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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. 4

(Issued June 26, 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 July 6, 2020.

1. Please refer to the Response to Chairman's Information Request No. 3, question 1.b and the example involving the EAS grade pair "EAS-20 and EAS-21," which describes the computation of variability when including both the lower (EAS-20) and higher (EAS-21) EAS grades.[2]

   a. Please confirm that the variability computation described in the Response to CHIR No. 3, question 1.b. (when both the higher and the lower pay grades are included) is equivalent to applying the methodology proposed in Proposal Ten and using the following two-step process:

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[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 November 29, 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] Responses of the United States Postal Service to Question 1-5 of Chairman's Information Request No. 3, March 18, 2020, question 1.b. (Response to CHIR No. 3); *see also* Chairman's Information Request No. 3, March 5, 2020 (CHIR No. 3).

i. Using the same percentage increase in the Workshare Service Credits (WSCs) to separately compute the variability for EAS grades EAS-20 and EAS-21, and then

ii. Computing the average of the two variability results, weighted by the ratios of the EAS-20 grade baseline cost and the EAS-21 grade baseline cost in the total baseline cost for the EAS-20 and EAS-21 grade pair.

b. If question 1.a. is not confirmed, please provide a detailed and mathematical description of the method used to compute the variability when both the higher (EAS-21) and lower (EAS-20) EAS grades of an EAS grade pair are included in the computation, and indicate the growth rates of the WSCs used in the computation.

c. Please provide a table similar to Table 1 of the Response to CHIR No. 3, question 1.b., displaying the calculated variability when both the higher (EAS-21) and lower (EAS-20) EAS grades of an EAS grade pair are included in the computation, and using historic growth rates of the WSCs (instead of the growth rates applied in the sensitivity analysis).[3]

d. Please explain how the computation of the variability, when both the higher (EAS-21) and lower (EAS-20) EAS grades of an EAS grade pair are included, accounts for a decrease (and not an increase) in the WSCs pertaining to Postmasters in the EAS-21 grade.

e. Please confirm whether the computation of the variability, when both the higher (EAS-21) and lower (EAS-20) EAS grades of an EAS grade pair are included, accounts for the different proportions of Postmasters in the

[3] *See generally* Bradley Study.

EAS-20 grade and EAS-21 grade within the total population of Postmasters in the EAS grade pair.

f. If question 1.e. is confirmed, please explain how the computation of the variability, when both the higher (EAS-21) and lower (EAS-20) EAS grades of an EAS grade pair are included, accounts for the different proportions of Postmasters in the EAS-20 grade and EAS-21 grade within the total population of Postmasters in the EAS grade pair.

2. Please refer to the Response to CHIR No. 3, question 3, related to the computation of the elasticity of the estimated logistic-form probability.

a. Please confirm that, in the elasticity formula derived in the Response to CHIR No. 3, question 3.b., the probability should not be indexed by the term "i " because elasticity does not depend on any particular Postmaster's WSCs.

b. If question 2.a. is not confirmed, please explain.

c. Please confirm that the elasticity formula used in the Response to CHIR No. 3, question 3.b., can be simplified into the following formula:

$$\varepsilon_{\pi,\overline{WSC}} = \frac{\beta\overline{WSC}}{1 + e^{\alpha+\beta\overline{WSC}}} = (1-\pi)\beta\overline{WSC}$$

where "π" is the estimated logistic-form probability computed for $WSC = \overline{WSC}$.

d. If not confirmed, please explain.

e. If question 2.c. is confirmed, please also confirm that, using the following values ($\overline{WSC} = 11{,}391.39, \alpha = -45.5707, \beta = 0.00349$), the point elasticity of the estimated logistic-form probability is:

$$\varepsilon_{\pi,\overline{WSC}} = (1-\pi)\beta\overline{WSC} = (1-0.002974)(0.00349)(11{,}391.39) = 39.6377\%$$

f. If question 2.e. is confirmed, please also confirm that the computed point elasticity, 39.6377, is already in a percentage format and does not need to be further multiplied by 100.

g. If question 2.f. is not confirmed, please explain.

h. Please confirm that the above elasticity in question 2.e., $\varepsilon_{\pi,\overline{WSC}}$, is only the elasticity of the estimated probability with respect to WSC, computed as $WSC = \overline{WSC}$, and differs from the elasticity of the average cost defined in the Response to CHIR No. 3, question 3.a.

i. If question 2.h. is not confirmed, please explain.

By the Chairman.

Robert G. Taub