

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

PERIODIC REPORTING
(PROPOSAL FOUR)

Docket No. RM2017-8

REPLY COMMENTS OF THE UNITED STATES POSTAL SERVICE
REGARDING PROPOSAL FOUR
(August 16, 2017)

Commission Order No. 3993 (July 5, 2017) provided notice of the initiation of this proceeding to consider Proposal Four, and set a deadline for comments of August 9, 2017. Comments were submitted on that date by Amazon Fulfillment Services (Amazon), the Parcel Shippers Association (PSA), the Public Representative, and United Parcel Service (UPS). To the extent that the comments of the Public Representative and UPS ventured beyond endorsement of approval of what the Postal Service has proposed, the Postal Service hereby offers the following reply comments.

Of foremost importance, of course, is the fact that all four parties recognized Proposal Four as a substantial improvement over the status quo, and recommended its approval. Amazon stated that it “supports Proposal Four because it will increase the accuracy of Postal Service cost estimates and provide an improved basis for Postal Service pricing decisions.” Amazon Comments at 2. PSA agreed with the rationale behind the proposal and indicated that, while it had not reviewed the proposal in detail, it encouraged the Commission to do so, and “if found to be reliable, approve Proposal Four.” PSA Comments at 2. The Public Representative is of the view that Proposal Four may be “less than ideal,” but should not be rejected without reason. PR

Comments at 2, 6. UPS also agrees that “Proposal Four represents a step forward, and ... UPS supports it.” UPS Comments at 1. While UPS and the Public Representative thus both support the essence of Proposal Four, they offer additional comments and suggestions. Those discussions, however, raise additional issues which merit response.

Public Representative

The comments of the Public Representative seem grounded on some potential misapprehensions regarding the data. In particular, the analysis seeks to break out to fiscal years, and then also compare across the years. In reality, any such break out of the dataset by fiscal year is erroneous and does not prove the full picture. The Form 3999 dataset is a rolling dataset containing the most recent route evaluations. As the Public Representative aptly points out, the dataset used in Proposal Four includes only 8 percent of evaluations that were performed in FY 2015, as opposed to 92 percent in FY 2016. This indicates that only 8 percent of evaluations did not receive an update during FY 2016, not, as yearly comparisons would indicate, that roughly only 8 percent of City routes were evaluated in FY 2015. In reality, a large number of routes, likely somewhere around 90 percent, were evaluated in FY 2015, and the Form 3999 dataset was updated accordingly.

There are also some apparent errors in the application of the intended analysis, as reflected in the attachments to the PR Comments. Examining the block of code that starts at line 1028 (bottom of page 37) in the log, it appears the intent is to perform a SAS means procedure on the Sunday data, but the means procedure seems to have been performed on the regular delivery day data. Those results are then erroneously

labeled as “mean_Sunday”, which from that point forward inevitably leads to incorrect results, mixing Sunday and regular delivery.

To illustrate the type of confusion this engenders, consider the version of Table 1 appearing on page 7 of the PR Comments:

Table 1
Sunday Cost Pool Changes Over Time

Year	Regular Delivery Share	DPA Share	Adjustment Factor
2014	71.95%	4.78%	1.155
2015	71.23%	5.40%	1.151
2016	71.40%	5.40%	1.147
2017	68.82%	5.69%	1.166

Source: Attachment 2, PR Prop4 Route Analysis.mht

Compare that original version of Table 1 with a corrected version of the same table:

Table 1 (Corrected)
Sunday Cost Pool Changes Over Time

Year	Regular Delivery Share	DPA Share	Adjustment Factor	N
2014	69.65%	2.30%	1.160	4
2015	79.94%	5.04%	1.100	12
2016	73.83%	4.82%	1.130	183
2017	0	0	N/A	0

