

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

SIX-DAY TO FIVE DAY STREET DELIVERY
AND RELATED SERVICE CHANGES, 2010

Docket No. N2010-1

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS BRADLEY
TO INTERROGATORY OF DOUGLAS CARLSON
(DFC/USPS-T6-2)

The United States Postal Service hereby provides the response of witness Michael Bradley to the following interrogatory of Douglas Carlson dated April 22, 2010: DFC/USPS-T6-2. The interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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DFC/USPS-T6-2. Please refer to your testimony at page 34. Suppose the Postal Service maintained all aspects of the plan that it proposes in this docket except that the Postal Service continued to collect and process outgoing mail on Saturdays. Assume that outgoing mail volume would be half the current volume. To which degree are air and highway transportation sufficiently volume variable that the costs of air transportation on Sunday and highway transportation on Saturday and Sunday would drop below current levels?

RESPONSE

The first part of the question poses a hypothetical operating environment in which the “Postal Service maintained all aspects of the plan that it proposes in this docket except that the Postal Service continued to collect and process outgoing mail on Saturdays.”

To the degree the answer in the second part of the question is dependent upon the operational structure implied in the first part of the question, I would draw your attention to the Postal Service’s response to DFC/USPS-T6-1 Redirected from Witness Bradley:¹

Please see the response to DFC/USPS-T2-3, redirected from witness Corbett to the Postal Service. As indicated in that response, the Postal Service has not conducted the detailed operational analyses that would be necessary to provide an estimate for any alternative service change scenarios, including the one posed in this question, comparable to the cost estimates submitted by the Postal Service’s witnesses. As also indicated in that response, however, broadly speaking, it seems plausible to suspect that most if not all of the Transportation savings achievable under the proposed 5-day environment would be lost under the alternative 5-day environment postulated in this question. The only readily apparent possible exception might be the costs associated with Box Routes, for which Table 6 at page 18 of USPS-T-7 shows an estimated savings of \$35 million.

¹ See, Response of the United States Postal Service to Carlson Interrogatory DFC/USPS-T6-1, Redirected From Witness Bradley, April 15, 2010.

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RESPONSE to DFC/USPS-T6-2 (continued)

That response makes clear that the Postal Service has not analyzed the operational structure implied by the hypothetical alternative but suggests that, as a first cut, it is plausible to suspect that in that hypothetical alternative, the only change in its transportation network would be the elimination of Box Route service. I assume that you included the first part of the question because you wanted the second part of the question answered within the context of the hypothetical operating environment posed in the first part of the question. With the caveat that I have not studied the cost implications of the operating environment you pose, I will answer your question in general terms, in the context of that environment. According to the Postal Service's response to DFC/USPS-T6-1, it is plausible that the hypothesized operating environment implies for transportation, that the Postal Service would be operating its regular six-day transportation network with the exception of elimination of Saturday highway box contract service.

The second part of the question then poses a 50 percent reduction in outgoing mail volume and asks "to which degree are air and highway transportation sufficiently volume variable" so that the cost of air transportation on Sunday and highway transportation on Saturday and Sunday would drop below current levels. The first difficulty in answering the question arises from the fact that it asks for a comparison between the costs of transportation after 50 percent reduction in volume in the hypothetical environment with current costs. However, my testimony focuses on the

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cost savings generated by the Postal Service's operational response to a movement to five-day delivery in the FY2009 environment. I thus have no basis for comparing the costs in the hypothetical environment to current costs and will instead consider the transportation costs in the hypothetical relative to FY2009 transportation costs.

The second difficulty in answering the question revolves around interpreting the phrase: "Assume that outgoing mail would be half the current volume." I can think of three reasonable interpretations of the phrase and will provide an answer for each one.

The first interpretation is that the phrase implies that national volumes fall in half, so that outgoing mail volume also falls in half. If national mail volume falls in half, I would expect that there would be cost savings in both the air and highway transportation networks but would advise against the use of volume variabilities in contemplating the size of the decline. Volume variabilities measure the response in cost to a sustained change in annual national volume within the existing operating structure. A fifty percent change in national volume is likely to lead to a change in the operating structure for both air and highway transportation.

The second interpretation of the phrase is that there would be a 50 percent reduction in Saturday's outgoing volume with the mail migrating to other days of the week. In this

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case, the simple application of the transportation volume variabilities would imply no change in the transportation costs because there would have been no change in annual national volume. However, a simple application may not be appropriate as the application of a variability typically assumes that there is no change in the weekly pattern of mail.

The third interpretation of the phrase is that of a 50 percent reduction in Saturday's outgoing volume reflecting a 50 percent reduction in Saturday's national volume. In other words, the Postal Service's annual national volume would decline by 50 percent times Saturday's proportion of volume. This is likely to be a sufficiently small change in volume that, by itself, it does not imply a change in the transportation operating structure. As a general matter, the degree of volume variability required to produce a reduction cost caused by a reduction in volume would be a volume variability greater than zero. In the case of air transportation, a reduction in national volume on Saturday in the six-day transportation operating environment specified in the question would likely lead to a reduction in air transportation costs. In the case of highway transportation costs, matters are a bit more complex. The highway variability takes as given the distribution of mail across days of the week and times of day and assumes proportionality between national volume and transportation capacity. This reflects the characteristic of highway transportation routes to be sized for the heaviest day of the week. To the extent the volume declines occur only on Saturday, and Saturday is not

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the heaviest day of the week, then there might not be any reduction in transportation capacity and thus no reduction in transportation costs.