



BILLING CODE 7710-FW-P

## POSTAL REGULATORY COMMISSION

### 39 CFR Part 3050

[Docket No. RM2024-7; Order No. 7108]

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

**DATES:** *Comments are due:* May 30, 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.

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## I. Introduction

On May 10, 2024, 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 Two. Proposal Two seeks to establish a cost model for the purpose of disaggregating costs for the USPS Ground Advantage (GA) product. Petition, Proposal Two at 1.

## II. Proposal Two

*Background.* Previously, USPS Retail Ground (RG), First-Class Package Service (FCPS), and Parcel Select (PS) were listed as separate Competitive products within the *Mail Classification Schedule* (MCS) with Parcel Select Ground (PSG) as a price category within the PS product. *Id.* at 2. In order to improve service standards for RG and PSG, the Postal Service implemented operational changes to process and transport RG and PSG mail along with FCPS mail in the contiguous United States beginning FY 2022, Quarter 4.<sup>2</sup>

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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 Two), May 10, 2024 (Petition). The Postal Service filed a notice of filing of non-public materials relating to Proposal Two. Notice of Filing of USPS-RM2024-7-NP1 and Application for Nonpublic Treatment, May 10, 2024.

<sup>2</sup> *Id.*; see Docket No. N2022-1, United States Postal Service's Request for an Advisory Opinion on Changes in the Nature of Postal Services, March 21, 2022, at 3.

In addition, classification changes were made to the products on the MCS by removing RG from the Competitive product list, removing PSG as a price category from PS, and expanding the FCPS price structure to include mail pieces weighing up to 70 pounds, thus subsuming the RG and PSG price categories under FCPS.<sup>3</sup>

In Docket Nos. CP2023-113 and CP2023-114, the Commission approved additional proposed classification changes to rename FCPS to USPS Ground Advantage and several changes to the PS price structure including: (1) eliminating the distinction of machinable and nonmachinable prices for Parcel Select Heavy Weight (PSHW), (2) establishing a Destination Hub (DHUB) price category for PSHW, (3) establishing a DHUB price category for Parcel Select Lightweight (PSLW), and (4) revising the PSLW price structure that focused on destination entry only.<sup>4</sup>

*Proposal.* Proposal Two introduces a methodology for reporting GA negotiated service agreement (NSA) costs and presents a model for distributing GA transportation costs by zone. Petition, Proposal Two at 1. The proposal also presents methodologies for distinguishing mail processing and delivery costs between those incurred by pieces under 1 pound and those incurred by pieces 1 pound or greater. *Id.*

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<sup>3</sup> Petition, Proposal Two at 1-2; see Docket Nos. MC2022-81 and MC2022-82, Order Removing USPS Retail Ground from the Competitive Product List and Approving Competitive Classification Changes to First-Class Package Service and Parcel Select, October 28, 2022, at 1-2 (Order No. 6318).

<sup>4</sup> Docket Nos. CP2023-113 and CP2023-114, Order Concerning Changes in Rates of General Applicability and Classifications for First-Class Package Service and Parcel Select, June 7, 2023, at 1 (Order No. 6536).

The mail processing costs for PSG were previously identified through the Parcel Select Mail Processing Cost Model. *Id.* at 3. The Postal Service states that for purposes of the mail processing cost model, it was assumed that PSG had the same proportion of machinable and nonmachinable volume as Parcel Select Destination Entry. *Id.* at 4. However, the Postal Service asserts that GA does not have a separate rate table for nonmachinable volume and therefore there is no visibility into how much volume may be machinable or nonmachinable. *Id.*

The Postal Service states that there was “insufficient time to attempt to acquire the necessary data, iron out all of the details of the methodology, and present and litigate a proposal in time to incorporate the results of such litigation” into the FY 2023 *Annual Compliance Report* preparation. *Id.* at 5.

