

DOCKET SECTION
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 AMERICAN BUSINESS PRESS
(ABP/USPS-T13-1, 5, 8(a), 9, 10(a), 11, 12, 14-16 AND 17(a)-(b))

The United States Postal Service hereby provides responses of witness Bradley (USPS-T-13) to the following interrogatories of American Business Press: ABP/USPS-T13-1, 5, 8(a), 9, 10(a), 11, 12, 14-16 and 17(a)-(b), filed on September 17, 1997. Interrogatories ABP/USPS-T13-2-4, 6, 7, 8(b)-(g), 10(b)-(d), 13 and 17(c)-(d) were redirected.

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

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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

ABP/USPS-T13-1

- a. Do you re-confirm your testimony (TR2/423-516) in Docket MC93-1 (second class pallet discount) that there is a "distance taper" that applies to purchased transportation costs? If you do not confirm, please explain.
- b. Please define the term distance taper.
- c. If you still believe that there is a distance-taper that applies to second-class (periodical) purchased transportation costs, identify if, where and how it was recognized in this filing.

ABP/USPS-T13-1 Response:

- a. Although I expect that it is still valid, I have done no subsequent studies to "reconfirm" my testimony in Docket No. MC93-1.
- b. A distance taper typically refers to the decline in unit cost of transportation as distance increases, holding everything else constant within a single mode of transportation
- c. A distance taper is embodied in my econometric equations. Specifically, following the Commission's specification from Docket No. R87-1, I include distance as a separate variable to control for the possibility that cost per cubic foot-mile varies with distance. I have not reviewed the entire filing, so I cannot speak to other places the distance taper may or may not have been considered.

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

ABP/USPS-T13-5 Is a highway trip between a BMC and an ADC classified for cost allocation as "inter-BMC" or "inter-SCF," or are other designations used?

ABP/USPS-T13-5

Route trips are not classified individually, contracts are. Consequently, a particular route trip could be included in different accounts depending on the account classification and nature of the transportation of the contract that pays for the route trip. Please see the response to FGFS/USPS-T2-6, part c. for a discussion of the classification of route trips into accounts.

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

ABP/USPS-T13-8 On p. 8, line 7, you state: "Contracts continue to be bid in the same way; contracts still last for four years."

- a. Describe, in your own words, the contracts bid procedure, and what criteria are used to select a contractor. Reference to a prior proceeding is not a responsive answer.

(Parts b. through g. have been redirected.)

ABP/USPS-T13-8 Response:

- a. As I understand it, the contracts bid procedure goes as follows. First, the Postal Service determines the specifications of the contract. This includes specifying the trip routing and mileage, the trip frequency, the Postal facilities served, the arrival times, and the vehicle requirements. Next, the contract is advertised and put out for bidding. The Postal Service then evaluates the bids and awards the contract. The contract is awarded to the lowest bidder who can reliably fulfill the contract requirements.

Response of United States Postal Service Witness Bradley
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Interrogatories of ABP

ABP/USPS-T13-9 While you state that the increase use of surface transportation by First-class mail (p.9) is "simply and increase in volume and not a change in operating structure," if First-class mail has delivery requirements that require dispatch, and transportation and delivery in fewer days than other classes, is it possible that additional transportation capacity will be added to the surface highway network not because of added volume, but because of the scheduling of necessary (sic) to meet First-class service standards?

ABP/USPS-T13-9 Response:

It is possible, but it is my understanding that the current network structure embodies the requirement to meet service standards for all classes. Unless those service standards change, I would not envision a material change in the purchased highway transportation network for this reason.

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

ABP/USPS-T13-10.

- a. Did "the addition of more volume" to the existing network (p.9) in connection with First-Class mail since R87-1 cause the significant annual increases in highway contract accounts?

(Parts b. through d.) have been redirected.

ABP/USPS-T13-10 Response:

Addition of volume of all classes of mail would be a reason for increased costs in the various highway accounts. None of the information that I use in my analysis is specific to individual classes of mail, so I am unable to speculate whether increases in First-Class mail caused significant increases in costs.

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

ABP/USPS-T13-11 You state on p. 9 that dropshipping to "destination facilities" requires "less postal service transportation." By less do you mean

- a. fewer trucks?
- b. less total capacity in trucks if volumes of a dropshipped subclass remain constant and if added volumes are dropshipped to at least the same extent as the original volumes measured?
- c. lower overall purchased transportation costs for a subclass, part of which may be dropshipped?
- d. that the weight and density per piece of dropshipped volumes must remain constant for your statement to be true.
- e. that no USPS transportation is used for intra-SCF trips, assuming dropship to "destination facilities" means SCF and/or ADC facilities. If destination facilities mean only delivery stations or rural post offices, please so state.

