

DOCKET SECTION

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

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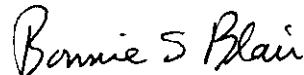
Postal Rate and Fee Changes, 1997)

Docket No. R97-1

ANSWERS OF THE ASSOCIATION OF ALTERNATE POSTAL SYSTEMS
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE
WITNESS: KENNETH L. BRADSTREET (USPS/AAPS-T1-1-18)
(JANUARY 27, 1998)

The Association of Alternate Postal Systems hereby submits the answers of Kenneth L. Bradstreet to interrogatories USPS/AAPS-T1-1-18. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,




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CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

January 27, 1998



Bonnie S. Blair

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-1. In your Docket No. MC95-1 testimony, you described the proposed pound rate as "an overtly competitive move designed to shift privately carried advertising and a growing sample delivery market into the mailstream." (Docket No. MC95-1, AAPS-T-1, page 43, lines 16-17).

a. Is it your testimony that the USPS-proposed pound rate for ECR in this docket is an overtly competitive move to divert samples into the mainstream? If yes, explain fully, specifying how the proposed rates (including the proposed residual shape surcharge) will shift samples to the mainstream. If no, explain fully.

b. Would you characterize the current sample delivery market as growing? Please explain fully, providing the complete basis for your opinion.

Answer:

a. Not samples per se, but eventually it would have that effect. Most samples are delivered by companies who deliver flats every week and deliver samples a few times per year. If the company goes out of business because it cannot compete for flats at the proposed pound rate, there will be one less private delivery option for the delivery of samples. Soon there would be fewer private delivery options, and eventually there would be markets in which former private delivery options for samples no longer exist. The end result is that sample producers are left with fewer options, and in some cases no options other than using the mail.

b. Yes. That is what I am hearing from our members.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-2. Please see your testimony at page 45, line 22 through page 46, line 2.

- a. Is it your understanding that the residual shape surcharge is being used to reduce the pound rate? Please explain fully.
- b. If the answer to part a. is anything other than an unqualified "no", please explain fully how the surcharge is being used to reduce the pound rate.
- c. If the answer to part a. is anything other than an unqualified "no", please quantify the extent to which the pound rate is proposed to reduce due to the surcharge.

Answer:

- a. Perhaps my testimony would have been more precise if I had said that the surcharge is used to support a reduced pound rate.
- b. Because it is used as a justification.
- c. I have no idea.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-3. Please provide an estimate of the weight of the typical sample delivered through alternate delivery and provide the complete basis for your estimate.

Answer:

I am not sure what is meant by a "typical sample." The weight range for samples could be anywhere from one ounce to more than a pound.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-4. Please describe the contents of a typical sample delivered through alternate delivery.

Answer:

The contents of a sample are the same as the contents of the substance that the sample is a sample of - typically either a liquid or a solid.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-5. Please see your testimony at page 13, lines 11 through 16.

a. Do alternate delivery firms usually deliver advertisements on the day or days specified by the advertisers? Please explain fully.

b. Do newspapers usually print the advertising in the paper, or insert the inserts into the newspaper, on the day or days specified by the advertisers? Please explain fully.

Answer:

a. They certainly try, and usually succeed.

b. Not personally being in the newspaper business, I would only guess that the answer to part "a" above would also apply to the newspaper business.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-6. Please see your testimony at page 12, line 6.

- a. Please provide a complete definition of term "rigged" as used in this passage.
- b. Is it your position that there are no legitimate reasons for lowering the pound rate? Please explain fully.
- c. In your view, under what conditions (actual or hypothetical) would a lowering of the pound rate be legitimate? Please explain fully.

Answer:

a. I'll stick with Webster on that one: rig vt rigged; rigging [rig (swindle)] 1: to manipulate or control usu. by deceptive or dishonest means <~an election> 2: to fix in advance for a desired result <~a quiz program>