Accordingly, the Postal Service filed a motion for a temporary waiver of Rule 3050.10.<sup>5</sup> The Commission subsequently issued an order taking the motion under advisement, stating that the applicable supporting documents must be sufficient to support the Commission’s FY 2023 compliance evaluation.<sup>6</sup> On March 28, 2024, the Commission issued the FY 2023 *Annual Compliance Determination* (ACD) granting the motion based on the review of the proposed interim methodology and the Postal Service’s responses to various Chairman’s Information Requests, which “appear[ed] to demonstrate a good-faith effort on

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<sup>5</sup> See Docket No. ACR2023, Motion of the United States Postal Service for Waiver of Rule 3050.10 with Respect to Disaggregated Ground Advantage Costs, December 8, 2023.

<sup>6</sup> See Docket No. ACR2023, Order Taking Under Advisement Postal Service Motion for Waiver of Rule 39 CFR 3050.10 Regarding Disaggregated USPS Ground Advantage Cost Information, December 22, 2023 (Order No. 6894).

the part of the Postal Service to mitigate the consequences of its failure to promptly file a petition for a change of analytical principles.”<sup>7</sup> The Commission also directed the Postal Service to initiate a rulemaking docket to consider costing methodology for GA no later than 60 days after the issuance of the FY 2023 ACD. FY 2023 ACD at 60. The Postal Service filed the proposal subject to this proceeding in response to the directive in the FY 2023 ACD. Petition, Proposal Two at 6.

The Postal Service states that it considered alternative options using the FCPS and PSG methodologies or a combination of both for all GA costs and described the limitations of each. *Id.* at 6-10. The Postal Service proposes a GA transportation model designed similarly to the PSG component of the Parcel Select transportation model<sup>8</sup> and a GA mail processing cost model which disaggregates the mail processing cost for GA between lightweight (under 1 pound) and heavyweight pieces (1 pound and up). Petition, Proposal Two at 12-22.

*Transportation cost model.* The Postal Service states that the proposed transportation cost model contains some differences from the PSG transportation model. *Id.* at 12.

First, the Postal Service states that the transportation costs by cost pool from Cost Segment 14 are split into local/intermediate, long-distance, and air costs. *Id.* The Postal Service confirms, however, that air costs are identified

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<sup>7</sup> See Docket No. ACR2023, *Annual Compliance Determination*, March 28, 2024, at 59 (FY 2023 ACD).

<sup>8</sup> See Docket No. ACR2023, Library Reference USPS-FY23-NP16, December 29, 2023.

separately from other long distance surface transportation costs. *Id.* The Postal Service explains that while PSG was primarily a “fully ground product,” GA has “some lanes which currently travel by air in order to meet service standards” and therefore the operational differences between the original PSG product and the GA product “warrant a different treatment of air costs.” *Id.* at 12-13.

Second, the Postal Service states that both local and intermediate costs are ultimately distributed by zone using the same method (share of cubic feet by zone), and thus there is no need to distinguish between these costs in the GA transportation model. *Id.* at 13. The Postal Service confirms that the purpose of the Parcel Select transportation cost model is, first, to disaggregate Parcel Select transportation costs by entry point (destination delivery unit (DDU), destination sectional center facility (DSCF), destination network distribution center (DNDC), and Ground), and second, to disaggregate that entry point’s costs further by zone. *Id.* The Postal Service states that because there are no destination entry rate categories for GA, the transportation model is only fulfilling the second function of the PSG transportation model, which is to split the costs by zone. *Id.* The Postal Service concludes that it is therefore not necessary to identify local and intermediate costs of the entry points separately, since they receive the same treatment. *Id.*

Third, the Postal Service states that the GA highway costs by cost pool are assigned fully to local/intermediate or long distance, rather than being split based on the percent of volume that crosses network distribution center (NDC) service areas because GA pieces may travel on a distance-related leg of

transportation that does not cross an NDC service area boundary. *Id.* at 14.

Additionally, the Postal Service states that the NDC service area is not an appropriate distinction to identify long distance versus local/intermediate transportation because GA is not primarily processed in the NDCs. *Id.* at 15.

Fourth, the Postal Service explains that the Vehicle Service Driver (VSD) costs included in the PSG transportation model in order to disaggregate transportation-related costs by entry point (DDU, DSCF, DNDC, and Ground) are not necessary for GA since there are no destination entry categories and thus, VSD costs can be identified and adjusted separately. *Id.* The Postal Service proposes instead that customer-specific VSD costs for GA are calculated by adjusting the VSD cost by the same percentage as the transportation cost and states this is the same methodology used to calculate customer-specific VSD costs for the legacy FCPS product. *Id.* at 15-16.

