

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Periodic Reporting
(Proposal Ten)

Docket No. RM2020-2

CHAIRMAN'S INFORMATION REQUEST NO. 2

(Issued January 17, 2020)

To clarify the Postal Service's petition to consider proposed changes in analytical principles, filed November 29, 2019, the Postal Service is requested to provide written responses to the following questions.¹ Answers to each question should be provided as soon as they are developed, but no later than January 31, 2020.

1. Aside from obtaining the data electronically as opposed to manually, please confirm that the measurement of Workload Service Credits (WSCs) in Proposal Ten uses the same methodology currently employed by the Postal Service and as also described in the testimony of Dr. Nai-Chi Wang as part of Docket No. R84-1.² If not, please explain any other differences.
2. Please refer to Chairman's Information Request (CHIR) No. 1, question 3 and the Postal Service's responses to question 3.³ In response to question 3.b., the

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), November 29, 2019 (Petition). The following were filed on August 23, 2019, in support of the Petition: Library Reference USPS-RM2020-2/1, Public Material Relating to Proposal Ten; Library Reference USPS-RM2020-2/NP1, Nonpublic Impact Material Relating to Proposal Ten. Additionally, the Petition was accompanied by a study supporting its proposal. See Michael D. Bradley, *Investigating the Variability of Postmaster Costs**, November 29, 2019 (Bradley Study).

² See Docket No. R84-1, Direct Testimony of Nai-Chi Wang on Behalf of the United States Postal Service, November 10, 1983, at 17, Figure B.

³ Chairman's Information Request No. 1, December 19, 2019, question 3.a. (CHIR No. 1); Responses of the United States Postal Service to Question 1-5 of Chairman's Information Request No. 1, January 2, 2020, question 3.a. (Response to CHIR No. 1).

Postal Service states that Postmaster “[s]alary increases above [the] minimum [salary] are determined by longevity and merit, and are not dependent on WSCs.” See Responses to CHIR No. 1, question 3.b. The Postal Service also states that it “considered only WSC as the explanatory variable in the logistic equations. . . because WSCs solely determine a Post Office’s EAS grade.” *Id.* question 3.c.

- a. Please confirm that the minimum salary of a Postmaster is determined solely by a post office’s WSCs and resulting EAS grade.
- b. Please confirm that salary increases awarded to a Postmaster above the minimum salary for each EAS grade is based solely on longevity and merit of the Postmaster and are independent of both the WSCs earned and volume of mail processed by the Postmaster’s associated post office. If confirmed, please confirm that the costs associated with salary increases awarded based on merit and longevity are included as part of the Postal Service’s institutional costs.
- c. Please confirm that a Postmaster’s salary is the sum of:
 - i. The minimum salary applicable to the EAS grade of the post office with which a Postmaster is associated.
 - ii. Any salary increases awarded to a Postmaster based on longevity and merit.
- d. If any of questions 2.a. through 2.c. are not confirmed, please explain.

3. Please refer to the Summary Description of USPS Development of Costs by Segments and Components.⁴ “Accrued cost” in the Postmaster cost segment is defined as:

“Postmaster costs for EAS-23 and below offices and EAS-24 and above offices are recorded in the same general ledger accounts in USPS-FY18-5, tab ‘seg 1’. Accrued costs for both components are developed by first apportioning the jointly recorded costs based on respective salary proportions. These salary proportions are calculated from the number of postmaster positions at each EAS grade in both components and actual salaries for those grades. Postmaster relief and replacement costs are then added to complete the development of accrued costs for both components.”⁵

- a. Please define or describe the term “actual salaries” in the above passage.
 - b. Please confirm that “[p]ostmaster relief and replacement costs” as described in the passage are included as part of the Postal Service’s institutional costs. If not confirmed, please explain.
4. Please refer to the Bradley Study, which states that “[t]o find total volume[-]variable costs under the new approach, the FY 2018 accrued cost for each grade is multiplied by the variability estimated for that grade. Those multiplications produce the volume[-]variable costs for each grade and then the grade-level volume[-]variable costs are summed to get total volume[-]variable cost.” Bradley Study at 44-45.

⁴ Rule 39 C.F.R. Section 3050.60(f) Report for FY 2018 (Summary Descriptions), July 1, 2019, at SummaryDescriptionsFY2018.zip, folder “CRA.Summary.Descriptions.FY18,” file “CS01-18.dox” (Summary Descriptions).

⁵ Summary Descriptions at 1-2.

- a. Please describe the costs included in the term “accrued cost for each grade” in the above passage.
 - b. Please explain whether the term “accrued cost for each grade” in the above passage includes the salary increases awarded to a Postmaster based on longevity and merit, or any cost other than the minimum salary applicable to each EAS grade.
5. Please refer to the Bradley Study at 37.
 - a. Please confirm that the logistic regression model only predicts the probability that the response variable takes the value “1”, which corresponds to the higher pay grade, and that it does not provide a direct prediction of the value of the response variable itself.
 - b. Please provide the rationale for using 0.5 as the cutoff-point for the estimated probabilities in the computation of the number of post offices predicted to attain the higher EAS level.
6. To determine the variability of Postmaster costs, the Bradley Study shows the year-over-year WSC growth by EAS grade between April 2018 and April 2019 ranged from -0.18 percent to 2.09 percent. See Bradley Study at 42, Table 22. The Bradley Study states that to “account for the possibility that the variability could be applicable to a variety of circumstances, a sensitivity test was performed for a wide range of possible WSC changes” between 2.5 percent and 20 percent, by increments of 2.5 percent. *Id.* at 42. The Bradley Study states that the results of the sensitivity test “support the use of a 10 percent WSC change as the benchmark for calculating Postmaster variabilities.” *Id.* at 44.
 - a. Please explain why the Bradley Study does not rely on the WSC growth rates calculated in Table 22 as the basis for calculating Postmaster variabilities.

- i. Please confirm that for a regression involving a pair of EAS grades, the underlying sample only includes the post offices falling into the two EAS grades that make up the pair.

- ii. If confirmed, please consider, for example, the EAS 21-22 pair and explain whether it is possible for a post office in EAS-21 to move down to EAS-20 or for a post office in EAS-22 to move up to EAS-24, *i.e.*, into a different EAS pair. Please explain whether these movements can influence Postmaster costs' responsiveness to changes in the WSCs. If not confirmed, please explain.

By the Chairman.

Robert G. Taub