b & c. I suppose, hypothetically, if the Postal Service had proposed a reduction of 25% in the weight rate for first class letters, and 25% in the weight rate for Standard Regular, I would have to agree that they might be generally overcharging for weight, and across the board reductions would be appropriate. I can only compare pound rates for mail which has no competition and for mail which has serious competition. In this case, the Postal Service proposes a token reduction in the pound rate of Standard Regular, no change in the weight rate for First Class mail, (both of which are non-competitive classes) and a huge reduction in the pound rate for competitive ECR. In MC95-1 the Postal Service witnesses freely admitted that the proposed reduction in the ECR pound rate was competitive in nature. Even though the witnesses in this case were not quite so open about the motive for the huge reduction in the ECR pound rate (perhaps their openness about the competitive nature of the proposed rate in MC95-1 contributed in part to its failure), the pound rate reduction in this docket has clearly been proposed for the same competitive reasons. While there might be hypothetical instances where a reduction would be appropriate, as in the example above, based upon the rate setting criteria in the Postal Reorganization Act, which is the law, it is my opinion that there is no legitimate reason for any selective reduction in a highly competitive rate. The proposed ECR pound rate, when compared with the pound rate for monopoly First Class mail (and the Standard Mail Regular pound rate, even given the token reduction), appears to be a purely competitive proposal.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-7. Please see your testimony at page 16, lines 2-3.

a. Is it your testimony that the proposed pound rate for Enhanced Carrier Route has been proposed by the Postal Service "purely for competitive reasons, and for the purpose of harming its competitors?" Please explain your answer fully, providing all bases for your opinion.

b. Is it your testimony that the residual shape surcharge has been proposed by the Postal Service "purely for competitive reasons, and for the purpose of harming its competitors?" Please explain your answer fully, providing all bases for your opinion.

Answer:

a. It is my testimony that the lowering of the pound rate is for these purposes, as the Postal Service admitted in MC95-1. The bases for my opinion are included throughout my testimony.

b. I believe I addressed that in my testimony as well (see pages 45, line 3 - page 47, line 2).

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-8. Please see your testimony at page 22, lines 18-20.

a. Please confirm that there have been instances in the past ten years in which domestic postal rates were lowered for categories which you deem as competitive with alternate delivery. If you do not confirm, please explain fully.

b. Please confirm that in Docket No. MC95-1, the rate for saturation non-letter mail was lowered from 12.0 to 11.4 cents. If you do not confirm, please explain fully.

c. Is it your position that the rate lowering referred to in part b., above, is "not allowed" under applicable law? If yes, provide the relevant legal standards upon which you rely and explain your answer fully, providing the complete basis for your opinion.

Answer:

a. confirmed

b. confirmed, if you are referring to the piece rate for locally entered ECR.

c. Certainly any rate change must pass the scrutiny of the Postal Rate Commission, which applies the rate-setting criteria. The Commission allowed the reduction.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-9. Please see your testimony at page 28, lines 4-6.

a. Please define "much" as used in line 5 of this passage.

b. Given that the overall increase for ECR is 3.2 percent, is there a certain threshold percentage of ECR volume for which you believe it is inappropriate to lower rates? If so, what is that percentage? Please explain fully.

Answer:

a. Certainly saturation mail would constitute "much" of the Standard ECR mix.

b. I don't know how the "given" portion of the question affects the remainder. "Given" that the Postal Service is proposing substantial reductions for the most competitive ECR mail matter, I'm not sure what any percentages or averages have to do with it. It will be small consolation for the alternate delivery company owner or manager or carrier who is forced to look for another job because of this reduction to be able to say, "At least the average ECR change was an increase, and at least some of the ECR mailers had to pay more." I doubt that he will find that comforting.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-10. Please see your testimony at page 29, lines 16-23.

- a. Please confirm that it is your understanding that witness Bernstein says a Ramsey Pricing framework would suggest a average rate decrease for the ECR subclass of roughly 50 percent. If you do not confirm, please explain fully.
- b. Please confirm that the proposed average rate increase for ECR is 3.2 percent. If you do not confirm, please explain fully, stating what you believe to be the proposed average rate change.
- c. Please confirm that it is your understanding that witness Bernstein says a Ramsey Pricing framework could result in a volume increase of 36 percent. If you do not confirm, please explain fully.
- d. If, indeed, the Postal Service were trying to harm the interests of competitors, why would it not propose rates more in line with the results of a Ramsey pricing analysis? Explain your answer fully.

Answer:

a. confirmed

b. I can confirm that the Postal Service claims it is (see my answer to USPS/AAPS-T1-9). I have not done an independent analysis of the Postal Service's arithmetic.

c. I say exactly that in the testimony to which you refer. I confirm it again.

d. If indeed the Postal Service did not intend to move in the direction of Ramsey Pricing, why would it sponsor such testimony? The Postal Service knows that as long as the Postal Rate Commission must review rate proposals, it would be futile to propose rates resembling those resulting from the application of Ramsey Pricing. Under the current rate-making structure the Postal Service will have to content itself with moving toward this type of rate structure a piece at a time. Also, knowing that the Commission protects small mailers and competitors, the Postal Service is seeking legislation under which it in fact could implement rates in line with Ramsey Pricing because the Commission would largely be excluded from the process.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-11. Please see your testimony at page 43, lines 3-6. Is it your testimony that heavier First Class pieces have fewer alternatives than lighter First Class pieces? Please explain fully, providing the complete basis for your opinion.

