

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

PERIODIC REPORTING
(PROPOSAL SEVEN)

Docket No. RM2021-1

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-9 OF CHAIRMAN'S INFORMATION REQUEST NO. 1**
(January 7, 2021)

The United States Postal Service hereby provides its responses to the above listed questions of Chairman's Information Request No. 1, issued December 17, 2020.

The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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1. Please refer to the Bradley Study that states “cost-to-capacity variabilities were last estimated in Docket No. RM2014-6, based upon data collected for FY 2013” and “the cost-to-capacity variabilities from corresponding regular highway accounts were adopted and applied to the relevant Christmas accounts.” Bradley Study at 3-4. Bradley Study also states “[t]he nine accounts that capture Christmas transportation costs are 53604, 53608, 53613, 53617, 53622, 53623, 53624, 53625, and 53626.” *Id.* at 2, n.2.
 - a. Please confirm that the referenced above nine Christmas accounts are the same as they were in FY 2013. If not confirmed, please discuss the changes and provide the list of Christmas accounts that captured transportation costs in FY 2013.
 - b. Please confirm that the dataset used to estimate cost-to-capacity variabilities in Docket No. RM2014-6 did not include data on any Christmas accounts. If not confirmed, please list Christmas accounts for which data were included in the referenced FY 2013 dataset.

RESPONSE:

- a. Confirmed.
- b. Confirmed.

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2. Please refer to the Bradley Study that states "Christmas contracts typically begin providing transportation around Thanksgiving and run until somewhere around the end of the calendar year." Bradley Study at 2. Please also refer to Figure 1 in Bradley Study that provides the FY 2019 Christmas contract cost proportions by postal quarter. Bradley Study, Figure 1 at 3.
 - a. Please confirm that the proportions of Christmas contract costs shown in Figure 1 of Bradley Study apply to postal quarters (as stated in the title for Figure 1), and not to fiscal quarters. If confirmed, please provide the exact dates for the beginning and end of each postal quarter in FY 2019.
 - b. Please explain why not all costs of the Christmas contracts occur in the first quarter. *See id.*
 - c. Please discuss in detail how the timing for Christmas contracts is determined for each fiscal year.

RESPONSE:

a. Not confirmed. The term "Postal Quarters" in the title was used to indicate that Q1 covers the period of time defined by October through December and not the period of time defined as January through March. Alternatively, the figure could equivalently have been titled "Fiscal Quarters."

b. In FY 2019, roughly 85 percent of the expenses in Christmas accounts were incurred in fiscal quarter 1 (October – December 2018) and 95 percent of costs were incurred in fiscal quarters 1 and 2 (October 2018 – March 2019). According to operational experts, the reasons that one-hundred percent of the expenses in Christmas accounts do not occur in fiscal quarter 1 are primarily three-fold. First, peak season transportation requirements continue for several weeks into the next calendar year, so it is not uncommon for the terms of Christmas contracts to include trips in fiscal quarter

2. Second, suppliers have ninety days to submit requests for late and extra trip costs

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occurred during the Peak Season. Third, Christmas accounts can also occasionally be used to handle short-term unscheduled trips on existing contracts throughout the year that results in small amounts of expenses in fiscal quarters three and four.

c. Each summer, the Postal Service carefully analyzes its surface transportation network to identify areas where additional transportation will be needed handle peak volumes and meet service commitments. Accordingly, the Postal Service attempts to procure short-term transportation contracts during the peak season to address these needs in the network. These seasonal purchased transportation contracts are obtained through a competitive bidding process, so the precise timing of each Christmas contract differs, to address the specific peak transportation needs of each location and the availability of contract transportation in the region.

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3. For Figures 1 through 4 and Tables 1 through 29 in the Bradley Study, please identify the data sources and provide references to the relevant library references and SAS files or Excel worksheets.

RESPONSE:

As indicated throughout the Bradley report all data, SAS programs, and Excel workbooks used to produce the numbers in the report are presented in the public folder entitled USPS-RM2021-1-1. The report also references, but does not present, non-public results and states that they are presented under seal in the non-public folder, USPS-RM2021-1-NP1. The Prefaces to those folders provide a roadmap to where the individual data sets, SAS programs, and Excel workbooks are located in the folder. For convenience, relevant sections of the public Preface are repeated in this response.

