



POSTAL REGULATORY COMMISSION

39 CFR part 3050

[Docket No. RM2024-1; Order No. 6784]

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 Seven). This document informs the public of the filing, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* December 18, 2023.

ADDRESSES: Submit comments electronically via the Commission's Filing Online system at <https://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 Seven
- III. Notice and Comment
- IV. Ordering Paragraphs

I. Introduction

On November 8, 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 related to periodic reports.¹ The Petition identifies the proposed analytical changes filed in this docket as Proposal Seven.

II. Proposal Seven

Background. Proposal Seven is a request to change the methodology for developing, attributing, and distributing Cost Segment 2 costs related to supervisors and technical personnel. Petition at 1. Proposal Seven stems from the Postal Service's identification of supervisors and technicians costs as a medium-term area in need of study and is the result of that study.² Cost Segment 2 includes salaries, benefits, and other related costs of supervisors (except those associated with supervising vehicle maintenance and custodial employees) and technical personnel. Petition, Proposal Seven at 1. Cost Segment 2 also includes expenses associated with non-supervisory employees who work in the district offices such as customer service representatives and address management personnel. *Id.* at 1-2. Supervisors direct the activities for those employees that process, deliver, and transport the mail. *Id.* at 1. Technical personnel work to improve the efficiency of activities performed by postal employees and include industrial engineers, accountants, and human resources personnel and include staff working in district offices. *Id.*

Currently, accrued supervisor costs are apportioned to supervisor activities through In-Office Cost Systems (IOCS) observations and assignment of corresponding activity codes. *Id.* at 2. The costs associated with these activities

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Seven), November 8, 2023 (Petition). The Postal Service also filed a notice of filing of public and non-public material relating to Proposal Seven. Notice of Filing of USPS-RM2024-1-1 and USPS-RM2024-1-NP1 and Application for Nonpublic Treatment, November 8, 2023.

² Docket No. RM2022-1, Initial Comments of the United States Postal Service, March 25, 2022, at 7, 24-26, 38.

are classified and distributed as variable to the same degree as the work activities supervised. *Id.* The Postal Service represents that in FY 2022, approximately 39,000 IOCS readings were used in determining the supervisors and technicians cost components for FY 2022. *Id.* According to the Postal Service, the IOCS readings are costly, consume valuable resources, and “by their nature do not yield measurements that supply product level detail.” *Id.*

Proposal. The Postal Service’s proposal seeks to replace its use of IOCS readings with operational payroll data and “reasonable assumptions” in determining cost component totals. *Id.* at 3-4. According to the Postal Service, this would result in a set of eight cost components. *Id.* The current IOCS measurements divide the accrued costs in Segment 2 into sixteen cost components. *Id.* at 2-3. More specifically, the Postal Service proposes to use system payment data by Labor Distribution Code (LDC) to form these cost components, which would significantly reduce reliance on IOCS measurements. *Id.* at 1, 3-4. Under the proposed methodology, supervisor cost components would be formed by utilizing the ratio of total payroll salary and benefits by supervisor LDC and facility type and, for some LDCs, the portion of labor costs for the employee craft type supervised. *Id.* at 7.

Additionally, the proposal seeks to tie Professional and Technical total costs to the Trial Balance total rather than relying on IOCS readings and modeling. *Id.* at 4. Currently, technician costs are categorized within the cost component for “Product Specific and Other S & T.” *Id.* The Postal Service proposes that these costs instead be separated into their own cost components based on the General Ledger amounts. *Id.* The Postal Service proposes to separate the remaining supervisor costs even further according to function (using the ratio of payroll data cost according to their function), including the following

LDCs: function 1 (mail processing); function 2 (carriers); function 3 (vehicle service); and function 4 (customer service). *Id.* at 5. All remaining supervisor LDCs would be allocated to the Other Supervisors cost component. *Id.*

The Postal Service proposes further dividing function 1 costs into International Service Centers, Network Distribution Centers, and other costs based on the ratio of payroll costs by location (facility) and applying “more detailed support costs variabilities and distribution keys.” *Id.* at 5, 7. For supervisors that oversee activities of both function 2 and 4 employees (carriers, window clerks and back-office clerks), the Postal Service proposes summing the payroll costs of function 2 and function 4 and then using the underlying direct labor costs to reallocate the functional costs between the two functions. *Id.* at 6. Function 2 delivery costs will then further be separated into rural and city carrier supervision costs based on the nationwide proportions of routes by type of delivery. *Id.* Function 4 costs will then be further allocated to cost pools for Window and Non-MODS clerk supervision using direct labor cost proportions within function 4. *Id.*

Rationale. The Postal Service justifies the proposed changes as improving efficiency by using “passively available operational data,” to form cost components rather than costly IOCS measurements. *Id.* at 7. Additionally, the Postal Service justifies the change as an improvement because it would increase “the accuracy and efficiency of product cost estimation in Cost Segment 2.” *Id.* at 10. For instance, the Postal Service asserts that one significant improvement with this model is the increase in the rural delivery supervision cost component, which will result in a cost ratio “more aligned with operational reality.” *Id.* at 8-9. The Postal Service indicates that the current methodology’s “extreme ratio” might be the result of the difficulty in IOCS sampling in rural areas. *Id.* at 9-10.

Impact. The Postal Service asserts that its proposal will result in “an overall decrease of approximately \$163 million in attributable costs due to the reformulation of the cost components,” mostly “due to the new Other Supervisors costs component, which if implemented would be classified as institutional.” *Id.* at 10. Overall, the proposal will result in a decrease in unit costs for most product classes, except for Market Dominant Services. *Id.* at 10-11.

III. Notice and Comment

The Commission establishes Docket No. RM2024-1 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission’s website at <https://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Seven no later than December 18, 2023. Pursuant to 39 U.S.C. 505, Almaroof Agoro 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. RM2024-1 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 Seven), filed November 8, 2023.

2. Comments by interested persons in this proceeding are due no later than December 18, 2023.

3. Pursuant to 39 U.S.C. 505, the Commission appoints Almaroof Agoro 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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