



POSTAL REGULATORY COMMISSION

[Docket No. SS2022-1; Order No. 6803]

Special Study on Flats Operations

AGENCY: Postal Regulatory Commission.

ACTION: Notice.

SUMMARY: The Commission is recognizing a recently filed Postal Service document with the Commission concerning its plan to remedy inefficiencies identified in the Commission's flats study. This notice informs the public of the filing, invites public comment, and takes other administrative steps.

DATES: *Comments are due:* January 5, 2024.

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:

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I. Introduction

In accordance with the Postal Service Reform Act of 2022 (PSRA),¹ the Commission submitted a report on the findings of its flats operations study on April 6, 2023.² The PSRA also required the Postal Service to develop and implement a plan to remedy each inefficiency identified in the Commission's flats study or provide an explanation why remedying such inefficiency is not practicable. PSRA section 206(b)(1). On October 6, 2023, the Postal Service submitted its plan to the Commission for approval.³

II. Background

The Postal Service has faced significant challenges in processing and delivering flats⁴ in a cost-effective manner. For years, in response to statutory requirements and Commission directives, the Postal Service has been designing and implementing operational and pricing initiatives to address these issues, but the Postal Service has been unable to either quantify the expected impact of those initiatives or isolate the impact to specific products.⁵

The PSRA required the Commission, in consultation with the Inspector General of the United States Postal Service (USPS OIG), to conduct a study evaluating the Postal Service's flats operations. PSRA section 206(b)(2)(A). The statute also required the Commission to submit a report on the findings of the

¹ Postal Service Reform Act of 2022, Pub. L. 117-108, 136 Stat. 1127, available at <https://www.congress.gov/117/plaws/publ108/PLAW-117publ108.pdf> (PSRA).

² Flats Operations Study Report, April 6, 2023 (Flats Operations Study Report).

³ See Submission of the United States Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act of 2022, October 6, 2023 (Notice); see also Notice, Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act of 2022, October 6, 2023 (Flats Plan).

⁴ Flats, or flat-shaped mail, refers to large envelopes, magazines, and other flexible, rectangular mail that meet certain criteria. See United States Postal Service, *Publication 32, Glossary of Postal Terms*, July 1, 2016, at 88, available at https://postalpro.usps.com/storages/2016-04/pub32_glossary.pdf.

⁵ Flats Operations Study Report at 23 (citing Docket No. ACR2021, *Annual Compliance Determination*, March 29, 2022, at 31, 60).

study no later than 1 year after enactment of the PSRA. *Id.* To carry out the study, the Commission collected and reviewed flats data provided by the Postal Service. Flats Operations Study Report at 1. Commission staff also visited Postal Service facilities over a period of several months, visited mailers' facilities, contracted with an operations expert, and consulted with the USPS OIG. *Id.* On April 6, 2023, the Commission submitted its report on the findings of the study to Congress and the Postmaster General.

In its Flats Operations Study Report, the Commission identified multiple causes of inefficiencies in the collection, sorting, transportation, and delivery of flats. Flats Operations Study Report at 23-133. In addition, the Commission quantified the effects of the volume trends, certain investment decisions, excess capacity, and operational inefficiencies of the Postal Service on costs that are attributable to flats. *Id.* at 134-209. At the conclusion of the Flats Operations Study Report, the Commission provided eight suggestions to the Postal Service for consideration as the Postal Service develops its plan. *Id.* at 210.

In response to the report, the Postal Service was required to develop and implement a plan to remedy each inefficiency identified in the Commission's flats study or provide an explanation why remedying such inefficiency is not practicable. PSRA section 206(b)(1). Prior to implementing the plan, the Postal Service must give the public an opportunity to comment on the plan and the Commission must approve the plan. *Id.* On August 16, 2023, the Postal Service published a draft plan and sought public comments on the plan.⁶ On October 6, 2023, the Postal Service submitted its Flats Plan to the Commission for approval.

⁶ See Notice of Availability of Draft Plan for Flat-Shaped Mail, 88 FR 55740 (August 16, 2023); see also Postal Service Flats Plan Pursuant to Section 206 of the Postal Service Reform Act of 2022, August 15, 2023, available at <https://about.usps.com/psra-flats-study/usps-flats-plan.pdf> (Draft Flats Plan). Interested parties were invited to submit written comments during a 30-day period, terminating on September 15, 2023. Notice at 2.

III. Postal Service Flats Plan

The Postal Service asserts that its plan conforms to the relevant statutory requirements and should be approved by the Commission. Notice at 2. In addition to considering public comments, the Postal Service states that it considered the Commission's suggestions, and the findings that inform those suggestions. *Id.* It notes that the Flats Plan incorporates the majority of the Commission's recommendations. *Id.* The Postal Service asserts that where it was unable to accept a Commission recommendation fully, the Flats Plan details how such recommendations may in the future become practicable. *Id.*

At the beginning of its Flats Plan, the Postal Service describes how the implementation of the Delivering for America (DFA) plan will enable it to increase revenue from flats, while also reducing costs by addressing the inefficiencies that currently exist in the processing, transporting, and delivery of flats. Flats Plan at 2. The Postal Service claims that since enactment of the DFA Plan in March 2021, it has made significant progress.⁷ In addressing the Commission's suggestions from the Flats Operations Study Report, the Postal Service discusses specific initiatives relating to flats, and explains that these initiatives are part of the DFA plan. Flats Plan at 2-3. The initiatives include pricing to increase flats revenue, redesigning the network, improving the data quality, and pursuing initiatives to reduce bundle breakage. *Id.* at 4-17. The Postal Service also addresses the relationship between mail volume and productivity, and provides analysis to support its view that productivity declines and therefore increased costs, are due in part to volume declines. *Id.* at 17-24. Finally, the

⁷ *Id.* at 1-2 (referring to United States Postal Service, Delivering for America, Second-Year Progress Report (April 2023), available at <https://about.usps.com/what/strategic-plans/delivering-for-america/assets/usps-dfa-two-year-report.pdf>).