Tables 1 through 4, and the Figures 1 through 4, present descriptive statistics for the relevant highway transportation categories. As explained in the public Preface, the relevant programs and Excel workbooks are presented in the Descriptive Statistics directory in USPS-RM2021-1-1:¹

Descriptive statistics were presented in Tables 1, 2, 3, and 4 in Professor Bradley's report. The SAS program entitled Descriptive Statistics.sas produces those statistics. The SAS Logs and Listings (containing the results) are included in the Descriptive Statistics directory. The produced files are listed below:

Descriptive Statistics log
Descriptive Statistics.lst

¹ See, USPS-RM2021-1-1, Public Material Supporting Proposal Seven, at 2.

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Professor Bradley's report also includes 4 graphs. The Excel files that produce those graphs are also included in the Descriptive Statistics directory. They are Christmas Accounts by Quarter FY19.xlsx and DRO Cross Plots.xlsx.

Tables 5 through 11 present the initial variabilities for Christmas accounts based upon using all observations, present the identified anomalous observations, and present the final variabilities based upon removal of the small number of anomalous observations. As explained in the Preface to USPS-RM2021-1-1, the SAS programs (along with their SAS logs and SAS listings) producing the results for Christmas transportation, which appear in Tables 5 through 11, are presented in the Christmas Transportation Models Directory in USPS-RM2021-1-1. As also explained in the Preface, there are separate programs for Christmas Intra SCF, Christmas Inter SCF, and Christmas NDC accounts:²

The SAS programs described in this section estimate the variability models for the Christmas Intra SCF, Christmas Inter SCF and Christmas NDC contract cost segments. The programs are internally self-documented, but they accomplish the following tasks: (1) read in the TCSS data, (2) aggregate to the cost segment level, (3) determine truck types, (4) define the account categories, (5) mean center the data, (6) estimate the variability equation(s), (7) identify potentially anomalous observations, (8) re-estimate the variability equation(s) with anomalous observations removed, and (9) when necessary, calculate the account-level variability.

1. Estimate the Christmas Intra SCF Variabilities

There are two models estimated for Christmas Intra SCF contract cost segments, one for van transportation and one for tractor trailer transportation. The estimation is done by the SAS program entitled XMAS INTRA SCF Variability

² See, USPS-RM2021-1-1, Public Material Supporting Proposal Seven, at 3.

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Equations.sas. The SAS Logs and Listings (containing the results) are included in the Christmas Transportation Models directory. The produced files are listed below:

XMAS INTRA SCF Variability Equations.log
XMAS INTRA SCF Variability Equations.lst

2. Estimate the Christmas Inter SCF Variability

There is one model estimated for Christmas Inter SCF contract cost segments and it covers all observations in the account. The estimation is done by the SAS program entitled XMAS INTER SCF Variability Equations.sas. The SAS Logs and Listings (containing the results) are included in the Christmas Transportation Models directory. The produced files are listed below:

XMAS INTER SCF Variability Equations.log
XMAS INTER SCF Variability Equations.lst

3. Estimate the Christmas NDC Variabilities

There are two ways the Christmas NDC variabilities are estimated. In the first approach, a single equation is estimated for both Christmas Intra NDC cost segments and Christmas Inter NDC contract cost segments, and a single variability is thus estimated. This estimation is done by the SAS program entitled XMAS NDC Variability Equations.sas. The SAS Logs and Listings (containing the results) are included in the Christmas Transportation Models directory. The produced files are listed below:

XMAS NDC Variability Equations.log
XMAS NDC Variability Equations.lst

Table 12 repeats the Christmas cost-to-capacity variabilities already presented in previous tables and, corresponding to the applicable capacity-to- volume variability of 100 percent, multiplies them by 1.0. No SAS programs or Excel workbooks are required for this simple calculation. Table 13 presents the direct impact of the updated variabilities on volume variable cost. As explained in the report, Table 13 repeats the publicly available FY2019 accrued costs for the various accounts and multiplies them by

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the publicly available FY19 variabilities and the previously presented Proposal 7 variabilities to calculate the two sets of volume variable costs. It then finds the difference between the two sets of volume variable costs. While these calculations are straightforward, for convenience, an Excel workbook containing them is attached to this response.

