



POSTAL REGULATORY COMMISSION

39 CFR part 3050

[Docket No. RM2023-9; Order No. 6652]

Periodic Reporting

AGENCY: Postal Regulatory Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Commission is acknowledging a recent filing requesting the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports (Proposal Four). This document informs the public of the filing, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* September 29, 2023.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <http://www.prc.gov>. Those who cannot submit comments electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section by telephone for advice on filing alternatives.

FOR FURTHER INFORMATION CONTACT: David A. Trissell, General Counsel, at 202-789-6820.

SUPPLEMENTARY INFORMATION:

Table of Contents

- I. Introduction
- II. Proposal Four
- III. Notice and Comment
- IV. Ordering Paragraphs

I. Introduction

On August 28, 2023, the Postal Service filed a petition pursuant to 39 CFR 3050.11 requesting that the Commission initiate a rulemaking proceeding to consider changes to analytical principles relating to periodic reports.¹ The Petition identifies the proposed analytical changes filed in this docket as Proposal Four.

II. Proposal Four

Background. The Priority Mail Transportation Cost Model is used in financial projections of the expected cost coverage for negotiated service agreements (NSAs). Petition, Proposal Four at 1. The current model was introduced in Docket No. R2006-1 and is updated annually in the Annual Compliance Review (ACR), most recently in Docket No. ACR2022.² The Postal Service states that the model disaggregates the product-level transportation costs by zone and the resulting cost per cube and cost per pound by zone are applied to a customer's weight and zone profile in order to generate forward-looking cost projections for Priority Mail included in any NSA. Petition, Proposal Four at 1. These projections rely on prior fiscal year's costs with inflation factors applied to reflect the expected changes in costs due to broader economic conditions during the first full year of the NSA. *Id.* The Postal Service states that, however, these projections do not reflect expected changes in costs due to Postal Service's changing operational conditions during the first full year of the NSA. *Id.* Thus, the Postal Service proposes several changes to the Priority Mail

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Four), August 28, 2023 (Petition). Proposal Four is attached to the Petition. The Postal Service also filed a notice of filing of non-public material relating to Proposal Four. Notice of Filing of USPS-RM2023-9-NP1 and Application for Nonpublic Treatment, August 28, 2023.

² *Id.* (citing Docket No. ACR2022, Library Reference USPS-FY22-NP27, December 29, 2022).

Transportation Cost Model in Proposal Four to reflect these types of changes more accurately in Priority Mail transportation costs.

Proposal. The Postal Service proposes several changes to the Priority Mail Transportation Cost Model.

First, the Postal Service proposes a correction to the base year model to reflect that a portion of zone 6 pieces utilized distance-related surface transportation during fiscal year (FY) 2022. *Id.* at 2. The Postal Service states that the current model assumes that zone 6 pieces are transported entirely by air. *Id.* The Postal Service states that the correction is made by extending the existing methodology used for zones 1-5 up to zone 6. *Id.*

Second, once the correction to the base year model has been made, the Postal Service proposes the following sequence of actions to adjust the transportation costs by zone to reflect changes in the split between air and surface transportation occurring in the subsequent year due to Postal Service's network change. *Id.*

- A. Collect the proportions of Priority Mail on air and surface transportation by zone from the Product Tracking and Reporting (PTR) system, for both the base year and the month most recently ended. *Id.*
- B. Compare the base year's data with the most recent month's data and calculate the change in the percentage of Priority Mail transported on air vis-à-vis surface for each zone. *Id.* at 3.
 1. If the absolute change from the base year percentage is less than five percentage points for a zone, then no adjustment to the base year costs is made. *Id.*

2. If the absolute change from the base year percentage is more than five percentage points for a zone, then the air and surface costs for that zone are adjusted by the following method:
 - a. The cube-related costs are divided into air-related, distance-related surface, and non-distance-related surface. *Id.* The Postal Service states that air-related costs include both the air costs and the surface costs associated with a connection to air. *Id.*
 - b. The weight-related costs are fully air-related. *Id.*
 - c. The non-distance-related surface costs are excluded from the adjustment and remain unchanged. *Id.* The Postal Service states that these are generally local transportation costs, which would not be affected by a change in the long-distance transportation costs. *Id.*
 - d. The air-related costs (for both cube-related and weight-related costs) are adjusted based on the percentage change in the proportion of Priority Mail transported on air for that zone. *Id.*
 - e. The distance-related surface costs are adjusted based on the percentage change in the proportion of Priority Mail transported on surface for that zone. *Id.* at 4.

The Postal Service states that this methodology can be updated and applied monthly to ensure that the transportation costs reflect the most recent operational conditions as operational changes occur throughout the year. *Id.*

The Postal Service also states that there are two exceptions to this methodology. First, for any NSAs filed during January, the transportation

adjustment from November will be used instead of the adjustment from December. *Id.* The Postal Service explains that this is because the air and surface proportions during peak season are considerably different from the rest of the fiscal year and would not be predictive of the costs that would be incurred during the first full year of the NSA. *Id.* Second, for Priority Mail Non-Published Rates agreements filed in Docket No. CP2020-170, instead of applying the adjustment every month, the adjustment will only be applied when the price floors are updated every year. *Id.*

The Postal Service notes that this methodology would only be used for forward-looking financial projections, and NSA cost coverage reported during the ACR would still be calculated using the average costs for the FY. *Id.* at 4-5.

Rationale. The Postal Service explains that due to the changes in transportation network in FY 2023, the FY 2022 costs for Priority Mail may no longer be predictive of the expected costs for Priority Mail NSAs being negotiated through the end of calendar year 2023. *Id.* at 5. The Postal Service states that similarly, the FY 2023 costs may also not be predictive of the costs for Priority Mail NSAs being negotiated during calendar year 2024, because of network changes scheduled to take place throughout FY 2024. *Id.* The Postal Service asserts that Proposal Four provides a methodology that uses current census data from PTR to adjust the base FY transportation costs to reflect the most recent operational changes, which will be an improvement in the accuracy of the projected cost coverage of NSAs. *Id.*

Impact. According to the Postal Service, the proposed changes have no impact on any product-level costs such as those that would have been reported in the FY 2022 Public Cost and Revenue Analysis Report, because the proposal concerns only the reporting of Priority Mail transportation costs by zone. *Id.* at 5-

6. The Postal Service provides the impact for each component by zone and the combined impact in Library Reference USPS-RM2023-9-NP1 under seal. *Id.* at 5.

III. Notice and Comment

The Commission establishes Docket No. RM2023-9 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's Web site at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Four no later than September 29, 2023. Pursuant to 39 U.S.C. 505, Madison Lichtenstein is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

IV. Ordering Paragraphs

It is ordered:

1. The Commission establishes Docket No. RM2023-9 for consideration of the matters raised by the Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Four), filed August 28, 2023.

2. Comments by interested persons in this proceeding are due no later than September 29, 2023.

3. Pursuant to 39 U.S.C. 505, the Commission appoints Madison Lichtenstein to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this docket.

4. The Secretary shall arrange for publication of this order in the **Federal Register**.

By the Commission.

Erica A. Barker,

Secretary.

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