

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 POSTAL SERVICE WITNESS BRADLEY  
TO GCA INTERROGATORY GCA/USPS-T6-2, 4-5, 7-11, 13  
(June 22, 2010)

The United States Postal Service hereby provides the response of witness Bradley to the following interrogatories of GCA, filed on June 8, 2010: GCA/USPS-T6-2, 4-5, 7-11, 13. An objection to GCA/USPS-T6-6 was filed on June 18, 2009. Questions 1, 3, and 12 were redirected to the Postal Service. Each interrogatory is stated verbatim and is followed by the response.

UNITED STATES POSTAL SERVICE

By its attorney:

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June 22, 2010

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GCA/USPS-T6-2.

On the next page of LR-1/6, please refer to the rows for “TOTAL ATTRIBUTABLE COSTS” and “OTHER COSTS” both for column “C/S 7 City Delivery Carriers—Street Activity” and columns “Evaluated Routes” and “Other Routes” for rural carriers.

- a. Please break down all “total attributable costs” cells into three parts: First Class Letter Mail, Standard Letter Mail including non-profit, and Other.
- b. Using whatever cost coverage method the Postal Service applies to current rates, please break down “other costs” into three parts: First Class Letter Mail, Standard Letter Mail including non-profit, and Other.

GCA/USPS-T6-2. Response:

a. The available detail on attributable costs by product by cost component is provided by the Postal Service in the document entitled “Public Cost Segments and Components, Fiscal Year 2009,” which is available on the Postal Regulatory Commission’s website as USPS-LR-FY-2 in Docket No. ACR2009. For your convenience, I reproduce that detailed information for the requested cost segments below:

	C/S 7 City Delivery Carriers – Street Activity	Evaluated Routes	Other Routes
<b>First-Class Mail</b>			
Single Piece Letters	1,028,556	206,415	14,396
Single Piece Cards	61,429	18,273	1,322
Total Single Piece Letters and Cards	1,089,985	224,688	15,717
Presort Letters	706,604	308,822	21,105
Presort Cards	37,920	20,182	1,419
Total Presort Letters and Cards	744,525	329,004	22,523
Flats	97,090	46,433	2,939
Parcels	75,363	53,873	3,973
<b>Total First-Class</b>	<b>2,006,963</b>	<b>653,999</b>	<b>45,153</b>
<b>Standard Mail</b>			
High Density and Saturation Letters	80,463	50,804	3,753
High Density and Saturation Flats and Parcels	201,486	179,672	11,494

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Carrier Route	196,970	224,978	14,194
Letters	760,571	355,028	24,895
Flats	162,397	174,458	10,938
Not Flat-Machinables and Parcels	83,654	58,172	4,039
<b>Total Standard Mail</b>	<b>1,485,541</b>	<b>1,043,112</b>	<b>69,313</b>
<b>Periodicals</b>			
In County	14,932	19,003	1,196
Outside County	123,286	156,899	9,871
<b>Total Periodicals</b>	<b>138,218</b>	<b>175,902</b>	<b>11,067</b>
<b>Package Services</b>			
Single Piece Parcel Post	22,777	10,420	794
Bound Printed Matter Flats	4,530	5,730	363
Bound Printed Matter Parcels	51,104	17,244	1,200
Media and Library Mail	26,368	10,407	755
<b>Total Package Services</b>	<b>104,779</b>	<b>43,801</b>	<b>3,112</b>
<b>U.S. Postal Service</b>	<b>8,830</b>	<b>4,214</b>	<b>300</b>
<b>Free Mail</b>	<b>2,609</b>	<b>2,588</b>	<b>196</b>
<b>Total Domestic Market Dominant Mail</b>	<b>3,746,940</b>	<b>1,923,615</b>	<b>129,140</b>
<b>Special Services</b>			
Ancillary Services			
Certified	81,733	136,863	9,932
COD	499	1,439	110
Insurance	3,092	4,431	318
Registered Mail	1,215	1,544	112
Stamped Envelopes	0	0	0
Stamped Cards	0	0	0
Other Ancillary Services	99,901	63,078	4,373
Caller Service	0	0	0
Money Orders	0	773	86
Post Office Box Service	0	0	0
Other Special Services	0	0	0
<b>Total Domestic Market Dominant Services</b>	<b>186,440</b>	<b>208,128</b>	<b>14,931</b>
<b>Total Domestic Market Dominant Attributable Costs</b>	<b>3,933,380</b>	<b>2,131,743</b>	<b>144,071</b>
<b>DOMESTIC COMPETITIVE PRODUCTS</b>			
<b>Total Domestic Competitive Mail and Services</b>	<b>211,807</b>	<b>87,879</b>	<b>6,320</b>
<b>Total Domestic Competitive Attributable Costs</b>	<b>211,807</b>	<b>87,879</b>	<b>6,320</b>
<b>INTERNATIONAL MAIL AND SERVICES</b>	<b>28,621</b>	<b>20,018</b>	<b>1,445</b>
<b>TOTAL ATTRIBUTABLE COSTS</b>	<b>4,173,808</b>	<b>2,239,640</b>	<b>151,837</b>