Tables 14 through 19 present the initial variabilities for DRO transportation based upon using all observations, present the identified anomalous observations, and present the final variabilities based upon removal of the small number of anomalous observations. As explained in the Preface to USPS-RM2021-1-1, the SAS programs (along with their SAS logs and SAS listings) that present the results for DRO transportation, contained in Tables 14 through 19, are presented in the DRO Transportation Models Directory in USPS-RM2021-1-1. As also explained in the Preface, two approaches to estimating DRO variabilities were pursued:³

The SAS programs described in this section estimate the variability models for the DRO contract cost segments. The programs are internally self-documented, but they accomplish the following tasks: (1) read in the TCSS data, (2) aggregate to the cost segment level, (3) determine truck types, (4) define the account categories, (5) mean center the data, (6) estimate the variability equation(s), (7) identify potentially anomalous observations, (8) re-estimate the variability equation(s) with anomalous observations removed, and (9) when necessary, calculate the account-level variability.

³ See, USPS-RM2021-1-1, Public Material Supporting Proposal Seven, at 4.

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DRO transportation variabilities are estimated in two approaches. In the first approach, DRO van, DRO tractor trailer, and DRO combined equations are estimated. The estimation is done by the SAS program entitled DRO Variability Equations.sas. The SAS Logs and Listings (containing the results) are included in the DRO Transportation Models directory. The produced files are listed below:

DRO Variability Equations.log
DRO Variability Equations.lst

In the second approach, a few very small DRO van contracts cost segments are identified as a separate subgroup and controlled for with a categorical variable. DRO van and DRO combined equations are then estimated. The estimation is done by the SAS program entitled DRO Variability Equations.DSMALL.sas. The SAS Logs and Listings (containing the results) are included in the DRO Transportation Models directory. The produced files are listed below:

DRO Variability Equations DSMALL.log
DRO Variability Equations DSMALL.lst

Table 20 presents the direct impact of the updated variabilities on volume variable cost. It repeats the publicly available FY2019 accrued cost for the DRO account and multiplies it by the publicly available FY19 variability and the previously presented updated variability to calculate the two sets of volume variable costs. It then finds the difference between the two sets of volume variable costs. While these calculations are straightforward, for convenience an Excel workbook presenting them is attached to this response.

Table 21 repeats the publicly available accrued costs for Intra SCF transportation, by subaccount for FY 2014 and FY 2019. It presents the proportions for each subaccount

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and calculates the absolute and percentage changes in the accrued costs. While these calculations are straightforward, for convenience an Excel workbook presenting them is attached to this response.

Tables 22 through 28 present the initial variabilities for Intra P&DC transportation based upon using all observations, presents the identified anomalous observations, and presents the final variabilities based upon removal of the small number of anomalous observations. As explained in the Preface to USPS-RM2021-1-1, the SAS programs (along with their SAS logs and SAS listings) that produce the results for Intra P&DC transportation contained in Tables 22 through 28, are presented in the Intra P&DC Transportation Models Directory in USPS-RM2021-1-1. As also explained in the Preface, there are separate estimates made for the Intra City, van, and tractor trailer parts of Intra P&DC transportation:⁴

The SAS program described in this section estimates the variability models for the Intra P&DC contract cost segments. The program is internally self-documented, but it accomplishes the following tasks: (1) read in the TCSS data, (2) aggregate to the cost segment level, (3) determine truck types, (4) define the account categories, (5) mean center the data, (6) estimate the variability equations, (7) identify potentially anomalous observations, (8) re-estimate the variability equations with anomalous observations removed, and (9) calculate the account-level variability.

There are three models estimated for Intra P&DC contact cost segments, one for intra City transportation, one for van transportation and one for tractor trailer transportation. The estimation is done by the SAS program entitled INTRA P&DC Variability Equations.sas. The SAS Logs and Listings

⁴ Id.

