

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

RECEIVED
SEP 15 10 55 AM '97
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Postal Rate and Fee Changes, 1997)

Docket No. R97-1

OFFICE OF THE CONSUMER ADVOCATE
INTERROGATORIES TO UNITED STATES POSTAL SERVICE
WITNESS WILLIAM P. TAYMAN
(OCA/USPS-T9-38)
SEPTEMBER 15, 1997

Pursuant to sections 25 and 26 of the Rules of Practice of the Postal Rate Commission, the Office of the Consumer Advocate hereby submits interrogatories and requests for production of documents. Instructions included with OCA interrogatories 1-7 to the United States Postal Service dated July 16, 1997, are hereby incorporated by reference.

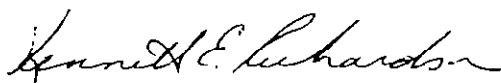
Respectfully submitted,



GAIL WILLETTE

Director

Office of the Consumer Advocate



KENNETH E. RICHARDSON

Attorney

OCA/USPS T9-38. According to a recent newspaper article in The Philadelphia Inquirer (August 8, 1997, page A1 and A16, attached), the Postal Service is permitted to contract out mail delivery as highway contract routes in areas it deems to be virgin territory and can do so at a cost of about 24.5 cents per delivery per day, only slightly over one-half the cost of delivery by employees. The article also states that in rapidly growing communities the Postal Service considers and compares a highway contract route on new routes and does a cost comparison every time.

- a. Please confirm that the Postal Service is permitted to contract out mail delivery as highway contract routes in areas deemed to be virgin territory. If you can not confirm, please describe the areas in which the Postal Service may enter into highway contract routes.
- b. What do the Postal Service contracts with the employees unions provide regarding the establishment of highway contract routes?
- c. At what organizational level in the Postal Service are initial decisions made to establish a highway contract route? At what organizational level in the Postal Service are final decisions made to establish a highway contract route?
- d. Please confirm that, nationally, the average cost of highway-contract delivery is 24.5 cents per delivery per day. If you do not confirm, please provide the nationwide average cost of highway contract delivery for FY 1996 and FY 1987.
- e. Please confirm that the average cost of highway contract delivery is a little over one-half the cost of delivery with postal employees. If you do not confirm,

please provide the nationwide average cost of mail delivery with postal employees.

- f. Please provide the number of delivery points for each of the years FY 1990 through FY 1997.
- g. Please provide the actual number of city delivery, rural delivery and highway contract routes for each of the years FY 1990 through FY 1997.
- h. What proportion of new delivery routes for each of years FY 1990 through FY 1997 were highway contract routes?
- i. How many existing city or rural delivery routes were converted to highway contract routes for each of the years FY 1990 through FY 1997?
- j. Please provide the number of city delivery, rural delivery and highway contract routes for FY 1997 and FY 1998 assumed in the rate filing and indicate where those numbers are located in the documentation.
- k. Please provide the assumptions for the cost model underlying the estimate of the number of highway contract routes in FY 1997 and FY 1998.
- l. How have you taken into account in the roll-forward cost model for FY 1997 and FY 1998 the increasing number of highway contract routes relative to routes serviced by Postal employees.
- m. Please state the input adjustments that would need to be made to the cost model for FY 1997 and FY 1998 if a greater proportion of new routes were established during FY 1997 and FY 1998 as highway contract routes than was assumed in the rate filing.

- n. Are there any costs related to growth in highway contract routes included in the "Cost Reduction" or "Other Program" categories in your exhibit USPS 9B?

THE PHILADELPHIA INQUIRER

Friday, August 8, 1997

The Postal Service, to cut costs, is parceling out Pa. suburb routes

Contractors are cutting in. Unions are angry.

By Mary Blakinger
INQUIRER CORRESPONDENT

Postal worker Bill Saar delivers mail along Route 30 in Exton. When people began moving into the new Exton Crossing apartment complex just off the highway this summer, he thought he would be the one tacking letters in their mailboxes.

But Saar, a U.S. Postal Service employee since 1969, was wrong. Instead, the Postal Service hired a local copy-and-printing company for the job. On July 12, the contractor began delivering mail to the first three tenants at the 408-unit complex still under construction in West Whiteland Township.

Why a contractor? Because it's cheaper, the Postal Service says. Like many businesses everywhere, the Postal Service is outsourcing work to cut costs, to the consternation of unionized letter carriers.

To do so, the Postal Service is making use of the facts that its union pacts allow it to contract out mail delivery in what it deems to be virgin territory not served by an existing route. In the last year, it has put mail delivery in private hands in about 30 other new routes in eastern Pennsylvania. And, not surprisingly, it and the union are arguing over exactly how to define what a new route is.