ABP/USPS-T13-11 Response:

- a.-e. My understanding of dropshipping is as follows. Under dropshipping, mailers have the option of providing their own transportation of mail to the destination facility. In return, they receive a discount. To the extent mailers are carrying their mail to the destination facilities, the Postal Service does not have to. The Postal Service thus would have to contract for fewer cubic foot-miles of purchased transportation than it otherwise would. In sum, what I meant by "less Postal Service transportation" is fewer cubic foot-miles of Postal Service purchased transportation than would otherwise be needed. For my update and refinement of the Commission's Docket No. R87-1 purchased highway transportation variability analysis, I did not have to become familiar with the intricacies of dropshipping that you discuss in the interrogatory.

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

ABP/USPS-T13-12

- a. Identify "certain parts of the purchased highway transportation network" (p.9) that you claim have been reduced by growth in dropshipping, and would be reduced by future increases in dropshipping. By "parts" do you mean facilities, cubic capacities, costs or all of the preceding.
- b. If dropshipping requires less Postal Service transportation, why is the "highway transportation network . . . basically the same as in 1986" (p. 8)?

ABP/USPS-T13-12 Response:

- a. First, please be clear that I did not claim that any parts of the purchased highway transportation network were reduced by dropshipping. As I said on page 9, I was concerned with the possibility that such effects could take place:

When mailers dropship their mail at destination facilities, less Postal Service transportation is required. The growth in dropshipping thus holds the potential to reduce the size of certain parts of the purchased highway transportation network. (Emphasis added).

The "parts" I was referring to were the types of transportation as reflected by the highway accounts, e.g., inter-BMC or Intra-SCF.

- b. As I attempted to explain on p. 10 of my testimony, variations in the amount of cubic foot-miles in the purchased transportation highway network do not, by themselves,

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

constitute changes in the structure of the network. In fact, the Commission's Docket No. R87-1 analysis of the network was designed to measure the response in cost to changes in cubic foot-miles in that network. That is why I stated on page 10:

However, unless the effects of dropshipping are severe, they can be handled within the Commission's framework. The effect of dropshipping is to limit growth in those parts of the network that are subject to diversions. That is, dropshipping *will retard the growth in the amount of mail transported by the Postal Service network in those areas in which private sector transportation is used.*

In other words, if growth in cubic foot-miles of transportation would have been X% without dropshipping, I would expect that growth to be somewhat less than X% with dropshipping.

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

ABP/USPS-T13-14. On p. 10, in referring to dropshipping, are you referring to third-class (standard), second-class mail (periodical), to other subclasses, or all of the preceding types of mail?

ABP/USPS-T13-14 Response:

On page 10, I was making no reference to any specific classes of mail. I was referring to mail in general.

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

ABP/USPS-T13-15

- a. To use your phrase ("radical realignment), has there been "any radical realignment" (p.9) of the highway network since 1990?
- b. Plant load costs were 3.9% of accrued highway transportation costs in 1990, and 2.4% in 1995. Is this a major or minor change?
- c. Have there been major or minor changes between 1990-1995 to the inter-SCF and Inter-BMC accounts, which together represented 39.4% of accrued highway costs in 1990, and 36.5% in 1995, based on the table on p. 11 of your testimony?
- d. The same table on p. 11 shows intra-SCF mail as 41.4% of accrued cost in 1990, and 42.7% of accrued cost in 1995. Is this a major or minor change? Is the average cost per cubic-foot-mile higher for the intra-SCF account than for (1) the inter-SCF account and (2) the inter-BMC accounts?

ABP/USPS-T13-15 Response:

- a. Not to my knowledge.
- b. In the context of the discussion in my testimony, which was to determine if the Commission's Docket No. R87-1 model of the variability of purchased highway transportation costs was an appropriate point for starting my update and refinement, I would consider them minor. I make no claim about the general applicability of the terms "major" or "minor."