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(containing the results) are included in the Intra PDC Models directory. The produced files are listed below:

INTRA PDC Variability Equations.log
INTRA PDC Variability Equations.lst

Table 29 presents the direct impact of the updated variabilities on volume variable cost. It repeats the publicly available FY2019 accrued cost for the Intra P&DC account and multiplies it by the publicly available FY19 variability and the previously presented updated variability to calculate the two sets of volume variable costs. It then finds the difference between the two sets of volume variable costs. While these calculations are straightforward, for convenience an Excel workbook presenting them is attached to this response.

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4. Please refer to the Bradley Study that states "Christmas contracts were not included in the [Transportation Cost System (TRACS)] sampling frame, so separate capacity-to-volume variability equations could not be estimated for this type of highway transportation....To date, TRACS data are not available for estimating capacity-to-volume variabilities for Christmas contracts, so the assumed variability of 100 percent will be maintained for this analysis." Bradley Study at 26. Please also refer to the Commission Order No. 3973 that states "[i]n regard to capacity-to-volume variabilities for [emergency and Christmas] routes, the Commission suggests that the Postal Service perform further research (e.g., in the form of a special study) that would allow updating variabilities for these routes, if feasible.⁵
- a. Please discuss the progress, if any, in regard to research or special study that would allow updating capacity-to-volume variabilities for Christmas and emergency routes or contracts.
 - b. Please discuss whether the Postal Service recently considered any modification of TRACS sampling frame to include Christmas contracts, and if not, why not?

RESPONSE:

a. and b. The established methodology for estimating capacity-to-volume variabilities relies upon time series data from TRACS that relates vehicle capacity to measured volume. To employ that methodology, one must have repeated observations on TRACS data for the relevant transportation categories through time. The Postal Service is currently investigating the feasibility of separately testing Christmas routes in TRACS. If such testing can be accomplished, the Postal Service can start collecting the TRACS data, through time, required for estimating capacity-to-volume variabilities for that type of transportation.

⁵ Docket No. RM2016-12, Order on Analytical Principles Used in Periodic Reporting (Proposal Four), June 22, 2017, at 40 (Order No. 3973).

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5. Please refer to the Bradley Study that states “[t]o identify anomalous and unduly influential observations, Cook’s D statistic, with a cutoff of 0.10 [that was used in Docket No. RM2014-6] will be again used.” Bradley Study at 19. Considering that, “[t]here is no statistically-based critical value for Cook’s D [statistic],”⁶ and the size of the dataset might affect a cutoff value,⁷ please explain the reasons for choosing a cutoff of 0.10 in the current study again.

RESPONSE:

There are several reasons why it is appropriate to choose a cutoff of 0.10 for Cook’s D the current study. First, the Commission evaluated the use of Cook’s D in similar circumstances in a previous case and determined that the use of 0.10 was reasonable:⁸

The Postal Service has sufficiently described its method of identifying and removing outliers. The Postal Service’s method of setting the Cook’s D threshold for removing an observation equal to 0.1 is reasonable. A review of the SAS Log shows that of the 786 observations meeting the values that are often considered potential influential outliers (4 divided by the number of observations); only 80, or 10.2 percent, were removed by setting the threshold at 0.1. Overall, only 0.5 percent of initial observations were excluded. (Footnote omitted)

Second, if the numbers of observations used to estimate regressions in the current case are in the same range as the numbers of observations used in the previous case, then

⁶ Docket No. RM2014-6, Library Reference USPS-RM2014-6-1, June 20, 2014, Word file “Rpt.Updat.PHT.Cost.Cap.Variab.docx” (Report on Updating the Cost-to-Capacity Variabilities for Purchased Highway Transportation) at 23.

⁷ *Id.* at 23, 24, n.12.

⁸ See, Postal Regulatory Commission, Order No. 2180, Docket No. RM2014-6, September 10, 2014, at 15.

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the Commission's determination would also be appropriate for this case. In Docket No. RM2014-6, the range of the numbers of observations used to estimate the transportation equations went from a low of 30 observations to a high of 4,098 observations.⁹ In the current case, the range of numbers of observations used to estimate the transportation equations runs from a low of 91 observations to a high of 2,513 observations. The current range thus falls inside of the range from Docket No. RM2014-6, and the Commission's determination in that case is applicable to the current case.