Saar, executive vice president of Branch 4317 of the National Association of Letter Carriers, said his union has filed a grievance over the Exton contract route. The union contends that Exton Crossing is not a new route, but an extension of an existing one, Saar said.

Postal officials in the Lancaster District, which includes Chester County, declined to discuss the sta-

See **POSTAL** on A16

Postal Service parceling out new routes

POSTAL from all sides of any grievances. But they said that since September, they have been scrutinizing what they consider new routes, to determine if any are candidates for contract delivery.

It doesn't matter whether the routes are to housing developments, shopping malls or business parks, as long as they involve at least 50 deliveries, said Dale Sigman, district service analyst.

"We're looking for a viable way to hold down costs and provide service," he said. The Lancaster District, which encompasses Chester, Bucks, Montgomery, York, Lancaster, Berks, Schuylkill and a portion of Adams Counties, has systematically been identifying where it can use the routes, Sigman said.

Cost falls sharply

Such routes, called highway-contract routes (HCRs), can cut the cost of mail delivery dramatically, said Sigman. Nationally, the average cost of highway-contract delivery is 24.5 cents per delivery per day, a little over half the cost of delivery with postal employees, he said.

In the Philadelphia suburbs, a Chester County copy-and-printing company called Reagent Copy Center B.T. now delivers mail at the new Exton Crossing apartments.

And in Warwick Township, Bucks County, contractor Jeff Koppenheffer of Fleetwood, Pa., has been hired to deliver mail to residents of Country Crossing, a 430-unit townhouse and condominium community under construction.

Contract routes also are under consideration at several other post offices in the Lancaster District's territory, said Sigman.

The Postal Service and its predecessor, the Post Office, have been using outside contractors for 200 years, particularly for deliveries in rural areas, and to transport bulk loads of mail between post offices, said Dwight Young, manager of transportation purchasing for the Postal Service in Washington.

"What's changing is... we're becoming more astute in making our business decisions," said Young. To hold down costs, post offices in many rapidly growing communities — whether they are in Nevada or Pennsylvania — now take a closer look at contract delivery, he said.

"I don't see where there's going to be a dramatic shift" from delivery by employees to contractors, Young said. But in developing areas, "you're going to see it popping up a lot of places."

Small percentage

In the Postal Service's Allegheny Area, which includes Ohio, Pennsylvania, Delaware and a portion of New Jersey, less than 4 percent of new box-delivery customers have mail delivered by contractors, said Pete Bacola, supervisor for transportation contracts.

Postal officials started looking more closely at comparative delivery costs on new routes about three years ago, Bacola said. "What we're doing now is... making sure we do a cost comparison every time. These decisions before had been driven by tradition."

Like turning a ship, change in the Postal Service is a gradual process. "We're just starting to see a little movement," Bacola said. And it is that movement that is spurring opposition from the unions that represent city and rural letter carriers

"We're not happy with what they're trying to do," said Don Smith, president of Bux-Mont Branch 920 of the National Association of Letter Carriers, the union for city and town-based carriers. The branch represents 800 active workers at nearly two dozen area post offices, said Smith, a Phoenixville letter carrier.

"It seems to me they're trying to make the Postal Service the postal business," said Smith.

Robert Thomas, a Lehigh County letter carrier and steward for the

Pennsylvania Rural Letter Carriers' Association, which represents rural-route drivers, said his union's members have "three or four" grievances pending and "more to be filed" over contract delivery routes.

"We feel the rural carrier can give much better service," said Thomas.

Postal officials said that contractors go through the same screening and are held to the same standards as employees. "Your mail is going to be just as safe with them," said Sigman. "The sanctity of the mail remains the same."

In West Whiteland, a Reagent employee goes into the Exton Post Office to sort and bundle mail for delivery, then transports it to Exton Crossing and places it in the appropriate boxes, said Reagent operations manager John Supplee. He said Reagent will have three employees trained to handle mail deliveries to assure uninterrupted service.

The company, a division of Marsh Creek Corporate Services in Exton, will pursue additional contract

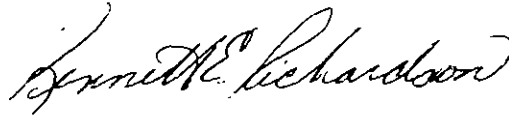
routes if this first one proves profitable, Supplee said.

What such contract routes will do to the traditional role of the letter carrier is an open question, said Jim Edgemon, with the National Association of Letter Carriers in Washington. "That depends on whether the Postal Service goes after this nationwide and full-bore. Then it would have a major impact."

"I suppose there's always somebody to do it cheaper," said Edgemon. "We happen to believe the service suffers."

CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

A handwritten signature in cursive script, reading "Kenneth E. Richardson".

KENNETH E. RICHARDSON
Attorney

Washington, D.C. 20268-0001
September 15, 1997