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b. "Other Costs" are institutional costs and thus, by definition, they cannot be attributed to products.

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GCA/USPS-T6-4.

On page 5, lines 6-7 of your testimony, you state that your methodology “recognizes that movement to five-day delivery is an operational change, not a volume change.”

- a. In arriving at your methodology, did you examine evidence from other national posts that have reduced delivery days as to whether mail volume was affected?
- b. If not, why not? If so, please provide a copy of all such information you consulted or relied upon in preparing your testimony.

GCA/USPS-T6-4 Response:

- a. No.
- b. My task was to estimate the potential cost savings from moving to five-day delivery in the FY2009 operating environment, not to estimate the volume effects of moving to five-day delivery. That task fell, I believe, to witness Whiteman.

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GCA/USPS-T6-5.

On page 6, lines 22-24, of your testimony you state that the baseline you used was based on the ACR model.

- a. How did you determine which parts of that model were affected by a change to five-day delivery?
- b. Did you run the entire model assuming five-day delivery in order to determine what operations were affected by a change to five-day delivery?
- c. If you did not run the entire ACR model for FY2009, please do so and confirm that the parts of the ACR model that “cover the operations affected by a change to 5 day delivery” are the only output changes that result. If you cannot confirm, please list any and all differences in the model assuming five-day delivery from the cost structure with 6 day delivery.
- d. Please run the entire ACR model using the operational changes you did assume in your study, and provide the entire model output.

GCA/USPS-T6-5 Response:

a. My testimony is concerned with estimates of cost savings in the areas of city carriers, rural carriers, and transportation. I thus needed baseline costs for FY2009 for each of those three areas and used the portions of the ACR cost model that present the FY2009 costs for city carriers, rural carriers, and transportation.

b. When I used the term “ACR cost model” to describe what I used for the baseline costs, I was referring to the Postal Service’s cost model entitled “Public Cost Segments and Components, Fiscal Year 2009,” which is available on the Postal Regulatory Commission’s website as USPS-LR-FY-2 in Docket No. ACR2009. (The filename is FY09segcomp.public.xls.) This cost model is a spreadsheet that divides the Postal Service’s FY2009 costs into its major functional areas like mail processing,

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postmasters, rural carrier delivery and transportation. In addition, costs are broken down, in a detailed manner, to dozens of operational cost components. It thus provides an excellent source for the baseline costs. Of course, as a set of baseline costs, there is nothing to “run.” Moreover, I checked with the Postal Service whether there is any way to use the various steps that construct to the cost components to effectively “run the entire model assuming five day delivery,” and I was informed that there is not. Finally, the fact the Postal Service has no way to use its existing cost models to estimate the cost savings from five day delivery is an important reason why my five-day cost savings models had to be constructed and run.

c. Please see my response to part b. above. As I explained in that response, there is no way to “run” the cost model that I used to account for five-day delivery. Moreover, I would suggest that the best way to see what impact five-day delivery has on the ACR cost structure is to use the cost models that underlie my testimony.

d. First, I did not assume any operational changes, but rather estimated the cost savings associated with the operational changes the Postal Service anticipates will be caused by a shift to five-day delivery. Second, there is no way to “run” the ACR cost model I used to establish the baseline costs to account for five day delivery. Third, if you wish to investigate the possible cost savings associated with five-day delivery, I would recommend using the cost models which I developed for my testimony, which explicitly take the baseline ACR costs for FY2009 and estimate the cost impacts of the

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operational changes the Postal Service anticipates will be caused by a shift to five-day delivery.

