

USPS further deletes the reference to “out-of-bounds delivery receptacles” in favor of language recognizing that Group E PO Box service is not available when a physical address receives any form of USPS carrier delivery. Confusion over the intent of the meaning of “out-of-bounds” obscured the larger context wherein Group E service should never supplement a physical location’s carrier delivery service. Clarifying the intent and eliminating this confusion may cause existing Group E customers to lose Group E eligibility for their physical addresses, while others whose physical locations the USPS chooses not to provide carrier service to may become eligible for Group E service.

The Postal Service also revises DMM 508.4.6.3 to acknowledge carrier delivery service, once established to a particular physical address, eliminates Group E eligibility. Improved language in this section illustrates situations where no eligibility for Group E arises either because carrier delivery is available or because action (or inaction) by third parties precludes USPS from extending carrier delivery.

Although we are exempt from the notice and comment requirements of the Administrative Procedure Act [5 U.S.C. of 553 (b), (c)] regarding proposed rulemaking by 39 U.S.C. 410(a), we invite public comments on the following proposed revisions to *Mailing Standards of the United States Postal Service*, Domestic Mail Manual (DMM), incorporated by reference in the *Code of Federal Regulations*. See 39 CFR 111.1.

List of Subjects in 39 CFR Part 111

Administrative practice and procedure, Postal Service.

Accordingly, 39 CFR part 111 is proposed to be amended as follows:

PART 111—[AMENDED]

1. The authority citation for 39 CFR part 111 continues to read as follows:

Authority: 5 U.S.C. 552(a); 13 U.S.C. 301–307; 18 U.S.C. 1692–1737; 39 U.S.C. 101, 401, 403, 404, 414, 416, 3001–3011, 3201–3219, 3403–3406, 3621, 3622, 3626, 3632, 3633, and 5001.

2. Revise the following sections of *Mailing Standards of the United States Postal Service*, Domestic Mail Manual (DMM) as follows:

Mailing Standards of the United States Postal Service, Domestic Mail Manual (DMM)

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500 Additional Mailing Services

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508 Recipient Services

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4.0 Post Office Box Service

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4.6 Fee Group Assignments

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[Revise title, introductory text and items 4.6.2a, b and c, and eliminate item d in its entirety as follows:]

4.6.2 Free PO Box Service (Group E)

Customers may qualify for Group E (free) PO Box service at a Post Office location if their physical address location meets all of the following criteria:

a. The physical address is within the geographic delivery ZIP Code boundaries administered by a Post Office.

b. The physical address constitutes a potential carrier delivery point of service.

c. USPS does not provide carrier delivery to a mail receptacle at or near that physical address for reasons other than the conditions in 4.6.3b.

[Revise title and introductory text of 4.6.3 and add new items a through d as follows:]

4.6.3 Additional Standards for Free PO Box Service

Only one Group E (free) PO Box may be obtained for each potential carrier delivery point of service, under the following conditions:

a. Group E PO Box customers are assigned the smallest available box that reasonably accommodates their daily mail volume.

b. Eligibility for Group E PO Boxes does not extend to:

1. Individual tenants, contractors, employees, or other individuals receiving or eligible to receive single-point delivery to a location such as a hotel, college, military installation, campground, or transient trailer park.

2. Locations served, or eligible to be served, by centralized delivery or grouped receptacles such as cluster box units, apartment style receptacles, mailrooms, or clusters of roadside receptacles.

3. Locations where town ordinances, private roads, gated communities, unimproved or poorly maintained roadways, unsafe conditions, or other conditions preclude extension of carrier delivery.

4. Locations served by a delivery receptacle that a customer chooses to locate along a carrier’s line of travel, and to which the Postal Service makes delivery.

c. A customer must pay the applicable fee for each PO Box requested in addition to the initial free Group E PO Box.

d. The online application tools described in 4.3.1b cannot be used for free PO Box service.

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We will publish an appropriate amendment to 39 CFR part 111 to reflect these changes if our proposal is adopted.

Stanley F. Mires,

Chief Counsel, Legislative.

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POSTAL REGULATORY COMMISSION

39 CFR Part 3050

[Docket No. RM2011–3; Order No. 589]

Periodic Reporting Rules

AGENCY: Postal Regulatory Commission.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Commission is initiating the first strategic rulemaking since enactment of a postal reform law in 2006. The broad focus is on product cost estimation. This document provides background information on the scope of a strategic rulemaking, identifies several potential areas for study, and seeks suggestions for additional topics. It also notes that a public forum, conducted as a technical conference, may be held in the future.

DATES: *Comments are due:* February 18, 2011.

ADDRESSES: Submit comments electronically via the Commission’s Filing Online system. Commenters who cannot submit filings electronically should contact the person identified in the **FOR FURTHER INFORMATION CONTACT** section for advice on alternatives.

FOR FURTHER INFORMATION CONTACT: Stephen L. Sharfman, General Counsel, at stephen.sharfman@prc.gov or 202–789–6820.