Third, as in Docket No. RM2014-6, the results of applying a Cook's D cutoff of 0.10 in the current case provides a useful result. Only a small number of unduly influential observations are identified for each equation, and review of those observation shows them to be either erroneous or truly unusual.

⁹ See, Report on Updating the Cost-to-Capacity Variabilities for Purchased Highway Transportation, Docket No. RM2014-6, June 20, 2014, at 25. Note, that this range excludes the box route equations because no box route equations are estimated in the current case. Including those equations would expand the range.

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6. Please refer to Library Reference USPS-RM2021-1-1, November 9, 2020, folder “Public Impact Analysis.” For hardcoded numbers in all worksheets of the Excel file “Impacts of New Variabilities.Public.xlsx,” please provide links to the relevant files, worksheets and cells to show how these numbers are calculated.

RESPONSE:

There are no links to other worksheets in the workbook entitled, “Impacts of New Variabilities.Public.xlsx.” As explained in the public Preface, the Excel workbook CS14-Public-FY19.New Variabilites.xlsx is designed to allow separate analysis of the impact of the three sets of variabilities, for Christmas, DRO and Intra P&DC transportation, as well as the overall impact of all three together:¹⁰

The first workbook, CS14-Public-FY19.New Variabilites.xlsx, is a version of the CS14-Public-FY19 workbook filed with the FY 2019 Annual Compliance Report. Changes are made in two tabs, “Inputs – Variabilities,” and “WS14.3”. In both tabs, both the proposed new and established variabilities are listed, allowing the user to switch between the two. This allows the user to look at the separate impacts of the New Christmas Transportation variabilities, the new DRO transportation variability, and the new Intra P&DC transportation variability. The new Christmas and Intra P&DC variabilities are entered in the Inputs-Variabilities tab and the new DRO variability is entered in the WS14.3 tab. The new attributable transportation costs, by product, can be found in the “Outputs to the CRA” tab.

CS14-Public-FY19.New Variabilites.xlsx thus can produce four relevant, but different, versions of the “Outputs to the CRA” tab. One is the volume variable costs with just the new Christmas variabilities, one is the volume variable costs with just the new DRO

¹⁰ See, USPS-RM2021-1-1, Public Material Supporting Proposal Seven, at 5.

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variabilities, one is the new volume variable costs with just the new Intra P&DC variabilities, and one is the new volume variable costs with all three sets of new variabilities.

Impacts of New Variabilities.Public.xlsx calculates unit cost for all four scenarios and thus includes all four versions of the Outputs to the CRA tab from CS14-Public-FY19.New Variabilites.xlsx. However, the values in Outputs to the CRA tab change as the variabilities are changed, meaning the four tabs in Impacts of New Variabilities.Public.xlsx could change as an analyst changed variabilities in CS14-Public-FY19.New Variabilites.xlsx. To avoid the possibility of computational errors due to link reference errors, the four different Outputs to the CRA tabs were directly copied from CS14-Public-FY19.New Variabilites.xlsx and entered as relevant tabs in Impacts of New Variabilities.Public.xlsx. For example, the Outputs to the CRA tab version of CS14-Public-FY19.New Variabilites.xlsx is reproduced in the XMAS only tab in Impacts of New Variabilities.Public.xlsx. The same process is used for the other three versions. These results can be verified by inserting the relevant variabilities in CS14-Public-FY19.New Variabilites.xlsx and comparing the Outputs to the CRA tab with the respective XMAS Only, DRO Only, P&DC Only and All Three tabs in Impacts of New Variabilities.Public.xlsx.

The unit costs for all four scenarios are calculated in the Unit Costs XMAS, Unit Costs DRO, Unit Costs P&DC, and Unit Costs All 3 tabs. Each of those calculations start with the volume variable costs from the Outputs to the CRA tab in CS14-Public-FY19.New

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Variabilites.xlsx with none of the new variabilities entered. Again, to avoid link reference errors when variabilities are changed in CS14-Public-FY19.New Variabilites.xlsx, the established variability version of the Outputs to the CRA tab was directly copied from CS14-Public-FY19.New Variabilites.xlsx and entered, in the relevant tabs in Impacts of New Variabilities.Public.xlsx. Then, because there is no chance of link reference errors, the volume variable costs for each of the four scenarios are included through links to the relevant tabs in Impacts of New Variabilities.Public.xlsx.

