



**BAC 7710-FW-P**

## **POSTAL REGULATORY COMMISSION**

### **39 CFR Part 3050**

**[Docket No. RM2024-2; Order No. 6816]**

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

**DATES:** *Comments are due:* January 18, 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

On November 21, 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.<sup>1</sup> The Petition identifies the proposed analytical changes filed in this docket as Proposal Eight.

## II. Proposal Eight

*Background.* In May 2023, the Postal Service began using a new route evaluation system, the Rural Route Evaluated Compensation System (RRECS), to determine each route's evaluated time, on which basis the compensation for rural carriers is based. Petition, Proposal Eight at 1. The Postal Service states that RRECS replaces the previous route evaluation system and is materially different from the previous system in three important ways. *Id.* at 1-2. First, RRECS presents a more detailed classification of daily carrier activities and can potentially identify new linkages between rural carrier volumes and rural carrier costs. *Id.* at 2. Second, RRECS uses engineering and statistical methods instead of negotiated standards to establish time standards for individual rural carrier activities, which may lead to different volume variable costs. *Id.* Third, RRECS uses current data to determine the various counts that are applied to the

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<sup>1</sup> Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Eight), November 21, 2023 (Petition). Proposal Eight is attached to the Petition. The Petition was accompanied by a study supporting its proposal. See Michael D. Bradley, *Calculating the Rural Carrier Product Costs Arising Under the New Evaluation System*, November 21, 2023 (Bradley Study). The Postal Service also filed a notice of filing of public and non-public materials relating to Proposal Eight. Notice of Filing of USPS-RM2024-2-1 and USPS-RM2024-2-NP1 and Application for Nonpublic Treatment, November 21, 2023.

time standards to determine evaluated time, unlike the existing methodology that relies on a special study (the Rural Mail Count) last conducted in 2018 to capture those counts. *Id.* The Postal Service concludes that because of these differences, it is likely that the relationship between rural carrier costs and volumes has changed, and changes to the existing methodology are required to accurately measure attributable rural carrier costs. *Id.*

*Proposal.* Before describing the proposal, the Postal Service notes that a more detailed discussion of the research supporting the proposal is provided in the Bradley Study, and supporting data are provided in Library References USPS-RM2024-2-1 and USPS-RM2024-2-NP1. *Id.* at 3.

The Postal Service states that because RRECS links actual volumes to actual rural carrier compensation, it is appropriate to use RRECS data to measure the variability of rural carrier costs and to distribute attributable costs to products. *Id.* The Postal Service explains that although the existing methodology has a solid casual basis, its implementation is dated. *Id.* at 4. First, it relies on Form 4241 negotiated evaluation factors, which are no longer used and do not reflect the current relationships between volume and rural carrier cost. *Id.* Second, it relies on volumes from the Rural Mail Count conducted in 2018, and there have been material volume shifts since then. *Id.*

The Postal Service states that updating the existing methodology using data from RRECS also provides two advantages for calculating attributable costs. *Id.* First, RRECS captures volume from ongoing operational data systems, and volume counts will be automatically updated each year and will no

longer depend on a special volume study. *Id.* at 4-5. Second, RRECS provides a more detailed description of rural carrier activities and reflects how rural carrier operations are currently performed. *Id.* at 5.

The Postal Service states that RRECS has three types of variables that are used in calculating volume variable rural carrier costs. *Id.* First, it has time standards, which are the scientifically derived evaluation times specified for each carrier activity. *Id.* Second, it has units, which are a count of the activity that causes the carrier to incur time. *Id.* Third, it has time sequences, which are a measure of time spent in a specific activity. *Id.* The Postal Service states that for nearly all the time sequences, the calculated time is the product of the time standard for the activity and the number of units for the activity. *Id.*<sup>2</sup>

The Postal Service states that updating the existing methodology using RRECS data requires identifying the RRECS sequences that are volume variable. *Id.* at 6. This requires examining the relationship between volume and evaluated time for each of the sequences that make up the carrier's day. *Id.* First, this requires examining, for each sequence, the relationship between the cost driver (measured by the sequence's unit) and the sequence's evaluated time. *Id.* Second, this requires examining the relationship between volume and the sequence's unit. *Id.* The Postal Service concludes that a sequence is volume variable if both the linkage between volume and its unit, and the linkage

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<sup>2</sup> The Postal Service notes that there are three activities that are sufficiently heterogenous across routes that effective time standards could not be established. *Id.*, n.1. These activities are loading the vehicle, deviations for Priority Mail Express deliveries, and end of shift activities. *Id.* For these three activities, the actual time the carrier spends is recorded on the carrier's Mobile Delivery Device. *Id.*

between its unit and its evaluated time, are in force. *Id.* On the other hand, if a sequence's unit is not volume dependent, then the sequence is not volume variable. *Id.*

The Postal Service states that there are a total of 98 sequences and subsequences that make up the carrier's day. *Id.* Based on its analysis, the Postal Service concludes that among these sequences and subsequences, there are 48 that are entirely volume variable, 16 that are partially volume variable, and 34 that are not volume variable. *Id.* at 6-7.