Postal Service addresses comments from the public received on its Draft Flats Plan, and “clarif[ies] certain aspects of the flats plan in response to those comments.” *Id.* at 24-27.

IV. Motions

After the Postal Service filed its Flats Plan, the Commission received motions for leave to provide comments on the Flats Plan from the News Media Alliance (NMA) and the Association for Postal Commerce (PostCom).⁸

NMA and PostCom both state that acceptance of their comments on the Flats Plan would be in the public interest and assist in the Commission’s decision whether to approve or reject the Flats Plan. NMA Motion at 1; PostCom Motion at 1. PostCom also provides examples of where the Commission has accepted pleadings in other dockets where such pleadings were not specifically authorized but would assist the Commission in its deliberations. PostCom Motion at 1. These motions are granted.

In its comments, NMA states the Flats Plan “lacks the comprehensiveness, metrics, and accountability” needed to remedy well-established flats inefficiencies.⁹ NMA recommends that the Commission reject the plan and direct the Postal Service to address the deficiencies identified by NMA. NMA Comments at 1.

PostCom also urges the Commission to reject the Flats Plan and direct the Postal Service to revise the plan to respond to PSRA directives.¹⁰ PostCom attaches its comments submitted to the Postal Service on the Draft Flats Plan,

⁸ Motion for Acceptance of Comments, October 16, 2023 (NMA Motion); Motion for Leave to File Comments, October 18, 2023 (PostCom Motion).

⁹ Comments of the News/Media Alliance on the Postal Service’s Flats Plan, October 16, 2023, at 1 (NMA Comments).

¹⁰ Comments of the Association for Postal Commerce, October 18, 2023, at 1 (PostCom Comments).

where PostCom asserts the draft plan lacked, among other things, targets toward cost coverage improvement, and did not consider the diseconomies of scale that result from declining flats volume. PostCom Comments at 1. PostCom states that despite its comments, the Postal Service submitted the final plan that is “essentially unchanged” from its draft plan. *Id.*

V. Commission Analysis

Upon consideration of the Flats Plan, the Commission finds that, as submitted, this plan presents a high-level proposal that lacks both important details and analytical support needed to evaluate the plan and determine whether it sufficiently and effectively addresses the inefficiencies identified by the Commission and described in the Flats Operations Study Report. The Commission suggested in the Flats Operations Study Report that the Postal Service quantify the impact of any initiatives on cost to ensure its efforts are effective. Flats Operations Study Report at 3. While the Postal Service explains that there are processes to validate potential net financial benefits of initiatives and methodologies for calculating and tracking the results, it does not provide any quantifiable metrics for potential benefits or cost impact results as it describes the initiatives throughout the Flats Plan. See Flats Plan at 17.

Furthermore, the Postal Service does not provide a clear timeline for implementing the initiatives, with some initiatives seemingly already implemented and others in various stages of implementation. See Flats Plan at 7, 9-14. Additionally, while some initiatives appear to have been implemented as early as FY 2021, there is no timeline for when quantifiable impacts of these initiatives will be available.

In its response to public comments, the Postal Service references technology updates to the Automated Flats Sorting Machine. See *id.* at 26. This

effort is well-advised and further details of these plans, including timelines, would improve the Commission's ability to evaluate the plan. Similarly, it is important for the Commission to understand the plan and timeline for other technology improvements, including to the equipment used to process bundles as a means to reduce bundle breakage.

In addition, to thoroughly evaluate the Flats Plan, it is important for the Commission to learn more about the improved data-collection tools developed to enhance the reporting and tracking of bundle irregularities and bundle breakage. See *id.* at 7-9. The discussion of these tools highlights their capability to link images and other evidence of mail irregularities to the Mailer Scorecard but does not clearly specify whether the tools also resolve the other bundle breakage data quality issues the Commission set out in the Flats Operations Study Report. *Id.*; see also Flats Operations Study Report at 85-87. These data quality issues include missing data in the bundle breakage dataset for bundles without a full-service Intelligent Mail barcode (IMb) and the lack of ability to identify where in the mail processing flow a bundle breakage occurs. See Flats Operations Study Report at 85-87. Addressing these additional issues would allow the Postal Service to identify trends and causes of bundle breakage within the handling and processing of bundles, which were previously lacking in the data. Accordingly, the Commission will seek more information from the Postal Service to enable evaluation of the Flats Plan prior to issuing its approval. The Commission also will invite comments from other interested persons on whether the Flats Plan is consistent with applicable statutory requirements.

VI. Notice and Comment

Interested persons may submit comments on the Flats Plan no later than January 5, 2024. Pursuant to 39 U.S.C. 505, Manon A. Boudreault is designated

as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

VII. Ordering Paragraphs

It is ordered:

1. The News Media Alliance's Motion for Acceptance of Comments, filed October 16, 2023, is granted.

2. The Association for Postal Commerce's Motion for Leave to File Comments, filed October 18, 2023, is granted.

3. Comments on the Flats Plan are due no later than January 5, 2024.

4. Pursuant to 39 U.S.C. 505, Manon A. Boudreault is appointed to serve as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

5. The Secretary shall arrange for publication of this notice in the **Federal Register**.

By the Commission.

Erica A. Barker,

Secretary.

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