Answer:

No. As a practical matter there is little if any difference. Probably there are pieces mailed at first class rates which would fall outside of the Postal Service's definition of a "letter". I would guess that this probably is more common at heavier weights, but I don't know that for sure. My point was not a comparison of light versus heavy first class. The point was that most heavy first class is captive to the postal service, either directly or indirectly. Some is captive by virtue of the Postal Service's direct application of the Private Express Statutes in defining the contents as letters. Some is captive as a practical matter because the application of the Private Express Statutes to most of the first class mailstream restricts the volume that would be available to a competitor. That lack of available volume eliminates private delivery as a viable concept, which in turn eliminates any alternative to the mail. I have to conclude that there is no practical difference in a lack of alternatives caused by the direct application of the Private Express Statutes, and a lack of alternatives caused indirectly by the Private Express Statutes. Either way, it's still a lack of alternatives.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-12. Please see your testimony at page 11, lines 16-20.

- a. Is it your testimony that the pound rate be set so as to remove the use of the Postal Service from consideration on the part of a publisher? Please fully explain your response.
- b. What do you mean by the "cost of weight" in line 19? Please explain fully.

Answer:

- a. No. I was simply pointing out that a huge reduction in the pound rate will have a severe effect on alternate delivery companies. Many publishers have declared by their actions that the Postal Service is a good deal and the current pound rate is at an acceptable level. A number of publishers over the past five years, former AAPS members, have "voted with their feet" as it were, and have begun using the mail. Obviously they think the current rate is at an acceptable level as well. The Postal Service has a substantial volume of publication type business - the type which I described in the testimony cited above. Other witnesses in this case represent publishers who have chosen the mail, for whatever their reasons. On the other hand many publishers have opted for alternative delivery. Right now there appears to be a balance between Postal and alternative delivery where postal volumes are growing and where alternate delivery, though in many instances struggling, is able to compete somewhat effectively. A substantial reduction in the pound rate will tip that balance heavily toward the Postal Service at the expense of alternative providers.
- b. The cost of weight for a publisher is the added cost to the publisher for producing a heavier piece.

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TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-13. Please see your testimony at page 45, line 17-20, where you state, in part, that "alternate delivery companies are already getting quite a bit of sample business in the more major markets under the current rate structure." Confirm that, all other things being equal, imposition by the Postal Service of any positive residual shape surcharge would make alternate delivery companies more attractive to sample senders. If you cannot confirm, please explain fully.

Answer:

Confirmed, noting that "all other things being equal" assumes that the pound rate remains unchanged.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/MPS-T1-14. Please see your testimony at page 48, line 4. Please fully define "highly competitive" as it is used in this passage.

Answer:

Highly competitive obviously means mail matter for which there is vibrant competition between the Postal Service and private enterprise, in the passage cited, ECR saturation.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/MPS-T1-15. Please confirm that the study of the cost/weight relationship for Standard (A) mail presented in exhibit USPS-44B included the vehicle service driver and transportation costs segments directly in the analysis. If you do not confirm, explain fully.

Answer:

They appear to be included, though to what degree and with what assumptions I do not know.

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/MPS-T1-16. Please confirm that the study of the cost/weight relationship for Standard (A) mail presented in exhibit USPS44B assumed that transportation costs were directly related to weight. If you do not confirm, please explain fully.

Not confirmed. The study notes that highway transportation "costs are distributed in proportion to estimated cubic volume."

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/MPS-T1-17. Please confirm that the study of the cost/weight relationship for Standard (A) mail presented in exhibit USPS44B assumed that vehicle service driver costs were directly related to weight. If you do not confirm, please explain fully.

Not confirmed. The study notes that costs for vehicle service drivers "are distributed in proportion to estimated cubic volume."

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

USPS/AAPS-T1-18. Please refer to the discussion of city carrier street time costs on page 37 of your testimony. Most of the discussion centers around what the Postal Service calls a park and loop route.

