

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Periodic Reporting
(Proposal Seven)

Docket No. RM2021-1

CHAIRMAN'S INFORMATION REQUEST NO. 5

(Issued March 26, 2021)

To clarify the Postal Service's petition to consider proposed changes in analytical principles, filed November 9, 2020,¹ Response to Chairman's Information Request No. 1 filed on January 7, 2021,² and the Postal Service Reply Comments, filed December 8, 2020,³ the Postal Service is requested to provide written responses to the following questions. The responses should be provided as soon as they are developed, but no later than April 2, 2021.

1. Please refer to the Bradley Report that states: "Account 53625 is [labeled] as 'Intra Area - Headquarters Christmas Network'...[and it] should be combined with account 53604 to form the Intra P&DC Christmas transportation account category." Bradley Report at 7, n.8. Please also refer to Library Reference USPS-RM2021-1/1, November 9, 2020, folder "1. Analysis Data Set," SAS data file "tcss_fy19.sas7bdat" (SAS Dataset). Please confirm that in the SAS Dataset, account 53625 (labeled as "XMAS INTRA AREA (HQ)") was mistakenly included within the INTER-SCF contract account type (variable "con_type" in the SAS

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), November 9, 2020 (Petition). Along with the Petition, the Postal Service filed a report supporting Proposal Seven. See Research on Updating Purchased Highway Transportation Variabilities to Account for Structural Changes (Bradley Report).

² Responses of the United States Postal Service to Questions 1-9 of Chairman's Information Request No. 1, January 7, 2021 (Response to CHIR No. 1).

³ Reply Comments of the United States Postal Service Regarding Proposal Seven, March 12, 2021 (Postal Service Reply Comments).

- Dataset), instead of the INTRA-SCF contract account type. If confirmed, please provide the reasons for the error and discuss whether it had any impact on the econometric analysis and its results. If not confirmed, please provide a detailed justification for the apparent discrepancy.
2. Please refer to the Bradley Report that states: “[A]ccount 53626 is labeled ‘Inter-Area - Headquarters Christmas Network’...[and it] should be combined with Account 53622 to form the Inter Area Christmas account category.” Bradley Report at 7, n.8. Please also refer to Library Reference USPS-RM2021-1/1, folder “6. Public Impact Analysis,” Excel file “CS14-Public-FY19.New Variabilities.xlsx,” tab “FY2019,” cell F105 that provides a label for Account 53626 as “TRNSP ML EQPT/EMPTY-DMSTC HWY SVC-INTER AREA.” Please confirm that both accounts are identical and, if confirmed, please describe the reasons for a substantial difference in the account labels. Please specifically explain why “Christmas” or “XMAS” does not appear in the label. If not confirmed, please indicate what account in the referenced Excel file matches Account 53626 discussed in the Bradley Report.
 3. Please refer to Table 2 of the Postal Service Reply Comments that lists 16 “Christmas [c]ontract [c]ost segments with [a]nnual [m]iles [l]ess or [e]qual to [o]ne.” Postal Service Reply Comments at 23. Please also refer to the SAS Dataset and the Postal Service Reply Comments that states: “The[se] annual miles for these observations are indeed unusual, in that they are much smaller than the annual miles on the typical Christmas contract. But that, by itself, does not make [the observations with these miles] invalid as long as they are consistent with the estimated regression equation.” *Id.* at 21.
 - a. Please confirm that for each of the 16 Christmas contract cost segments identified in Table 2 of the Postal Service Reply Comments, the actual number of annual miles reported is exactly equal to “one” (as provided in the SAS Dataset), and was not rounded. If not confirmed, please provide

the number of annual miles for these contract cost segments rounded off to three decimal places.

- b. Please confirm that it is operationally plausible for Christmas Inter SCF observations to have annual miles equal to or less than one mile. If confirmed, please discuss the underlying operational reasons and describe the circumstances when the annual miles of a contract cost segment could be equal to or less than one mile.
- c. Please confirm that it is operationally plausible for Christmas Intra SCF Tractor Trailer observations to have annual miles equal to or less than one mile. If confirmed, please discuss the underlying operational reasons and describe the circumstances when the annual miles of a contract cost segment could be equal to or less than one mile.
- d. If questions 3.b. or 3.c. are confirmed or partially confirmed, please discuss why for all other Christmas contract cost segments in the SAS Dataset (excluding those that are either removed by the Postal Service as anomalous observations⁴ or identified by the Public Representative and presented in Table 2 of the Postal Service Reply Comments), the annual miles are at least 40 (for contract/route 496L1, cost segment B) and there are no valid observations with annual miles between 1 and 40.
- e. For any Christmas contract cost segment presented in Table 2, which was identified by the Public Representative as a potential outlier and not removed by the Postal Service as an anomalous observation, (e.g., for contract 070EH, cost segment B), please provide documentation that would substantiate the annual number of miles for these Christmas contract cost segments. If such documentation is unavailable, please explain why.