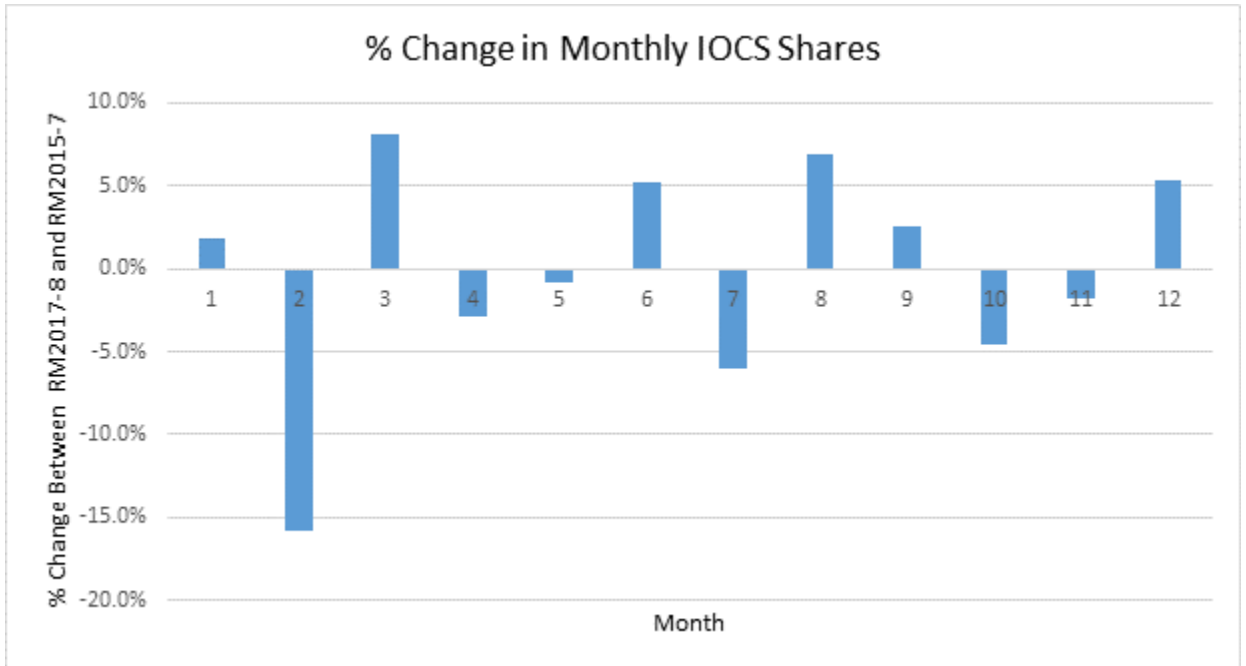
Several points warrant mention. First, despite what is indicated in the original Table 1, there are actually no Form 3999s in the dataset performed in FY 2017 on a Sunday. Second, it is important to show the actual number of observations performed upon which the row entries for each year are based. Those numbers are shown in the new column labeled N, and it can be seen that only in 2016 are there a potentially material number of evaluations. Fiscal years 2014 and 2015 may have had additional

Sunday route evaluations, but these routes could have been updated in FY 2016 on a Sunday or on any other day of the week. Fundamentally, the available data are decidedly insufficient to support the claim made on page 7 of the PR Comments that parcel delivery is “clearly” accounting for an increasing share of regular delivery time on city carrier routes on Sunday.

The Public Representative also wishes the Commission to require the Postal Service to perform a route inspection for every DOIS city carrier route each year. PR Comments at 3, 7. Obviously, any such requirement would require a higher-level administrative mechanism to ensure compliance, and the expenditure of substantial resources in the field in order to actually comply. The Public Representative makes this demand with no apparent consideration of why particular routes are not currently evaluated annually (i.e., if the operational circumstances currently leading to that result would cause extraordinary burden if attempts were made to alter that result), or whether the additional information obtained would have any material effect on the application of these data as contemplated by Proposal Four. It is always easy to insist that a little bit more data would be better, but the Commission should not follow the Public Representative’s recommendation to venture beyond the Postal Service’s current policies with respect to Form 3999. As stated in the Postal Service’s August 2, 2017 response to Question 3.a of ChIR No. 1 in this docket, the Postal Service intends to conduct an evaluation of each route at least once a year, and the data indicate that the Postal Service is largely meeting that objective.