The Postal Service states that the overall variability for rural carrier labor time is calculated as the ratio of total volume variable evaluated time to total evaluated time. *Id.* at 7. Under the existing methodology, the overall variability for labor time is 39.0 percent. *Id.* Using 2023 data from RRECS, the overall variability is 47.2 percent. *Id.*

The Postal Service explains that the higher overall variability under RRECS is due to three reasons. *Id.* First, box time is volume variable under RRECS but not under the existing methodology. *Id.* The Postal Service states that total box time is a large time sequence and is the largest volume variable sequence under RRECS. *Id.* Second, under RRECS rural carriers get credit for verifying the addresses of mail as it is delivered. *Id.* at 7-8. Because this activity occurs at every box that receives mail, this makes it the second largest volume variable sequence under RRECS, whereas under the existing methodology this time is implicit in the non-volume variable box time. *Id.* at 8. Third, RRECS has a much more detailed examination of rural carriers' activities, leading it to identify

higher time standards for handing mail, especially for parcels. *Id.* The Postal Service states that because of the growth in parcel volume, these additional parcel-related activities represent the third through the fifth largest volume variable sequences under RRECS. *Id.*

The Postal Service states that the last step in the calculation of attributable rural carrier costs is the distribution of volume variable costs to the products that cause them. *Id.* This requires aligning RRECS cost pools with the distribution keys in the Rural Carrier Cost System (RCCS). *Id.* The Postal Service states that in some cases, this requires combining RRECS cost pools that share a common RCCS distribution key, and in others it requires subdividing an RRECS cost pool into shapes-specific sub-pools that match RCCS distribution keys. *Id.*

The Postal Service further proposes minor modifications to the RCCS distribution keys in order to realign rural carrier costing with RRECS. *Id.* The Postal Service states that these modifications “are related to the shape of the mail piece, the presence of delivery barcodes, and the delivery location.” *Id.* at 13. The Postal Service further states that these modifications “would result in the addition of new distribution keys, the removals of obsolete distribution keys, and in changes in the assignment of mail pieces to the distribution keys.” *Id.*; see *generally, id.* at 13-16 (describing the minor modifications in detail).

*Impact.* The Postal Service presents the impact of using RRECS data on the volume variable costs by product groups and the impact on unit costs by

product in two tables.<sup>3</sup> In terms of the impact on volume variable costs, the Postal Service states that the most notable impact is the large increase in volume variable costs for both Package Services and Competitive products. *Id.* at 9. The Postal Services explains that this is due to the higher parcel-shaped volumes recorded in RRECS as compared to the 2018 Rural Mail Count, and the higher carrier time per parcel identified under RRECS as compared to the negotiated time from Form 4241. *Id.*

In terms of the impact on unit costs, the Postal Service states there are relatively small changes in unit costs for First-Class Mail products and Marketing Mail products (except for parcels), Periodicals' unit costs decrease because of the decline in rural route flats volume, Package Services' and Competitive products' unit costs increase because of higher parcel volumes and higher evaluated times per parcel in RRECS, and special services' unit costs decrease because of lower volumes and lower unit times in RRECS. *Id.* at 10-11.

The Postal Service concludes that “the impact analysis demonstrates that the proposed costing methodology produces volume variable and unit costs consistent with the changes in volume since 2018 and the change in the route evaluation structure brought on by RRECS.” *Id.* at 11.

### **III. Notice and Comment**

The Commission establishes Docket No. RM2024-2 for consideration of matters raised by the Petition. More information on the Petition may be

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<sup>3</sup> See *id.* at 10, Table 1, Assessing the Impact of RRECS on FY 2022 Volume Variable Costs by Product Groups (Thousands of Dollars); see also *id.* at 12, Table 2, Changes in Unit Costs Due to Switch to RRECS.

accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Eight no later than January 18, 2024. Pursuant to 39 U.S.C. 505, Nikki Brendemuehl 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. RM2024-2 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 Eight), filed November 21, 2023.

2. Comments by interested persons in this proceeding are due no later than January 18, 2024.

3. Pursuant to 39 U.S.C. 505, the Commission appoints Nikki Brendemuehl 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 the publication of this Order in the *Federal Register*.

By the Commission.

**Erica A. Barker,**

*Secretary.*