⁴ See Bradley Report at 20-23.

4. Please refer to Table 1 below. Please also refer to the Postal Service Reply Comments that states: “in certain circumstances, ‘unusual’ observations can be important in improving the estimated equation.” Postal Service Reply Comments at 20 (footnote omitted).
 - a. Please confirm that the variabilities and standard errors presented in Table 1, in columns 3 and 4 respectively, are estimated by the Public Representative from the same econometric models as the Proposal Seven variabilities. If not confirmed, please provide the corrected variabilities and standard errors, and also explain the reasons for the provided corrections.
 - b. Please discuss in detail whether the lower standard errors for variabilities derived from the Public Representative’s models (run on the dataset that omitted unusual observations with annual miles that are equal or less than one), would indicate greater precision or efficiency of the Public Representative’s variability estimates compared to the precision or efficiency of the Proposal Seven variability estimates.

Table 1
Cost-to-Capacity Variability Estimates and Standard Errors
(Proposal Seven vs. Public Representative)

Account:	Proposal Seven		Public Representative	
	Cost-to-Capacity	Standard Error	Cost-to-Capacity	Standard Error
	(1)	(2)	(3)	(4)
Inter SCF	95.3%	0.019	96.3%	0.017
Intra SCF (Tractor Trailer)	96.4%	0.022	100.3%	0.020

Notes and Data Sources: "Standard Error" refers to a heteroscedasticity consistent standard error.

Data in Columns (1) and (2) are from Library Reference USPS-RM2021-1-1, folder "3. Christmas Transportation Models," SAS output files "XMAS INTER SCF Variability Equations.lst" and "XMAS INTRA SCF Variability Equations.lst."

Data in Columns (3) and (4) are from Public Representative Comments on Proposal Seven, March 5, 2021, Attachments 1 at 37 and Attachment 2 at 50.

5. Please refer to the Bradley Report that states: "[Dynamic Route Optimization (DRO)] contracts are relatively new, and the Postal Service has just started the process of collecting TRACS data on their volumes, so there is not yet sufficient data to estimate a separate capacity-to-volume variability equation for DRO transportation. Until such data are available, a proxy variability must be selected." Bradley Report at 41-42.
 - a. Please specify when the Postal Service started to collect TRACS data on volumes for DRO contracts and explain the issues with such data that brought the Postal Service to the conclusion referenced above.
 - b. Please discuss whether the Postal Service attempted to econometrically estimate capacity-to-volume variabilities for DRO contracts using available data. If applicable, please provide the SAS datasets, program and output files underlying this econometric analysis, and also explain why the Postal Service decided not to use these preliminary estimates.
6. Please refer to the Postal Service Reply Comments that states:

[T]here is a direct and clear relationship between the DRO transportation and the Intra P&DC transportation from which it came. The two types of contracts share the same transportation function, transporting mail to and from processing and distribution centers and their associated post offices, delivery units, and other affiliated locations. They also share similar products, similar product volumes, similar service standards, and similar network configurations.

Postal Service Reply Comments at 18-19. Please provide documentation or references to empirical evidence that support the assertion that the DRO and Intra P&DC transportation contracts are similar in terms of product volumes, product mix, service standards, and network configurations.

7. Please refer to the Response to CHIR No. 1 that states:

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.

Responses to CHIR No. 1, question 8.a. Please also refer to the Postal Service Reply Comments that states: "Proposal Seven proposes changing the cost-to-capacity variability for DRO contracts to 100 percent, but does not propose a change in the capacity-to-volume variability. [T]here is a direct and clear relationship between the DRO transportation and the Intra P&DC transportation from which it came." Postal Service Reply Comments at 12, 18.

- a. Please confirm that the referenced interim variabilities for DRO contracts were neither presented in any rulemaking docket nor approved by the Commission. If not confirmed, please specify the docket(s) and the Commission order(s).

- b. Please discuss in detail why it is more reasonable to use the overall Intra SCF (and not Intra P&DC) capacity-to-volume variability as a proxy for capacity-to-volume variability for DRO contracts.

By the Chairman.

Michael Kubayanda