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7. Please refer to the Bradley Study that states “[in] Fiscal Year 2018, the Postal Service began replacing traditional Intra P&DC highway contracts with a new type of transportation contract at a substantial number of sites. These new contracts, called Dynamic Route Optimization (DRO) contracts, have important differences from the traditional purchased highway transportation contracts.” Bradley Study at 29. Please provide documentation with the detailed description of DRO contracts.

RESPONSE:

Dynamic Route Optimization (DRO) contracts expense on a rate per mile and have varying departure times, lines of travel, and mail types transported based on weekly volume manifests to optimize routes, thus reducing mileage and transportation costs.¹¹ In contrast, typical Highway Contract Routes (HCR) have a fixed price and static routes. DRO contracts are awarded to a supplier who is responsible for covering a designated geographic region. Until recently, the suppliers had a different RPM within each of three mileage tiers (designated as “lower,” “expected,” and “upper”) for non-peak (11 months) and peak (1 month). In total, the supplier had six potential RPMs depending on the mileage range and the month. Recently, the Postal Service has moved to a 2 RPM format—one for peak and one for non-peak. Based on the monthly mileage, the suppliers are then paid by the field Administrative Official using PS Form 5429 – Certification of Exceptional Contract Service Performed. There is also a minimum mileage guarantee in the contract, but at this time, there has not been any instance where the minimum guarantee is used, because it would require a very large reduction in mileage to apply.

¹¹ Postal Service Dynamic Route Optimization and Cost Savings Initiative, Office of Inspector General Audit Report, NL-AR-19-004, September 27, 2019 at 5.

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Dynamic routes are generated by a commercial Transportation Management System (TMS) application, which relies on Postal data inputs such as facility locations, mail availability times from the processing facility, and times when the mail must be delivered to each delivery unit for the carriers to leave on time. The output from the TMS is a manifest for the HCR supplier. The supplier follows this schedule to transport the mail from the processing facility to the appropriate delivery unit(s). Currently, this schedule is generated the Wednesday prior to the transportation running, to allow time for the delivery units to staff appropriately given the mail arrival times. DRO contracts are currently only used for local transportation between processing facilities and delivery units.

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8. Please refer to the Docket No. ACR 2019, Library Reference USPS-FY19-32, December 27, 2019, folder "B Workpapers," Excel file "CS14-Public-FY19.xlsx," Worksheet "WS14.3." (FY 2019 Transportation Worksheet). Please also refer to the Bradley Study that states "DRO contracts replace standard Intra P&DC contracts. In other words, they serve the same type of facilities that are served by regular Intra P&DC contracts. Consequently, their costs are included in the set of accounts that comprise Intra SCF accrued costs. The best proxy, therefore, is the Intra SCF capacity-to-volume variability." Bradley Study at 42.
- a. Please confirm that variabilities for "Highway-Intra-SCF-Regular-Contracts" of 0.4968 (line 99 of the FY 2019 Transportation Worksheet) were used as proxy for "TR-Dynamic Route Optimization Contracts" variabilities (line 102 of the FY 2019 Transportation Worksheet) because the costs for DRO accounts "are included in the set of accounts that comprise Intra SCF accrued costs." Bradley Study at 42. If not confirmed, please discuss how variabilities for DRO contracts were determined for the purposes of FY 2019 Transportation Worksheet.
 - b. If question 8.a. is confirmed, please explain why variabilities for "Transp ML/EME-Dom-HS-Intra P&DC Regular" (line 103 of the FY 2019 Transportation Worksheet) are not the best proxy for DRO contracts variabilities considering that "DRO contracts replace standard intra P&DC contracts [and] serve the same type of facilities that are served by regular Intra P&DC contracts." *Id.*
 - c. If question 8.a. is confirmed, please discuss why the best proxy for DRO variabilities was chosen from the account "Highway-Intra-SCF-Regular-Contracts" that provides only \$29,000 of FY 2019 accrued costs or 0.001 percent of the total Intra SCF adjusted accrued costs. See FY 2019 Transportation Worksheet, column H, lines 99 and 113.

