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 1-3 OF CHAIRMAN'S INFORMATION REQUEST NO. 4**
(February 24, 2021)

The United States Postal Service hereby provides its responses to the above

listed questions of Chairman's Information Request No. 4, issued February 22, 2021.

The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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February 24, 2021

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 4**

1.   Please refer to the Bradley Report which states that because the re-estimation of
Intra P&DC variabilities to correct for the removal of DRO routes, "is a re-
estimation of an existing set of established models, model specification is
straightforward. The established translog model, in both cubic foot-miles and
route length, will be estimated for all three sets of contract cost segments."
Bradley Report at 45. Please also refer to Docket No. RM2014-6, Library
Reference USPS-RM2014-6/1, June 20, 2014, Word file
"Rpt.Updat.PHT.Cost.Cap.Variab.docx" (Bradley 2014 Report). Please confirm
that in Docket Nos. RM2021-1 and RM2014-6, Intra P&DC variabilities are
derived from econometric models that have the same model specification. If not
confirmed, please explain the statement above as quoted from the Bradley
Report.

RESPONSE:

Confirmed

2. Please refer to the Bradley Report that states: "Because box routes were not affected by the introduction of DRO contracts, there was no need to update the box route variability. The established variability for box routes will be used in calculating the overall Intra P&DC cost-to-capacity variability." Bradley Report at 52, n.29.

    a. Please discuss why box routes were not affected by the introduction of DRO contracts.

    b. Please discuss the circumstances that would require the Postal Service to update the box route variabilities.

RESPONSE:

a. Box routes were not affected because DRO contracts do not provide box route service. Thus, there was no migration from box routes contracts cost segments to DRO contract cost segments.

b. If DRO contracts were to start providing box route service and contract cost segments started migrating from box route contracts to DRO contracts, then it would be appropriate for the Postal Service to investigate updating the Intra P&DC box route variability.

3. Please refer to Library Reference USPS-RM2021-1-1, November 9, 2020, folder "5. Intra P&DC Transportation Models," SAS program "INTRA PDC Variability Equations.sas" (Intra PDC SAS File).

a. Please confirm that if the SAS code provided below is inserted into the Intra PDC SAS File at the end of "Identify Transportation Contracts" section, the resulting SAS dataset "Box" will have 603 observations.

data box; set intra_pdc; if vcube le 300 or routetypedesc = 'box route'; run;

b. If question 3.a. is confirmed or partially confirmed, please explain whether the observations contained in the SAS dataset "Box" represent contracts on which an Intra P&DC box route regression could be performed.

c. If question 3.a. is not confirmed, please provide the number of contracts in the SAS dataset "Box" and discuss whether the observations contained in the "Box" represent contracts on which an Intra P&DC, box route regression could be performed

RESPONSE:

a. Not confirmed. Inserting the proposed SAS code into the Intra PDC SAS File at

the end of "Identify Transportation Contracts" section creates a SAS dataset that

includes 603 transportation (not box route) contracts. This can be demonstrated

by running a frequency distribution on the variable *routetypedesc* (which

describes the contract cost segment type) on the newly created SAS dataset.

The result is shown below:

The FREQ Procedure				
routetypedesc	Frequency	Percent	Cumulative Frequency	Cumulative Percent
TRANSPORTATION	603	100	603	100

Please note that this result is corroborated by reviewing the SAS listing for the

Intra P&DC program (INTRA PDC Variability Equations.lst) which was included in

the Intra P&DC Transportation Models directory in USPS-RM2021-1-1, and

which is reproduced below. It shows that there could not be 603 box route

contract cost segments.

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routetypedesc                    Frequency   Percent   Frequency   Percent
ƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒƒ
BOX ROUTE                           132      3.68        132       3.68
COMBINATION (BOX DELIVERY/TRANSPORTATION     51    1.42     183      5.10
COMBINATION (TRANSPORTATION/BOX DELIVERY     93    2.59     276      7.69
TRANSPORTATION                     3314     92.31       3590     100.00
```

There are two problems with the proposed code. First, the code attempts to

allow a box route contract cost segments to be specified as either a cost

segment with the "Box Route" identifier <u>or</u> as a cost segment with a vehicle with a

capacity no greater than 300 cubic feet. This allows for the possibility of including

transportation contract cost segments (not box route cost segments) that have a

small cubic capacity. That is what the 603 identified observations are. Second,

placing the code at the end of the "Identify Transportation Contracts" section

applies it to a dataset that has already eliminated the box route contracts. That

makes it impossible to identify any box route contracts. Please see the response

to part. c below to review the results of correcting these two defects.

b.   Not applicable.

c.   Box routes can come from the sets of contract cost segments with either the "Box Route" or the "Combination" designation. But not all Combination contracts are box route contracts. For a Combination contract to be a box route contract it must have a vehicle with a capacity that is no greater than 300 cubic feet. If these two conditions are not met, the Combination contract cost segment can be classified as a transportation contract cost segment, as it primarily provides regular transportation services.

Using these two criteria, however, one can identify the number of Intra P&DC box route contract cost segments in the FY2019 dataset.   There are 132 contract cost segments that are separately identified by the Box Route designation. There are 116 Combination contract cost segments that have vehicle capacity no greater than 300 cubic feet, so they can also be classified as box routes.

Finally, as discussed in the Bradley Report, and further explained in the response to question 2 above, the creation of DRO contracts did not affect the number or structure of box route contracts. When the FY 2019 dataset was constructed for the purpose of updating the variabilities of Christmas and DRO transportation, certain box route data were not included. Specifically, the TCSS_FY19 dataset does not include a count of the number of boxes on each contract cost segment, as that variable was not needed for the transportation variability analysis. However, the number of boxes is the cost driver in the established specification

of the box route variability equation.[1] Consequently, there are no contract cost

segments in the FY2019 dataset on which an Intra P&DC box route regression

could be performed, because none of the observations contain the variable that

identifies the number of boxes.

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[1] See, Docket No. RM2014-6, Report on Updating the Cost-to-Capacity Variabilities for
Purchased Highway Transportation, June 20, 2014, at 12.