UPS

UPS claims that the procedure advanced in Proposal Four would be improved by the addition of a mechanism to address what UPS views as seasonal bias in the Form 3999 route evaluations. UPS Comments at 3-7. UPS proffers a weighting adjustment based on IOCS tallies, but mentions another option based on the number of regular delivery days (DD) per month. *Id.* at 7. Yet UPS provides no justification (statistical or otherwise) demonstrating that the IOCS, or delivery day, weights are appropriate to correct for what it sees as a seasonality problem. UPS provides no analysis of its proposed weights, and their properties remain unknown. This may be quite important because, it turns out, for example, that the monthly IOCS weights appear to be quite unstable over the two regimes for which UPS calculates them. As shown in the figure below, if one calculates the change in the monthly weights between the 2017 and 2015 regimes (detailed in the IOCS Weighted Avg tab in the extended and modified version of the UPS spreadsheet attached electronically to these reply comments), one sees that there are substantial changes in their values. This variation is large relative to the values of the weights and could quite likely be driving the results claimed by UPS as much as any “seasonality correction.”



In addition, UPS gets a higher growth rate for parcel time than is presented in Proposal 4, because its seasonality correction has a positive impact on the PA delivery time proportion in what it calls its 2017 calculation (5.40 percent unweighted but 5.56 percent weighted), but has virtually no impact on the PA delivery time proportion in what it calls its 2015 calculation (4.05 percent unweighted and 4.08 percent weighted). But UPS does not explain why the seasonal pattern did not appear in its 2015 calculation, or why it would change so much in just two years. Quite possibly, this result just demonstrates the impact of the instability in the monthly weights.

Additionally, UPS erroneously calculates the overall DPA delivery ratio as the average of the monthly ratios. The correct method would instead be to calculate the ratio of the total DPA time for the year, divided by the total street time for the year. Moreover, despite claiming that it is weighting the monthly DPA delivery times by seasonal weights, UPS actually weights the DPA delivery time ratios. If one applies the IOCS weights to the monthly DPA and street hour times, (see the IOCS Weighted Avg

tab in the attached spreadsheet) and then calculates the correct annual ratios, one gets a growth rate of 33.2 percent. Similarly, conducting the same exercise using the DD weights shown in the DD Weighted Avg tab, the growth rate obtained is 33.5 percent. Both of these virtually match the growth rate calculated in Proposal Four of 33.4 percent. Therefore, the “improvement” suggested by UPS, when properly applied, does not have the effect claimed by UPS on the actual results.

Yet another flaw in the additional procedure offered by UPS relates to the timing of IOCS readings. IOCS costs by month should not be used in the fashion UPS recommends because a reading can be rescheduled from earlier in the quarter to later. For example, a test scheduled for January might eventually only be taken in March, putting more apparent cost into March relative to January. IOCS is not designed to produce separate monthly estimates.

UPS has failed to show that the issue of seasonality creates the problems that it imagines. In addition to other flaws, as discussed above, appropriate application of the weights UPS has identified to the monthly data prior to calculation of the annual ratios yields the same estimated growth rate as what was calculated in Proposal Four. Consequently, the Commission should approve Proposal Four as submitted.

Beyond the merits of Proposal Four, UPS also seeks an expansion of the material the Postal Service should be required to submit with its annual ACR filing. UPS Comments at 9. Specifically, UPS seeks to impose a requirement that several variations on the Form 3999 database be provided simultaneously with the ACR. The Postal Service opposes this suggestion. The additional burden that would be created by this suggestion would fall exactly at the time of year when the Postal Service is

struggling with compiling all of the components of the ACR, and thus has the least resources available to undertake additional tasks. Moreover, the notion that evaluation information be required for certain routes beyond that obtained from the most recent evaluation (e.g., if the earlier evaluation were performed during the same fiscal year) would engender the need for a new organizational structure for what currently is simply a dynamic database. Such complexities are not warranted, and approval of Proposal Four should not be conditioned on expanded reporting obligations.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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