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GCA/USPS-T6-7.

Did the operations experts you cite on page 11, lines 15-16 share with you any actual data on how any postal system, including the Postal Service and the old Post office, has reacted to a change in delivery days? Please explain your answer fully.

GCA/USPS-T6- 7 Response:

No. They did not share any such data with me.

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GCA/USPS-T6-8.

The operations experts such as USPS witness Granholm, cited at page 25 of your prefiled testimony, have provided you with what an economist could also claim to be a set of assumptions underlying his model and the results.

- a. Please identify all operations experts, whether or not they have presented testimony in this docket, who have supplied you with such assumptions, and state what areas of your testimony these assumptions apply to.
- b. With your experience in postal delivery costs, are you completely comfortable, for purposes of arriving at the conclusions you present, with all the “assumptions” given to you for your analysis by “operations experts”?
- c. Are there any such assumptions that you might have tested against alternative plausible assumptions had you been in the position of making your own assumptions? If so what are these? If not, please fully explain your answer.
- d. Suppose the economic recovery reduces or eliminates the excess capacity in the current delivery route system. Would the assumption that “operations experts expect the number of city routes to be unaffected by elimination of regular Saturday delivery” (page 12 of your testimony, lines 6-7) have to be changed? Please explain your answer fully.
- e. On the same supposition posited in (d), would the operations experts’ anticipation that “there will be no changes in the number of rural routes, vehicles, or facilities” (page 24, lines 10-11) have to be changed? Please explain your answer fully.

GCA/USPS-T6-8 Response:

I would resist the characterization of what witness Granholm provided as the “assumptions that underlie my model.” When used in this way, the term “assumptions” typically refers to a set of restrictions placed upon the model in order to simplify or abstract from unneeded detail in the subsequent analysis. In the instant case, the model estimates the cost savings associated with the operational changes the Postal Service anticipates will be caused by a shift to five-day delivery. It is my understanding that the anticipations were based upon careful consideration of that operating environment. However, I do not dispute the fact that the estimated cost savings are

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critically dependent upon the set of operational responses provided to me and, in that sense, can be thought of as assumptions underlying the estimates (not the model.)

a. My understanding is that witness Granholm is the Postal Service's Vice President for Delivery and Post Office operations, and that as part of his responsibilities, he develops and implements both policies and operational strategies for all delivery operations. I also understand that a number of Postal Service employees in the area of delivery operations are directed by Witness Granholm. It is my understanding that the operational experts who developed the anticipated operational changes consisted of Witness Granholm and those under his direction.

b. Yes.

c. I don't think such testing is possible. Please recall that the "assumptions" that you refer to are anticipations of changes in future operating conditions that would take place if the Postal Service were to move to five-day delivery. This means that "alternative plausible assumptions" referred to are alternative anticipations of future operating conditions and, as such, would not appear to be testable.

d. First please note the entire quotation that is cited:<sup>1</sup>

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<sup>1</sup> See, "Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service," Docket No. N2010-1, USPS-T-6 at 12.

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First, operations experts anticipate that there will be no changes in the number of city routes, vehicles, or facilities. The cessation of Saturday delivery means that city carriers will not be casing or delivering mail on their regular routes on Saturdays. But because the volume being delivered has not changed and because the same routes must be served Monday through Friday, operations experts expect the number of city routes to be unaffected by elimination of regular Saturday delivery. (Footnote omitted)