Finally, the Postal Service states that once costs have been summarized into the three relevant categories (local/intermediate, long distance, and air), the next step is to distribute them by zone based on the relevant cost-causing characteristics for each category; however, air costs are not treated as non-zone-related long-distance costs and distributed based on the share of cubic feet by zone. *Id.* at 16. The Postal Service states that the data from the Product Tracking and Reporting (PTR) system are used to identify the share of GA weight that flies by zone and that the distribution of air weight by zone is used to distribute the air cost by zone. *Id.*

The Postal Service explains that the resulting total costs by zone for the three categories (local/intermediate, long distance, and air) are summed together and then divided by the total cubic feet per zone to calculate the cost per cubic foot for each zone, and then the cost per cubic foot for each zone are applied to the relevant volumes in each GA NSA. *Id.* at 17. The Postal Service confirms that this cubic dimensional measurement is in contrast to the legacy FCPS costs, which were adjusted based on weight rather than cubic feet because dimensions did not influence the rate paid for FCPS while PSG was subject to dimensional pricing and nonstandard length fees. *Id.* at 18.

The Postal Service explains that total cubic feet per zone is calculated by multiplying the average cube per piece for each weight step by the total GA volume for that weight step. *Id.* The Postal Service further describes that the average cube per piece for each weight step is developed using a combination of statistical sampling data from the Origin-Destination Information System – Revenue, Pieces, and Weight (ODIS-RPW) for ounce-rated pieces under 1 pound and PTR data for pound-rated and cubic pieces, and dimension data for a sample of GA pieces are collected during ODIS-RPW tests. *Id.* The Postal Service states that although not every dimension of every piece is recorded, the Postal Service was able to construct an average cube per piece by weight step using PTR data. *Id.* The Postal Service also rationalizes that a linear regression was used to smooth the results for weight steps 8 pounds and up in order to mitigate the variation of GA dimension data at the highest weight steps. *Id.*

The Postal Service contends that the use of cube for all rate categories within the GA product provides a more detailed measurement and is the most accurate evaluation of the GA NSA performance. *Id.* at 19.

The Postal Service concludes that “the new GA transportation model represents an improvement over both the existing FCPS methodology and the existing PSG component of the Parcel Select Transportation cost model.” *Id.*

*Mail processing cost.* The Postal Service states that a GA cost analysis has been developed, and it disaggregates the mail processing costs for GA between lightweight pieces (under 1 pound) and heavyweight pieces (1 pound and over). *Id.* at 19-20. The Postal Service explains that this analysis is based on In-Office Cost System (IOCS) tallies similar to the one applied each year for Priority Mail.<sup>9</sup> The Postal Service explains that there are fewer IOCS tallies available for GA, especially in the higher weight steps because there was only one-quarter of data, and the product was still dominated by pieces weighing less than 1 pound. Petition, Proposal Two at 20. The Postal Service indicates that it evaluated the available data and determined that such data could not support additional weight groups over 1 pound. *Id.* The Postal Service confirms that the methodology used to estimate product-level mail processing costs is the same for all products (including GA) and its legacy products, but some differences occur.<sup>10</sup> The Postal Service describes that a key distinction for PSG is that it is

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<sup>9</sup> *Id.* at 20 (citing Docket No. ACR2023, Library Reference USPS-FY23-NP27, December 29, 2023, Excel file “MP Cost by wgt-fn for PM NSA-FY2023.xlsx”).

<sup>10</sup> *Id.* These differences are relative to the methodologies employed for the legacy products when costs are disaggregated below the product level for application to NSA customers’ specific volume profiles. *Id.* at 21.

not directly distinguishable from other Parcel Select rate categories using mail piece markings observable to IOCS data collectors, making the modeling approach necessary to disaggregate Parcel Select costs. *Id.*

The Postal Service explains, however, that the methodology applicable to GA mail processing costs relies on data from IOCS tallies to disaggregate mail processing labor volume-variable cost (VVC) by facility type, “basic function,” and weight category (lightweight USPS Ground Advantage pieces up to 1 pound and heavyweight pieces 1 pound or over). *Id.* The Postal Service states that it applies the resulting costs for GA pieces under and over 1 pound to each customer’s NSA profile by the same weight groups. *Id.* at 22.

