each route as of that date? If not, please explain fully.

FGFSA/USPS-T-13-50 Response:

A contract's annual capacity is specified by the cubic foot miles provided per year on that contract. To the extent the contract specifies the annual cubic foot-miles required for the contract, it specifies the annual capacity.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-51 Identify the number of contracts for Intra-BMC and Inter-BMC that specify one-way transportation.

FGFSA/USPS-T-13-51 Response:

The requested information is not available. Moreover, it is not required for my updating of the Commission's analysis of the relationship between cost and variations in cubic foot-miles of purchased highway transportation.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-52 Please explain how "the transportation of inbound mail is often produced in common with the transportation of outbound mail." (refer to your response c to FGFSA/USPS-T-13-30)

FGFSA/USPS-T-13-52 Response:

Common costs can be defined as occurring when the same inputs or production process is used to produce two or more outputs in potentially variable proportions. Consider a truck that leaves facility A, travels to four other facilities and then returns to facility A. Assume that the truck only has one driver and that different classes of mail can be loaded onto the truck in variable proportions. If some of that mail is loaded onto the truck at facility A and unloaded at the other facilities, whereas other mail is loaded at the other facilities and unloaded at facility A, then the cost of the driver would be a common to what you have described as inbound mail and to what you have described as outbound mail.

Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association

FGFSA/USPS-T-13-53

- a) Are Postal Service contractors on highway routes allowed to carry non-postal freight if there is available empty space over all or any portion of the route?
- b) Of the 14,781 contracts, how many permit the carrying of non-postal freight concurrently with the transport of mail?

FGFSA/USPS-T-13-53 Response:

This interrogatory has been redirected.

Response of United States Postal Service Witness Bradley
to
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FGFSA/USPS-T-13-54 Assume that the cost of providing two or more services is described by economists as a joint cost; i.e., the services are produced in fixed proportions that cannot be varied. What is the most economically correct procedure (sic) to allocate the joint cost between the services? Please fully explain.

FGFSA/USPS-T-13-54 Response:

The economically correct way to analyze product costs in a multi-product firm is to calculate the marginal cost for each product. For example, see the testimony of Prof. Panzar in Docket No. R90-1 (Remand):¹

As is well-known, when an enterprise produces more than one service under conditions of joint or common costs (i.e., when there are economies of scope), there is no way to define the unit (average) cost of an individual service except through some arbitrary cost allocation procedure. The cost of a marginal unit of any service remains perfectly well-defined, however, since it merely involves the thought experiment of calculating the total costs of the enterprise with and without said unit and taking the difference.

¹See, Direct Testimony of John C. Panzar, USPS-REM-T-2, Docket No. R90-1 (Remand) at page 9.

**Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association**

FGFSA/USPS-T-13-55 If joint costs either are not or cannot be allocated to the individual services in an economically rational way, what is the economically correct way of analyzing the cost of services produced jointly?

FGFSA/USPS-T-13-55 Response:

The economically correct way of analyzing costs of individual services in a multi-product firm is to calculate the marginal cost for each product.

**Response of United States Postal Service Witness Bradley
to
Interrogatories of Florida Gift Fruit Shippers Association**


FGFSA/USPS-T-13-56 Do you agree that the cost of providing postal transportation capacity in a single vehicle from a BMC to one or more destination postal facilities and a return from those facilities to the BMC is a joint cost? If not, please fully explain.

FGFSA/USPS-T-13-56 Response:

No. These costs are common costs not joint costs. The transportation of different classes and subclasses of mail does not occur in fixed proportions.

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.

A handwritten signature in cursive script that reads "Michael D. Bradley". The signature is written in black ink and is positioned to the right of the declaration text.

Dated: Sept. 17, 1997

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

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September 17, 1997