

**STATEMENT OF
ALASKA DISTRICT MANAGER
RONALD S. HABERMAN
BEFORE THE
SUBCOMMITTEE ON FEDERAL WORKFORCE,
U.S. POSTAL SERVICE AND THE CENSUS
UNITED STATES HOUSE OF REPRESENTATIVES**

MARCH 4, 2014

Good afternoon, Chairman Farenthold and members of the Committee.

My name is Ronald S. Haberman, and I serve as the district manager of the Postal Service's Alaska District, which includes 1,567 employees, working at over 295 facilities, serving more than 735,000 customers living and conducting business within the state's 586,400 square miles. I have been employed by the Postal Service for 29 years and I have been a resident of Alaska for nearly 18 years.

Thank you, Mr. Chairman, for calling this important hearing on Alaska Bypass Service. I am pleased to be here today to provide a historical overview of bypass mail delivery in Alaska, and to explain how the current system works. I will also discuss the differences between Alaska Bypass Mail and Standard Post (previously known as Parcel Post[®]), and some of the costs associated with bypass service.

While many cities and villages in Alaska are accessible only by sea or air, transporting mail to customers and Post Offices in remote areas of the state is part of the U.S. Postal Service's universal service obligation, and we must serve those addresses as we do all others throughout the nation.

The State of Alaska is vast in geography, yet there are no roads connecting the majority of its communities. Mail is transported via airplanes, helicopters, hovercraft, and ferries. While a very limited road system allows some areas to be reached by surface vehicles, nearly all mail must at some point be transported by air in order to reach its final

destination. This is true for all classes of mail, including First-Class Mail, Priority Mail, Priority Mail Express, Standard Post, and bypass mail.

Bypass Mail Service came into existence in the early 1970s, when increased Parcel Post mail volume—which at that time included mail delivered to the bush communities—began to exceed the Postal Service’s operational and facility infrastructure capacities. The service was given its name to reflect the fact that this mail bypasses handling in a Postal Service facility in order to reach its destination.

Bypass mail is prepared by an authorized shipper, tendered directly to mainline and bush air carriers, and then delivered to the addressee at final destination. Items that flow through the bypass process are not collected, transported, or delivered by the Postal Service. These items bypass originating and designating postal processing operations, thereby incurring no cost for Postal Service infrastructure, such as labor, facilities, processing, and equipment.

Section 5402(g) through (s) of Title 39, United States Code, details the requirements for intra-Alaska mail transportation with regard to air carrier participation and Postal Service equitable tender requirements.

Pursuant to chapter 419 of Title 49, the Department of Transportation is the sole ratemaking authority for all intra-Alaska mail transportation. Alaska is the only remaining regulated air environment, which means that the Postal Service is not authorized to negotiate rates directly with air carriers, except under emergency circumstances.

I mentioned earlier that bypass mail was once included as a part of the product now called Standard Post. In conjunction with the Postal Service’s January 27, 2013, price change, Standard Post was moved to the competitive products category, while bypass mail remained in the market dominant category as its own Package Services product.

There are stark differences between bypass mail and Standard Post. Standard Post consists of single packages that must adhere to weight and size restrictions and enters the Postal Service system via contact with postal retail or delivery employees. The

packages are processed and delivered, or made available for customer pickup, within the Postal Service's infrastructure.

Alaska Bypass Service consists of goods and commodities that are similar to freight and cargo that is shipped in bulk on pallets to rural communities. The pallets far exceed the Postal Service's maximum weight limit of 70 pounds, and the shrink-wrapped goods are prepared in a warehouse and inducted into air carrier facilities for transportation and delivery.

Alaska Bypass Service is an intra-Alaska system that allows businesses, which typically includes popular big box wholesalers with locations in Anchorage and Fairbanks, to ship directly to rural customers (usually retail merchants, schools and medical clinics) using a hub-and-spoke system. These recipients place orders for goods and supplies with an approved bypass shipper. The approved bypass shipper processes the recipient's order, palletizes it, applies postage, and tenders it to an approved bypass air carrier based at acceptance point airports in Anchorage or Fairbanks.

The assigned bypass air carrier transports the order to a hub community where the large pallets are tendered to bush air carriers who deliver the items to the recipients. There are currently six mainline air carriers, ten bush air carriers, and hubs in 20 communities in the bypass mail system.

Goods shipped via bypass mail must be ordered from authorized shippers in minimum quantities of 1,000 pounds, and bypass pallets generally travel the same routes and in the same planes as our premium products (Priority Mail, Priority Mail Express, and First-Class Mail). The minimum shipping price for a bypass mail order is \$365. A single order can include more than one pallet; however, the maximum weight for a single order cannot exceed 50,000 pounds. In calendar year 2013, 87.5 million pounds of bypass mail was delivered.

In fiscal year (FY) 2013, the Postal Service incurred \$109 million in transportation costs and \$32 million in revenue for bypass mail service. This means that bypass mail costs exceeded revenue by \$77 million; however, transporting mail to customers and Post

Offices in remote areas of Alaska is a part of the Postal Service's universal service obligation.

Although the measures the Postal Service takes to deliver to remote areas of Alaska are unique, operating delivery services to some locations at a loss are not. For instance, the Postal Service loses money transporting mail to the Havasupai Indian Reservation at the bottom of the Grand Canyon using mule trains. Nonetheless, as part of the Postal Service's statutory mission to provide prompt, reliable, and efficient service to all communities, those addresses must receive the same level of commitment to delivery as all others across the United States.

I would like to point out that despite its costs, the bypass mail system works well for the Postal Service. Conversely, if the Postal Service were to process bypass mail through in-house operations it would incur substantial transportation, facility, and labor costs. In fact, the Anchorage and Fairbanks processing facilities would see increases of nearly 1.7 million pounds of mail per week. Increasing the footprint of originating and destinating postal facilities, and adding employees to accommodate this type of activity, would be cost prohibitive.

As currently structured, Bypass Mail Service represents the most cost-effective and efficient way to handle items that would otherwise require processing through the postal infrastructure. Postal processing of these items could lead to significant increases in Standard Post volume resulting in gridlock similar to that experienced in the early 1970s with Parcel Post mail.

Mr. Chairman, this concludes my remarks. I would be pleased to answer any questions.