

BEFORE THE
POSTAL REGULATORY COMMISSION

Periodic Reporting
(Proposal Thirteen)

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Docket No. RM2015-7

**UNITED PARCEL SERVICE, INC.'S REPLY TO MOTION OF THE
UNITED STATES POSTAL SERVICE TO STRIKE THIRD SET OF
MODELS SUBMITTED BY UNITED PARCEL SERVICE**

(July 29, 2015)

United Parcel Service, Inc. ("UPS") respectfully submits this reply to the Postal Service's Motion to Strike, dated July 27, 2015 ("Motion to Strike"). For the reasons set forth below, the motion should be denied.

The Motion to Strike accuses UPS of, among other things, engaging "in tactics of continual misdirection and evasion" in this docket. Motion to Strike at 4. This accusation lacks merit, and the Postal Service has not identified anything constituting misdirection or evasion. Instead, it objects to the fact that Dr. Kevin Neels made some modifications to one portion of the model he has developed in this docket, the National Form 3999 Model, in response to specific criticisms advanced by Dr. Bradley, on behalf of the Postal Service, and Dr. Lundblad, on behalf of Amazon. Far from engaging in any misdirection, UPS and Dr. Neels were forthcoming and clear in describing the changes and why they were made – to improve the reliability of the imputations Dr. Neels made to overcome deficiencies in Postal Service data. The Postal Service

provides no reason to doubt that these changes accomplish this objective; yet, it nonetheless asks the Commission to disregard them altogether.

As an initial matter, nothing about the core of Dr. Neels' National Form 3999 Model changed in connection with UPS's July 22, 2015 submission. The fundamentals of the National Form 3999 Model — including its use of national Form 3999 data for over 140,000 city carrier routes, its holistic approach to investigating city carrier costs, and its flexibility in letting the data speak for itself without relying on the type of unsupported assumptions underlying Proposal Thirteen — are all unchanged from the June 8, 2015 version.

The only modifications Dr. Neels made in connection with UPS's July 22 filing were technical changes in response to the Postal Service's and Amazon's filings regarding how to impute certain explanatory variables to fill gaps in the data collected by the Postal Service. Notably, the need for Dr. Neels to impute the explanatory variables does not arise from any core features of his model. This is only necessary, on a short-term basis, because the Postal Service has not collected accurate parcel-related data in its Form 3999 database. As Dr. Neels has explained, the need to do any imputing could be eliminated altogether – potentially within one year – if the Postal Service would start collecting the missing parcel data.

Dr. Neels has always acknowledged that reliably imputing the missing data poses complex econometric issues. When he saw the opportunity to make the imputations more reliable, he pursued it. The fact that Dr. Neels was open to addressing criticisms regarding complex econometric modeling issues should be encouraged. The goal here is to get to the right result in this large and important cost

segment. If the National Form 3999 Model is to be accepted, as UPS believes it should be, all parties have an interest in its imputation results being as reliable as possible.¹

In his most recent report, Dr. Neels explained the changes that were made and why they improved the results. Dr. Neels has also provided relevant back-up materials showing his work. The Postal Service and Amazon have requested, and received, those materials. Instead of raising any specific objections to the changes, however, the Postal Service makes only a few passing comments, in a footnote. See Motion to Strike at 5, n.3. None of these comments withstand minimal scrutiny:

- With regard to change 1, the Postal Service claims that Dr. Neels did not explain how he “interpolates” the annual data into monthly data. In fact, Dr. Neels explained that he “converted the annual volume indexes shown in Table 7 into monthly values by linear interpolation.” Neels Second Supplemental Report at 20.
- The Postal Service claims that Dr. Neels did not explain why he did not use the distribution keys for each individual year. As the Postal Service knows, however, these distribution keys as they relate to competitive products are generally kept confidential, and Dr. Neels only had access to the keys for the most recent years.
- The Postal Service claims that Dr. Neels did not provide definitions of the volume variables he used. In fact, his report specifies that he used “annual piece counts from the annual Revenue, Pieces and Weights

¹ If the Commission is not prepared to accept the National Form 3999 Model at this time, it should accept instead Modified Proposal Thirteen. The Postal Service’s Motion to Strike is not directed in any way at Modified Proposal Thirteen.

(RPW) reports and select information from ACR2010 RPW by Shape and Indicia.” Neels Second Supplemental Report at 19.

- With regard to change 2, the Postal Service suggests that Dr. Neels’ new set of equations “would have to be thoroughly investigated.” Motion to Strike at 5, n.3. It is worth noting, however, that Dr. Neels purposefully evaluated the performance of the new linear imputation model using the same diagnostic tests that Dr. Bradley used to evaluate the prior “negative binomial” imputation model. The Postal Service and its expert are, therefore, familiar with these tests and have advocated for their utility.
- With regard to change 3, the Postal Service questions why, after combining in-receptacle parcels and deviation parcels into a single equation, Dr. Neels proceeds separately to impute deviation and in-receptacle parcels. Dr. Neels did this is to hew as closely as possible to his prior imputation models, while improving the reliability of the results. See Neels Second Supplemental Report at 23-24. This underscores that the changes Dr. Neels made are technical modifications, as opposed to the wholesale adoption of new imputation approaches.

Thus, none of the issues mentioned by the Postal Service bring the improved reliability of Dr. Neels’ imputation models into question. Moreover, as UPS has emphasized, the need for reliance on imputations could itself be rapidly eliminated if the Postal Service were to improve the quality of the information it collects on this increasingly important segment of its business.

By moving to strike, the Postal Service would penalize UPS for the complexity Dr. Neels faced in developing suitable short-term imputation approaches, arising from the Postal Service's own lack of adequate data. The National Form 3999 Model has clear strengths arising from its core features: it uses a broader data set and allows the data to speak for itself holistically; it does not rely on a series of untested and often dubious assumptions, such as the assumption that parcel-delivery does not affect "regular" delivery time; and it shows how to move forward without relying on costly special field studies. None of that changed with UPS's July 22 filing. There is no reason to reject a model with all of these strengths because, for a short period of time, the model must rely on imputation to work around the Postal Service's lack of accurate parcel data. Nor is there any reason to disregard the work Dr. Neels has done to improve the reliability of his imputations in response to the filings by the Postal Service and Amazon.

The bottom line is that UPS's objective in this docket has been to help improve cost attribution in this important cost segment and to assist the Commission by presenting well-developed alternatives for its consideration. The Postal Service argues that an advantage of Proposal Thirteen is that it has not changed since December. On the other hand, it also has not changed in some fundamental ways since 2002. In fact, the last time the Postal Service submitted a similar city carrier study, over a decade ago, the Commission strongly criticized it and adopted it largely because the alternative of continuing to rely on 1980s-era studies was even worse. Before UPS became involved in this docket, the Commission again was going to be left with no alternative to the Postal Service's proposed model. Dr. Neels has developed such an alternative, and

the modern approach embodied in the National Form 3999 Model represents a much needed improvement over Proposal Thirteen.

Accordingly, the Motion to Strike should be denied.

Respectfully submitted,

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