While it is ultimately the responsibility of operational experts to determine what, if any, effects of an economy recovery would have on their operational analysis, my understanding is that such a recovery would not affect their anticipation about the stability in the number of city routes, vehicles, or facilities with respect to elimination of Saturday delivery. I assume from your question that you are suggesting that an economic recovery would lead to a growth in mail volume. As I understand it, the same conditions described above would also apply at a higher volume level, namely that the (perhaps larger) volume delivered will not change and the same (perhaps larger) number of routes would need to be served Monday through Friday.

e. First please note the entire quotation that is cited:<sup>2</sup>

First, operations experts anticipate that there will be no changes in the number of rural routes, vehicles, or facilities. The cessation of Saturday delivery means that rural carriers will not be casing or delivering mail on their regular routes on Saturdays. But because the same routes must be served on Monday through Friday, operations experts expect the number of rural routes to be unaffected by elimination of regular Saturday delivery

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<sup>2</sup> See, "Direct Testimony Michael D. Bradley on Behalf of the United States Postal Service," Docket No. N2010-1, USPS-T-6 at 24.

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While it is ultimately the responsibility of operational experts to determine what, if any, effects of an economy recovery would have on their operational analysis, my understanding is that such a recovery would not affect their anticipation about the stability in the number of rural routes, vehicles, or facilities with respect to the elimination of Saturday delivery. I assume from your question that you are suggesting that an economic recovery would lead to a growth in mail volume. As I understand it, the same conditions described above would also apply at a higher volume level, namely that the (perhaps larger) volume delivered will not change and the same (perhaps larger) number of routes would need to be served Monday through Friday.

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GCA/USPS-T6-9.

On page 16, lines 12-14, you state that the reduction in mail volume “has outstripped” “efforts to reduce the number of routes and save delivery costs.

- a. As an economist do you believe the Postal Service would be better off if it adjusted capacity as volume declines warranted?
- b. In a hypothetical competitive market for both postal outputs and postal inputs, would you agree that capacity would have to adjust more fully to declines in volume than it has?

GCA/USPS-T6-9 Response:

a. It is my understanding that the Postal Service has materially adjusted capacity as volume declined. For example, In FY 2008 and FY 2009, the Postal Service eliminated 12,700 city carrier routes, 1,428 rural routes and 2,830 highway box contract routes.<sup>3</sup> Moreover, it is not clear that a faster reduction in network capacity was warranted. Determining the optimal adjustment of network capacity is complex and depends upon a number of factors such as the cost of such adjustment, the expected duration of the volume decline, the flexibility and cost of future expansions of network size, and the impact of downsizing on employee morale and productivity.

b. No, not necessarily. Capacity utilization in “competitive markets” also falls during economic downturns, and private sector firms are known to “hoard” labor (keep more labor at the firm than is necessary to produce current output) during recessions. A key

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<sup>3</sup> See, Comprehensive Statement on Postal Operations 2008 at page 46 and Comprehensive Statement on Postal Operations 2009 at page 35.

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issue is the cost of adjusting capacity (both down during the recession and up during the recovery) relative to the cost of maintaining the excess capacity.

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GCA/USPS-T6-10.

An April 2010 GAO study (*U.S. Postal Service: Strategies and Options to Facilitate Progress toward Financial Viability*, GAO-10-455, pp. 16, 18) states that postal labor union contracts generally require that workers other than full time regular (FTR) employees be laid off before FTR employees.. How do you reconcile this with the assumption provided to you by “operations experts” that Saturday “hours savings will be for full time carriers...” (Page 19, lines 11-12).

GCA/USPS-T6-10 Response:

Please see the response of witness Granholm to GCA-USPS-T3-7 in which he says, “In a full-up Five Day delivery environment, full time career day off replacement employees will not be necessary.” In addition, please see page 12 of witness Granholm’s testimony where he states at line 19: “With the change to five-day delivery, Carrier Technicians assignments will no longer be necessary.”<sup>4</sup>

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<sup>4</sup> See, Direct Testimony of Dean Granholm on Behalf of the United States Postal Service, Docket No. N2010-1, USPS-T-3 at 12.

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GCA/USPS-T6-11.

On page 25, lines 1-8, your testimony states that “there are potential contractual issues associated with moving to five-day delivery” in the National Rural Letter Carrier Association (NRLCA) agreement. You state that “operations experts” anticipate “what would likely come out of those contractual issues” (Lines 5-6).