- a. Are you assuming that the standard operating procedure for a park and loop route is to carry all of the mail for a route in one circuit without returning to the vehicle? Please explain fully, describing any assumptions you employ.
- b. Please discuss how the hypothetical situation described at page 37 lines 7 -21 would change if the normal park and loop route consisted of 10 separate circuits, with the carrier returning to the vehicle before each circuit.
- c. Please describe how your analysis of the effect of weight on the cost of delivery would be different for mounted routes (routes where the carrier makes each delivery from her vehicle).

What percentage of deliveries by the members of your association are made by carriers on foot? What percentage are made from a vehicle?

Answer:

(a) No. Note that I referred to "extra" trips to the vehicle. My assumptions are that the Postal Service has designed routes efficiently, and that the established parks and loops accommodate normal mail volume while allowing for some residual capacity. I assume that some loops are established based upon volume and some are established based upon the unique geography involved. I assume that there are some light-weight pieces of saturation mail which could be absorbed within that residual capacity for most loops, some heavier pieces which could be absorbed within fewer loops, and some very heavy pieces which would require substantial alterations of the route on a given delivery. For instance, how would a carrier accommodate a 12 ounce publication with inserts, or a 15 ounce telephone directory in addition to his normal load? Certainly this would require modifying a number of loops from the normal delivery pattern.

(b) The hypothetical situation to which you refer assumes a postal street carrier route of 600 addresses, and compares the delivery of a ¼ ounce saturation piece with the delivery of a 3.3 ounce saturation piece, both of which are charged the same postal rate. Using your assumption of 10 separate circuits, the carrier would average 60 deliveries for each circuit. Carrying an extra saturation piece weighing .25 ounces would add an average of 15 ounces to each circuit, some more or less. If each circuit had the residual capacity available, it would require no additional trips back to the vehicle. Compare this to the same carrier delivering a 3.3 ounce saturation piece. In this instance, the carrier must add an average 12+ pounds for each circuit, more or less based upon the actual number of stops on each circuit. This would require one extra trip back to the vehicle for each circuit which did not have the residual capacity to absorb this extra 12+ pounds. Now let's consider the carrier above who has the 12 ounce publication with inserts, and which the publisher has been assured a certain day of

ANSWERS OF AAPS WITNESS KENNETH L. BRADSTREET
TO INTERROGATORIES USPS/AAPS-T1-1-18

delivery – a situation which happens all the time. The carrier has to absorb an average additional 45 pounds on each established circuit, more than the total capacity of the carrier if he had no other mail to deliver. With the other mail considered, the carrier would have at least one additional trip for each circuit, and in some instances two additional trips. How much extra time would an extra 15 trips take? In the case of the 15 ounce telephone directory, the carrier would be adding an average 56+ pounds for each circuit, probably close to 20 additional trips.

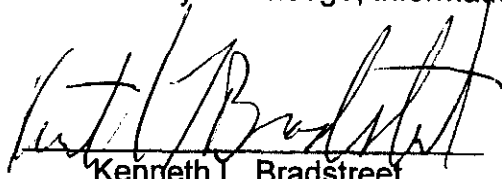
Certainly a mounted route would experience some effect for heavier pieces, though probably not to the same extent as the foot carrier. My own experience in delivering routes from a vehicle is that adding weight does add a considerable amount of time. If a delivery set weighs 3 ounces or less, the pieces can be put in bundles of 100 pieces. The carrier delivering to 600 addresses would have to stop and replenish his supply 6 times. However, a delivery set weighing 10 ounces would likely be tied in no more than 25 per bundle. This requires the driver to make 24 stops to replenish his supply. I assume that a mounted postal carrier experiences some of the same problems in blending into his normal mail volume saturation pieces of varying weights.


Operating within this hypothetical route, it is possible to ascertain a cost difference for these pieces. Assuming that the 3.3-ounce pieces can be accommodated within the residual capacity in eight out of the ten circuits, this would cause two extra trips. Assuming 15 extra trips for the 12-ounce piece, there is a difference of 13 trips, each consuming between five and ten minutes of time. Assuming conservatively an average of seven minutes per additional trip, we have 91 extra minutes which are entirely weight related. At \$40 per labor hour, we have an added cost of \$60, or 10 cents per peice. The difference in weight between the two pieces being 8.7 ounces, this calculates into a direct weight-related cost of 18.4 additional cents per pound, an additional weight-driven cost, the existence of which the Postal Service refuses to admit.

(c) Based upon our 1997 directory, I have calculated that 89% are delivered on foot, and 11% are delivered from a vehicle.

DECLARATION

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


Kenneth L. Bradstreet


Date