

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 1-7 OF CHAIRMAN'S INFORMATION REQUEST NO. 5**
(April 1, 2021)

The United States Postal Service hereby provides its responses to the above listed questions of Chairman's Information Request No. 5, issued March 26, 2021.

The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

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April 1, 2021

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

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 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.

RESPONSE:

Confirmed that a labelling error occurred in the construction of the SAS dataset entitled tcss_fy19.sas7bdat, so that the label for account 53604 was miscoded as Inter-SCF.

The label in question, "con_type," is not used in estimating any of the econometric equations or calculating the variabilities, so the mislabeling has no effect on the results.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

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.

RESPONSE:

Confirmed that both references to account 53626 are referring to the same account.

The reason for the different labels is that they come from different sources. One label comes from Transportation Contract Support System and the other label comes from the accounting Trial Balance. The latter label, that appears in CS14-Public-FY19.New Variabilities.xlsx, was assigned some years ago and has been appearing in the various versions of CS14 that have been included in each year’s Annual Compliance Report.

The Postal Service is unable to uncover its etymology.

Note that a similar labelling issue occurs for account 53624, which is labelled as TRNSP ML EQPT/EMPTY-DMSTC-HWYSVC-INTER BMC in cell F126 in tab FY2019, in CS14-Public-FY19.New Variabilities.xlsx.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

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 observations¹ 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.

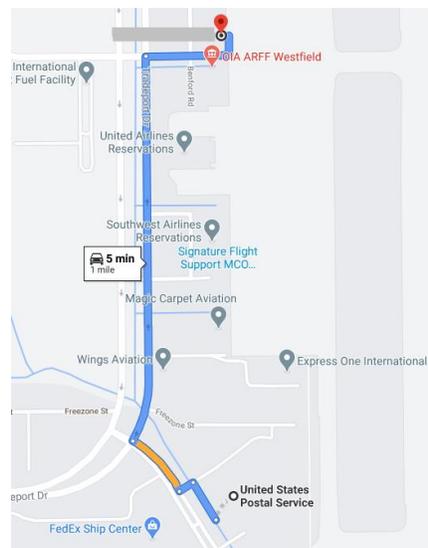
¹ See Bradley Report at 20-23.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 5

RESPONSE:

a. Confirmed.

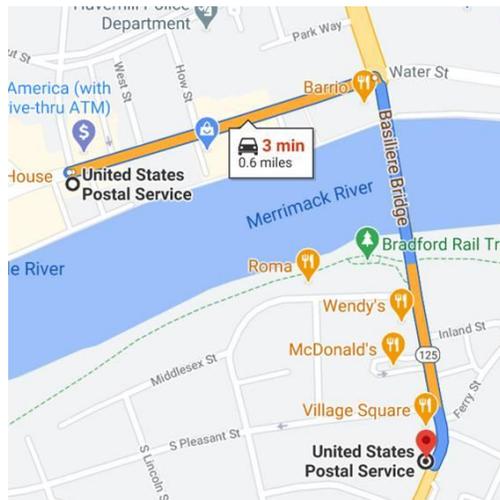
b. Confirmed. The Postal Service has instances of regular purchased Inter-SCF highway transportation between two facilities that are one mile apart. The following map shows the route for one such contract cost segment that regularly runs between a P&DC and a terminal handling services site one mile apart.



A Christmas purchased highway transportation contract could specify a cost segment that provided for extra trips between these facilities during the peak season. If that extra trip ran only one time, it would have annual miles equal to or less than one mile.

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 5

c. Confirmed. The Postal Service has instances of regular purchased Intra-SCF highway transportation between two facilities that are less than one mile apart. The following map shows the route for one such contract cost segment that regularly runs between two facilities less than one mile apart.



A Christmas purchased highway transportation contract could specify a cost segment that provided for extra trips between these facilities during the peak season. If that extra trip ran only one time, it would have annual miles equal to or less than one mile.

d. The annual miles specified in the Christmas purchased highway transportation contract segments will depend upon the various needs of the Postal Service in covering its transportation network. The distribution of annual miles across contract cost segments reflects the distance between relevant Postal Service facilities and the required frequency of trips among those facilities.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

e. The Postal Services Transportation Contract Support System (TCSS) is a custom-built Postal Service system used to manage highway transportation requirements contracts and payment processes. It supports the award of new contracts, modification to contracts, and renewal of contracts. The application of TCSS to specifying contracts was explained by the Postal Service Office of Inspector General (OIG):²

TCSS is an Oracle Web-based application used to manage transportation contracts and related activities. TCSS contains data for HCRs, which are contracts with independent suppliers to deliver mail to residents and other Postal Service facilities. TCSS allows contracting offices to solicit, award, and administer these contracts. TCSS interfaces with the National Air and Surface System and the eSCR application for the transfer of specific contract data needed to maintain contract schedules.