- a. Among the “operations experts” referred to, do any have training or expertise in negotiating labor contracts?
- b. Among the “operations experts” referred to, are there any who have not filed testimony in this Docket?
- c. Has witness Granholm, to your knowledge, ever negotiated a labor contract on behalf of USPS?
- d. Please explain fully the basis for your reliance on “operations experts” to anticipate or predict the outcome of negotiations on USPS labor contracts.

GCA/USPS-T6-11 Response:

To set the context for my answers, please take note of the full quotation on page 25, lines 1-8 of my testimony:

Third, witness Granholm has indicated that there are potential contractual issues associated with moving to five-day delivery. The National Rural Letter Carrier Association (NRLCA) agreement has requirements to adhere to when there is a change in the number of delivery days. The operational analysis of rural carriers thus represents operations experts’ anticipation of what would likely come out of those contractual issues. (Footnote omitted)

- a. I am informed by the Postal Service that they do.
- b. I am informed by the Postal Service that there are and that they report to individuals who are witnesses in this case.

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c. I have no personal knowledge one way or the other.

d. Consider the following logical problem: Suppose that the operations for rural carriers depend, in part, upon the rural carrier contract. Further suppose that if the Postal Service moves to five-day delivery, it would have to address certain contractual issues in the rural carrier contract. Finally, suppose one was going to anticipate the nature of rural carrier operations under five-day delivery. As a matter of logic, it would seem inescapable that anyone undertaking that task would necessarily have to anticipate the outcome of those contractual issues.

I would suggest that Postal Service employees who are responsible for the operation of the rural carrier network, and whose work is directed by witness Granholm, would be an outstanding source for anticipating the operational response of the rural carrier network in a five-day environment. Moreover, they would seem to be excellently situated to anticipate the outcome of any contract issues.

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GCA/USPS-T6-13.

The Postal Service has stated (e.g., in its FY 2009 Form 10-K, at page 70) that the number of delivery points it must serve drives delivery costs, and that these are increasing by between roughly 900,000 (FY 2008 to FY 2009) and 1.8 million (FY 2005 to FY 2006) delivery points per year. If there is excess capacity currently in the delivery system, why should an increase in the number of delivery points served increase delivery costs?

GCA/USPS-T6-13 Response:

As a general matter, delivery costs are caused by two main factors, the volume to be delivered and the delivery network over which that volume is delivered. It is typically more expensive to deliver more volume over the same network, and it is also typically more expensive to deliver the same volume over a more extensive delivery network.

This implies that additional delivery points can add cost to the delivery network independent of any changes in volume.

Capacity in a delivery network generally refers to the ability to deliver volume over a given set of delivery points. Excess capacity generally refers to a condition in which the delivery carriers have the ability to carry more volume over that network without incurring any additional cost. However, it is quite possible for additional delivery points to add cost even if a delivery network is in the situation of excess capacity. This can occur for different reasons. For example, the growth in delivery points could be taking place in an area of the country in which there is little, if any, excess capacity. Capacity utilization is not necessarily distributed evenly across a network, and it is quite possible that an area of the country that may be experiencing steady or even rising volume despite a national decline in volume. In addition, the growth in delivery points is not

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necessarily distributed evenly across the network. Thus, it is quite possible that, despite excess capacity nationwide, certain areas of the country have no excess capacity but are experiencing a growth in delivery points. This delivery point growth would add to the cost of the delivery network.

Alternatively, even within areas of the county that are experiencing excess capacity in delivery, it is possible for additional delivery points to generate additional delivery costs if the additional “coverage” or “geographical” costs are sufficiently large. Consider the addition of delivery points in the form of a new subdivision which is somewhat removed from existing delivery points. Even if the volume of mail being delivered remains the same, additional cost will be caused by the need to get a carrier to the subdivision and the need for the carrier to cover the routes in that subdivision. If these costs are greater than the time available from excess capacity, total delivery costs will rise.

## **CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the foregoing document in accordance with Section 12 of the Rules of Practice and Procedure.

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