Response of United States Postal Service Witness Bradley
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Interrogatories of ABP

- c. The proportion of accrued cost in the inter-SCF account went from 21.7% in 1990 to 20.9% in 1995. The proportion of accrued cost in the inter-BMC account went from 17.7% in 1990 to 15.6% in 1995. In the context of the discussion in my testimony, which was to determine if the Commission's Docket No. R87-1 model of the variability of purchased highway transportation costs was an appropriate point for starting my update and refinement, I would consider them minor. I make no claim about the general applicability of the terms "major" or "minor."
- d. In the context of the discussion in my testimony, which was to determine if the Commission's Docket No. R87-1 model of the variability of purchased highway transportation costs was an appropriate point for starting my update and refinement, I would consider them minor. I make no claim about the general applicability of the terms "major" or "minor."

The average cost per cubic foot-mile is higher in the intra-SCF account than in the inter-SCF account. The average cost per cubic foot-mile is higher in the intra-SCF account than in the inter-BMC account.

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

APB/USPS-T13-16 On p. 33 you state that plant-load contracts typically require tractor trailers. You also state that the estimated variability for plant-loads is 88%, which "is quite similar to other tractor trailer types of transportation."

- a. Are there data that show the average length of haul of a plant load trip? If so, please provide the data and explain how the data were obtained.
- b. If your answer to a. is no, please compare other highway cost accounts with plant load trips and select which account (e.g. inter-SCF) you believe is most comparable in cost per cubic-foot-mile and/or distance to plant loads.

APB/USPS-T13-16 Response:

- a. Yes. A measure of average length of a plant load route trip is given by the average value for the route length variable in my data set extracted from HCSS. For a discussion of how the route length variable is constructed, please see my Workpaper WP-1 at page 4. As shown on page 117 of Workpaper WP-7, the average value for the route length variable is 274.43 miles.
- b. Not applicable.

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

ABP/USPS-T13-17

- a. Please explain and elaborate upon your statement on p. 37 as follows:

Not surprisingly the cost per cubic foot-mile is also much smaller for the tractor trailer contract cost segments in both accounts.

- b. Confirm and explain why the cost per CFM for inter-SCF trailers is \$903 per CFM less than intra-SCF vans and \$683 per CFM less than inter-SCF vans.

(Parts c. and d. have been redirected)

ABP/USPS-T13-17 Response:

- a. My previous experience with Postal Service purchased highway transportation data had shown that the cost per cubic foot-mile for tractor trailer transportation tended to be lower than the cost per cubic foot-mile for straight body (van) transportation. Thus, when I compared the cost per cubic foot-mile for straight body transportation in the intra-SCF account with the cost per cubic foot-mile for tractor trailer transportation in the intra-SCF, account I was not surprised to find that the cost per cubic foot-mile was lower for the tractor trailer transportation. Similarly, when I compared the cost per cubic foot-mile for straight body transportation in the inter-SCF account with the cost per cubic foot-mile for tractor trailer transportation in the inter-SCF, account I was not surprised to find that the cost per cubic foot-mile was lower for the tractor trailer transportation.

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

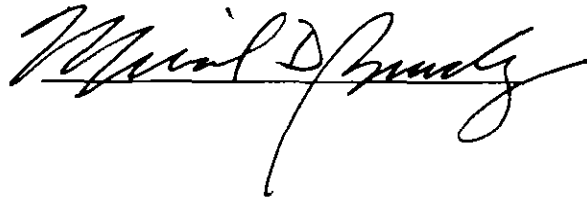
- b. For convenience, I reproduce Table 10 (page 38) from my testimony below. This table shows, among other things, the cost per (million) cubic foot-miles across the types of transportation.

Table 10 Differences Within Account by Truck Type				
	Intra-SCF Vans	Intra-SCF Trailers	Inter-SCF Vans	Inter-SCF Trailers
# of Obs	5,464	570	997	683
Avg. Cost	\$56,875	\$168,612	\$81,871	\$311,388
Avg. CFM	43.1	291.4	74.4	746.5
Avg. RL	49.1	60.0	94.3	221.9
Cost Per CFM	\$1,320	\$579	\$1,100	\$417

I confirm your calculations. The reason that the cost per cubic foot-mile is lowest for inter-SCF trailers is due to economies of scale in postal transportation. As Table 10 shows, the inter-SCF tractor trailer contract cost segments are by far the largest of the four in terms of average cubic foot-miles per contract cost segment.

DECLARATION

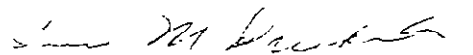
I, Michael D. Bradley, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read "Michael D. Bradley". The signature is written in a cursive style and is positioned above a horizontal line.

Dated: Sept. 30, 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.



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October 1, 1997