The Postal Service concludes that “[t]his methodology for disaggregating the GA mail processing costs is an improvement over any of the alternatives available because it maintains the distinction in costs between those pieces under one pound and over one pound, and it also reflects the nature of the new product which is no longer fully commercial and bulk-entered.” *Id.*

*Delivery cost.* The Postal Service explains that delivery costs are also reported separately by weight group, which reflects the fact that lightweight pieces are more likely to fit into the mailbox rather than receive a deviation delivery and therefore will have a lower delivery cost (on average) than the pieces that are more than or equal to 1 pound. *Id.* at 22-23.

*Other costs.* The Postal Service confirms that costs for other functions, such as window service, packaging, advertising, and credit/debit card fees, are treated in the same manner as they have been historically for FCPS. *Id.* at 24.

*Rationale and impact.* The Postal Service states that a methodology is needed for reporting GA costs below the product level, for application to customer-specific volume profiles for each GA NSA and that this proposal is filed in compliance with the Commission's directive in the ACD to file such a rulemaking within 60 days of the issuance of the ACD. *Id.* at 11 (citing FY 2023 ACD at 60).

*Transportation cost model.* The Postal Service states that because the prior methodology did not provide for any disaggregation by zone and instead applied the same transportation cost across all zones, the new methodology tends to reflect lower costs for the inner zones and higher costs for the outer zones, relative to the FCPS methodology. *Id.* at 26. The Postal Service asserts that these changes represent an improvement because air costs are assigned to the actual zones that incur them rather than being spread across all zones in proportion to the share of cubic feet in each zone, which could result in understated or overstated transportation cost for NSA customers. *Id.*

*Mail processing cost analysis.* The Postal Service states that it has provided (under seal) comparisons of the resulting mail processing costs for GA lightweight and heavyweight pieces to the mail processing costs for legacy products during FY 2023. *Id.*

*Delivery cost.* The Postal Service states that it has provided (under seal) comparisons of the resulting delivery costs for GA lightweight and heavyweight pieces to the delivery costs for legacy products during FY 2023.

*Negotiated service agreement costing.* The Postal Service states that it has begun using the GA costs resulting from the interim methodology introduced in the FY 2023 ACR to project the financial performance of new GA NSAs for Calendar Year 2024. *Id.* at 27. The Postal Service notes that the Commission directed the Postal Service to provide alternate financial workpapers applying the cost models for the GA legacy products and asserts that it has complied by including alternate workpapers in every GA NSA filed since.<sup>11</sup> The Postal Service maintains that application of the new GA costs allows for a more appropriate projection of the expected financial performance of upcoming GA NSAs and represents an improvement over the current situation wherein no accepted analytical principle exists for reporting GA costs below the product level. Petition, Proposal Two at 28.

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

The Commission establishes Docket No. RM2024-7 for consideration of matters raised by the Petition. More information on the Petition may be accessed via the Commission's website at <http://www.prc.gov>. Interested persons may submit comments on the Petition and Proposal Two no later than May 30, 2024. Pursuant to 39 U.S.C. 505, Christopher C. Mohr is designated as an officer of the Commission (Public Representative) to represent the interests of the general public in this proceeding.

### **IV. Ordering Paragraphs**

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<sup>11</sup> *Id.* (citing Docket No. MC2024-158 *et al.*, Order Adding Priority Mail & USPS Ground Advantage Contracts to the Competitive Product List, January 30, 2024, Order No. 6952).

*It is ordered:*

1. The Commission establishes Docket No. RM2024-7 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 Two), filed May 10, 2024.

2. Comments by interested persons in this proceeding are due no later than May 30, 2024.

3. Pursuant to 39 U.S.C. 505, the Commission appoints Christopher C. Mohr 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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