RESPONSE:

a. It is not clear whether this question is referring the recommended variabilities presented in Proposal 7 in the current docket, or the established variabilities approved by the Commission in Docket No. ACR 2019, so this answer will address both possibilities. In addition, it is important to keep in mind that there are two variabilities for each transportation category, the cost-to-capacity variability and the capacity-to-volume variability.

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In preparing Proposal 7 for submission to the Commission, the Postal Service initiated a study of DRO transportation. Among other things, that study revealed the nature of procurement of DRO contracts, and the fact that they have been replacing Intra P&DC contracts. In addition, the Postal Service's investigation into DRO operational practice, in combination with the submitted econometric analysis, revealed that the cost-to-capacity variability for DRO transportation is 100 percent. The investigation into DRO transportation also revealed that data do not exist to estimate a separate capacity-to-volume variability, so an existing variability had to be chosen. There are four existing capacity-to-volume variabilities to choose from, Intra SCF, Inter SCF, Intra BMC and Inter BMC. Given that it was learned during the study of DRO contracts that they provide Intra P&DC-type transportation, the appropriate existing variability is the Intra SCF capacity-to-volume variability of 0.773, which includes Intra P&DC transportation.

Prior to studying DRO contracts, the Postal Service needed to find interim variabilities for DRO transportation costs, including both the cost-to-capacity variability and the capacity to volume variability. Because the new DRO account appeared in the Intra SCF category, the overall Intra SCF variabilities were applied. At that time, the overall Intra SCF cost-to-capacity variability was 0.643 and the Intra SCF capacity-to-volume variability was 0.773. Their product produces the combined overall variability for the Intra SCF category of 0.4968 identified in the question. Please note that this variability was not estimated, but is the result of combining the variabilities for the various accounts included in the broader Intra SCF category.

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b. The variabilities for "Transp ML/EME-Dom-HS-Intra P&DC Regular" are not the best proxy for DRO contracts variabilities because study of DRO contracts showed that the cost-to-capacity variability is 1.0. Thus, the best variability for DRO contracts is the product of the cost-to-capacity variability of 1.0 and the relevant capacity-to-volume variability of 0.773, or an overall variability of 0.773.

c. The overall Intra SCF variability was not chosen as the proxy for DRO transportation based upon the size of the residual Intra SCF cost cited in the question, but rather because it represents the overall Intra SCF variability and is applied to accounts in the Intra SCF category that have not been otherwise studied. Please note that Proposal 7 removes the need to select a proxy variability for DRO contracts.

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9. Please refer to Library Reference USPS-RM2021-1-1, folder “Analysis Data Set,” SAS data file “tcss_fy19.sas7bdat.” For each abbreviated variable included in this file (“route”, “tripmiles”, “trip”, “tripfreq” etc.), please provide the full name and the detailed description.

RESPONSE:

Please see the Preface to folder USPS-RM2021-1-1, which provides the variable names and definition. They are repeated below for convenience:¹²

The data set is entitled, TCSS_FY19.sas7bdat. Each observation is a contract cost segment trip. There are 91,164 observations and 17 variables. Below is a listing of each variable in the dataset along with its definition.

Variable Name	Definition
account	Highway Account Number
annmiles	Annual Miles on the Contract Cost Segment
area	Postal Area
con_code	Numerical Identifier of the Contract Type
con_desc	Contract Type Description
con_type	Contract Account Type
costsegamt	Annual Cost on the Cost Segment
costsegmentcode	Cost Segment Identifier
emergency	Emergency Contract Identifier
opfreq	Trip Frequency Per Year
route	Contract Identifier
routetypedesc	Description of Contract Type
rttypecode	Numerical Identifier of Contract Type
state	US State
trip	Trip Identifier
tripmiles	Length of Trip in Miles
vcube	Vehicle Cube

¹² See, USPS-RM2021-1-1, Public Material Supporting Proposal Seven, at 2.