Moreover, the OIG evaluated the accuracy of the contract specification data included in TCSS:³

TCSS contained accurate data for all of the HCRs we reviewed. Because of the high accuracy rate from our sample, we determined TCSS data is sufficiently accurate to support the transportation contract administration process. In fact, we noted several best practices that may be used to help ensure data integrity in other contracting information systems.

² See, USPS OIG Audit Report Number CA-AR-12-005, Contract Management Data – Transportation Contract Support System, August 9, 2012 at 6.

³ Id. at 1.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

In sum, the TCSS provides the best documentation to substantiate the annual number of miles for the specified Christmas contract cost segments. The annual miles derived from TCSS were previously provided in the SAS dataset entitled tcss_fy19.sas7bdat included in USPS-RM2021-1-1.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN’S INFORMATION REQUEST NO. 5**

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.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

RESPONSE:

a. Confirmed

b. Efficiency is a characteristic of estimators, not individual estimates. Relative efficiency compares the variance of different estimators when applied to a given dataset. As part a. of the question suggests, the same estimator is used by the Postal Service and the Public Representative. The difference in variance arises because different data sets are used to estimate the models.

Moreover, efficiency is not an issue for these purchased highway transportation variability estimates. The variabilities in both the Postal Service's and the Public Representative's equations are estimated with precision. In all cases, the standard errors are very small fractions of the estimated variabilities, the t-statistics are all over 40, and the p values are all less than 0.0001.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

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.

RESPONSE:

- a. The Postal Service started to collect TRACS data on DRO contracts in Fiscal Year 2019. However, data about the specific sampled DRO contract vehicles, which are required to provide a complete and accurate TRACS estimation using the current methodology, could not be obtained reliably. Alternative sources for the required data are currently being investigated in order to determine the feasibility of their use in developing TRACS estimates.
- b. The Postal Service has not attempted to econometrically estimate capacity-to-volume variabilities for DRO contracts using available data because there are not yet sufficient data to so.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

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.

RESPONSE:

Prior to the introduction of DRO transportation, Intra P&DC transportation met the Postal Service's needs for transporting mail to and from P&DCs and their associated offices and delivery units. That is, Intra P&DC contracts provided the transportation that met the Intra P&DC requirements in terms of product volumes, product mix, service standards, and network configurations. DRO contracts have replaced Intra P&DC contracts at various P&DCs across the Postal Service's network and took over the responsibility of providing the transportation that meets the Intra P&DC requirements in terms of product volumes, product mix, service standards, and network configurations. In other words, DRO contracts began to meet the Postal Service's needs for

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 5

transporting mail to and from P&DCs and their associated offices and delivery units.

Documentation for this change can be found in the solicitation for DRO contracts:⁴

The Postal Service will be issuing a solicitation for Local Surface Transportation service to and from the following national USPS Processing and Distribution Centers/Facilities (P & DC/P & DF) locations. Charleston P & DF, SC Grand Island P & DF, NE Rockford P & DC, IL Tallahassee P & DF, FL Syracuse P & DC, NY Youngstown P & DC, OH Akron P & DC, OH Augusta P & DF, GA Columbia P & DC, SC Green Bay P & DC, WI Industry P & DC, CA Lincoln P & DF, NE SCOPE OF SERVICE OVERVIEW The initial period of performance for a potential contract would be 4 years, beginning on or about Sunday, January 13, 2019 and January 27, 2019 with four (4) year renewal periods. **The supplier will plan its operations (vehicles and drivers) based on a weekly manifest provided in support of the needs of the P & DC/P & DF, delivery units, and offices.** (Emphasis added).

