

BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting (Proposal One)	:	Docket No. RM2022-3
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UNITED PARCEL SERVICE, INC.'S PROPOSED SUR-REPLY
COMMENTS REGARDING PROPOSAL ONE
(May 16, 2022)

United Parcel Service, Inc. ("UPS") respectfully submits these proposed sur-reply comments regarding the Postal Regulatory Commission's Notice of Proposed Rulemaking on Analytical Principles Used In Periodic Reporting (Proposal One) (Jan. 10, 2022) ("Order No. 6090").

In its Reply Comments¹ and in the accompanying report by Professor Michael Bradley,² the Postal Service proposes a solution to address an issue raised by UPS's Initial Comments concerning the need to update variabilities as mail volumes change in future years.³

UPS and its external consultants have reviewed the modifications proposed by the Postal Service, and finds that in addressing the concern raised by UPS, they

¹ Postal Service Reply Comments at 3.

² Michael D. Bradley, "Report on the Initial Comments of The Public Representative and United Parcel Service, Inc." April 25, 2022 ("Second Bradley Report")

³ See, e.g., UPS Initial Comments at 4. All commenters agreed that the concern raised by UPS is valid. See Postal Service Reply Comments at 2; Second Bradley Report at 20; Public Representative Reply Comments at 4; Amazon Reply Comments at 3; and GCA Reply Comments at 1.

improve upon the original Proposal One by making simple adjustments that keep the model updated on a going-forward basis.

In its Reply Comments, the Postal Service leaves it to the Commission as to whether Proposal One or the modified version thereof should be approved, with Professor Bradley suggesting that this issue could be addressed in a separate rulemaking docket.⁴ UPS sees no reason, however, to postpone consideration of the variability adjustment mechanism to a separate rulemaking proceeding. Because the modification is a clear improvement, UPS urges that it be adopted now.

There is, however, one technical inconsistency in the Postal Service's calculations that UPS believes should be addressed. Under the correlated random effects ("CRE") approach, average volume variables (and the associated square terms) enter the elasticity formula in two ways. Using the notation from Professor Bradley's first report,⁵ the volume terms affect elasticity through the β coefficients, which represent causal effects of volume on street time, and also through γ coefficients, which measure the *correlation* between ZIP Code average volumes in the regression dataset and unobserved time-invariant ZIP Code effects, denoted c_i .⁶ Mechanically, while volume changes in future years also affect ZIP Code average volume levels, the unobserved ZIP Code effects are by definition time-invariant and *should not be*

⁴ Postal Service Reply Comments at 3-4.

⁵ See equation on page 88 of Professor Bradley's revised report, filed January 21, 2022.

⁶ See, e.g., Wooldridge, Jeffrey M. *Introductory Econometrics: A Modern Approach*, 5th ed. Cengage Learning, Boston MA, 2012, at 497. The notation in that textbook differs, but it is clear that the unobserved effects modeled under the CRE approach are constant over time.

updated.⁷ Doing so would also be inconsistent with the Postal Service position that the γ coefficients do not have a causal effect on street time.⁸

When applied to FY2021 volumes, updating the ZIP Code mean variables (as well as the ZIP Code average of the volume squares) has the effect of increasing the average street time at the hypothetical average ZIP Code by approximately 5%, relative to the FY2021 denominator under the Postal Service’s proposed modification. If one instead re-calculates FY2021 variabilities leaving the ZIP Code averages at their Calendar Year 2019 levels, which is appropriate given the time-invariant nature of the c_i they are meant to measure, all variabilities are uniformly higher, again by approximately 5%.⁹ As a result, UPS submits that the Commission should modify the Postal Service’s adjustment mechanism to reflect the idea that unobserved ZIP Code effects are by definition time-invariant.

Finally, UPS also takes this opportunity to respond to two questions raised by the Public Representative. First, the Public Representative asks why UPS’s “proposed model deviates from Proposal One” with respect to differences in certain regression coefficients and more generally in standard error estimates. (Public Representative Reply Comments at 8). It is not uncommon for different statistical software packages to

⁷ In its Initial Comments, UPS proposed that the “z” variables discussed here should not be updated, which is consistent with their role in measuring time-invariant unobserved ZIP Code effects. UPS Initial Comments at 16.

⁸ In arguing that these variables should be adjusted, Professor Bradley cites to the response to Question 8.b. in Chairman’s Information Request 5, which states both that “the [coefficients on the ZIP Code-average volume terms] measure something different than the response of street hours to volume” and that these “contextual effects...are not measures of the responsiveness of street hours to volume.” [emphasis added].

⁹ A modified SAS script that implements this change is provided in UPS-LR-RM2022-3-2. The magnitude and even the direction of this bias would change as volume levels change in future years.

generate slightly different coefficient results when estimating identical regression equations using identical data. This can arise due to differences in the matrix inversion processes used by various packages, for example. In this case, the relative differences are minor. None of the regression coefficients estimated in Stata differ from those in the Postal Service's SAS output by more than one tenth of one percent. Furthermore, the variabilities calculated from the UPS Stata regression output are identical to those of the Postal Service for the level of precision the Postal Service uses in cost attribution. Similarly, the standard errors do not factor into the calculation of variabilities, and so the differences are immaterial to UPS's Comments in this docket.

Second, with respect to the representative ZIP Code demonstratives included in UPS's Initial Comments, a short section of code that UPS's external consultants used in their program was inadvertently deleted from the Representative ZIP.do file during the preparation of the Library Reference filed by UPS. The additional lines of code suggested by the Public Representative in their FN8 are functionally equivalent to the analysis performed by UPS to choose the representative ZIP Code. For clarity, UPS also provides the corrected Representative ZIP.do file in UPS-LR-RM2022-3-2.

CONCLUSION

UPS supports the solution proposed by the Postal Service to address an issue raised by UPS's Initial Comments concerning the need to update variabilities as mail volumes change in future years. UPS further proposes that one technical modification to that solution, as detailed above, be adopted.

Respectfully submitted,

UNITED PARCEL SERVICE, INC.,

By /s/ Steig D. Olson

Steig D. Olson

David M. Cooper

Christopher M. Seck

David LeRay

Quinn Emanuel Urquhart &

Sullivan, LLP

51 Madison Ave., 22nd Floor

New York, NY 10010

(212) 849-7152

steigolson@quinnemanuel.com

davidcooper@quinnemanuel.com

christopherseck@quinnemanuel.com

davidleray@quinnemanuel.com

Attorneys for UPS