Empirical evidence that DRO contracts did replace Intra P&DC contracts and started providing the transportation needed to meet Intra P&DC requirements in terms of product volumes, product mix, service standards, and network configurations is provided by comparing the amounts of the two type of transportation the Postal Service purchased in FY 2018 and FY 2019. Across the two years, expenditures on regular Intra P&DC transportation fell by \$142.6 million while expenditures on DRO transportation rose by \$251.4 million. Regular Intra P&DC transportation went from being 57 percent

⁴ See, Federal Contract Opportunity for DRO Wave 12 Presolicitation Notice 150-241-18. The NAICS Category is 491110 - Postal Service. Posted Jul 31, 2018

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

of Intra SCF transportation to just 47.3 percent. DRO transportation replaced it, increasing from 7.3 percent of Intra SCF transportation to 19.5 percent.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

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.

RESPONSE:

a. Not Confirmed. The variabilities applied to DRO contracts were presented by the Postal Service and approved by the Commission in Docket No. RM2016-12. In Order No. 3973 (June 22, 2017), the Commission presented its approved variabilities in Table VIII-1 on page 38. For convenience, that table is reproduced below. The capacity-to-volume variabilities approved in that case were based upon TRACS data, which were collected at the level of the four broad purchased highway transportation categories, Intra-SCF, Inter-SCF, Intra-NDC and Inter-NDC. As a result, there are only four estimated capacity-to-volume variabilities,

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN’S INFORMATION REQUEST NO. 5**

one for each of those categories. This is reflected in the Commission’s table, which lists the four approved capacity-to-volume variabilities for regular routes of 0.773, 0.821, 0.788, and 0.848.

**Table VIII-1
Variabilities of Purchased Highway Transportation
by Transportation Account Category¹**

Transportation Account/ Category	Cost-to-Capacity Variability (RM2014-6)	Capacity-to-Volume Variability (Proposal Four)		Overall Cost-to-Volume Variability	
		Regular Routes	Emergency and Christmas Routes	Regular Routes	Emergency and Christmas Routes
Intra-P&DC	0.757	0.773	1.000	0.585	0.757
Intra-District	0.380	0.773	1.000	0.294	0.380
Intra-SCF	0.643	0.773	1.000	0.497	0.643
Inter-P&DC	0.850	0.821	1.000	0.698	0.850
Inter-Cluster	0.891	0.821	1.000	0.732	0.891
Inter-Area	0.899	0.821	1.000	0.738	0.899
Inter-SCF	0.891	0.821	1.000	0.732	0.891
Intra-NDC	0.949	0.788	1.000	0.748	0.949
Inter-NDC	0.947	0.848	1.000	0.803	0.947

¹ Excludes accounts associated with exceptional routes. Variabilities for exceptional routes were not subject to updates since Docket No. R2000-1 and are considered “1.”
Source: PRC-LR-RM2016-12/1, Excel file “PRC-LR-RM2016-12/1.xlsx,” tab “Inputs – Variabilities_Upd.”

The relevant variabilities for this question are highlighted in bold in the table.

Note that the approved Intra-SCF variability is applied to all of the different types of regular transportation included in the broad Intra-SCF category. For example, the approved Intra-SCF capacity-to-volume variability of 0.773 is applied to both Intra-P&DC and Intra-District regular transportation. Similarly, the approved

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 5**

Inter-SCF variability of 0.821 is applied to all the regular transportation types included in the broad Inter-SCF transportation category.

DRO transportation is part of the broad Intra-SCF transportation category, just as Intra-PDC and Intra-District are part of it. In the approved methodology, the Intra-SCF capacity-to-volume variability 0.773 is applied to the Intra-PDC and Intra-District portions of that category. When DRO contract costs started to accrue as part of Intra-SCF costs, applying the established methodology required applying the Intra-SCF capacity-to-volume variability 0.773 to DRO costs. This application of the established methodology was reviewed without comment by the Commission in Docket No. ACR 2017, Docket No. ACR 2018, and Docket No. ACR 2019.

b. It is appropriate to use the Intra-SCF capacity-to-volume variability since it is the one approved by the Commission. Because, as demonstrated in the Commission's Table VIII-1 above, the Intra-SCF variability of 0.773 is the approved variability for Intra-P&DC transportation, applying the same Intra-SCF capacity-to-volume variability to DRO transportation is, in fact, applying the Intra-P&DC capacity-to-volume variability to DRO transportation.