SUPPLEMENTARY INFORMATION: 39 U.S.C. 3652(a) through (c) describe the reports that the Postal Service is to provide to the Commission to enable it to evaluate the Postal Service’s compliance with the various requirements and standards of the Postal Accountability and Enhancement Act (PAEA). Section 3652(e) provides that the Commission shall prescribe the form and content of those reports. Section 3652(e)(2) authorizes the Commission to initiate proceedings to improve the quality, accuracy, or completeness of the data

provided in the Postal Service's annual compliance reports.

In Docket No. RM2008-4, the Commission described the framework that it contemplated for assuring that appropriate changes or additions are made both to the methods for collecting and reporting data, and to the methods for analyzing or modeling those data to develop the estimates that are reported to the Commission under section 3652. Order No. 104, issued August 22, 2008,¹ observed that

A strategic rulemaking would be designed to make the ongoing development of analysis in cost causation or other areas of analysis as orderly and efficient as possible. It would take an inventory of longer-term data collection and analysis needs. It is likely to involve plans to meet those needs over a horizon longer than a year. It might focus on existing data collection systems that need to be improved or new data collection programs that need to be established. It might list existing analytical studies that need to be updated, or new analytical studies that need to be undertaken. The scope of a strategic rulemaking would be broad, since one of its purposes would be to compare the likely cost and benefits of improved data or analysis in different areas of research, and the lead time required to conduct the research. The purpose would be to prioritize research projects and draw up a tentative schedule for conducting them.

A strategic rulemaking is likely to be general in focus and exploratory in nature in its early stages. Accordingly, the procedures followed would be quite flexible. They might begin with the equivalent of a prehearing conference in which interested parties identify areas in which research is most needed and most likely to bear fruit. Once a strategic rulemaking has identified and prioritized areas of needed research, it would then narrow its focus to specific data to be gathered or studies to be performed. The Notice of Proposed Rulemaking would be expected to culminate in Commission approval of a list of research projects to be undertaken and a preliminary projected time table for their completion.

Id. at 32-33.

Order No. 104 contemplated that a strategic rulemaking would develop an inventory of longer-term data collection and analysis needs, comprehensively evaluate these needs, and devise a plan for meeting these needs, with input from mailers, the interested public, the Postal Service and Commission staff. *Id.* This proceeding is the Commission's first strategic rulemaking. The Commission is aware that it comes at a time when the Postal Service is under considerable financial pressure. At the same time, the Commission is aware that it is necessary to have accurate

estimates of product costs in order to understand the net revenue consequences of the rates and discounts that the Postal Service selects. For this reason, the benefits of obtaining accurate estimates of product costs can far outweigh the expense of properly designed data collection systems and properly executed analysis.

Existing cost systems can become inaccurate or lose their relevance due to changes in operations or product offerings. Also, opportunities to develop more accurate estimates can arise if new sources of information, such as the Intelligent Mail barcode (IMb), become available. The Commission is mindful that modifications or improvements to cost estimation methods should only be undertaken when there is substantial reason to believe that existing systems are obsolete or otherwise inaccurate. For a publicly-owned entity like the Postal Service, changes to the level and quality of the business information that guides its operations should be based on understanding among the Postal Service, its stakeholders, and the regulator, about the need for, and the value of the changes. The Commission hopes that the postal community will weigh both the costs and benefits of any proposed changes and provide input on what improvements in data collection and analysis warrant attention in the near term and what improvements would be warranted over a longer time horizon. Of those that are considered to be warranted over the near term, comments are requested concerning which research topics should be given priority, and what time frame should be considered feasible for completing the research.

Interested persons may propose areas of research that they think are needed, and may use the list of possible candidates in the attachment to this order as a starting point. In doing so, they should consider the magnitude of the candidate's potential impact on estimated volumes, costs or revenues; the time and expense likely to be required to resolve it; and its potential relevance to determining compliance with the standards of the PAEA or supporting the various studies and reports that the PAEA requires the Commission to prepare.

To begin the discussion, the Commission identifies several candidate areas for study in the attachment. There are a number of narrower cost and revenue estimation issues that have been identified in the Commission's recent Annual Compliance

Determinations and not yet resolved.² Commenters may wish to express an opinion on which of these data reporting topics and estimation issues should be included in this strategic rulemaking planning process, and which are better left to the traditional rulemaking procedure in which petitions are filed to request that the Commission make specific changes or additions to established analytical principles. Finally, the Commission's periodic data reporting rules currently have placeholders for data required to calculate the cost of the Postal Service's Universal Service Obligation (*see* 39 CFR 3050.30) and data required to estimate the quality of service (*see* 39 CFR 3050.53). These topics will be addressed in separate dockets.

Following the submission of initial comments, the Commission will select an appropriate time to host a public forum. The public forum will function as a technical conference. Subject matter experts from the Postal Service, interested participants, and Commission staff will have an opportunity to interactively discuss matters, such as feasibility and cost, which would bear on the priority that should be assigned to the various research topics that are in need of further study. Proposed modifications to the list of topics and tentative prioritization of them will be

² With respect to recognizing shape differences in the first-ounce rate for First-Class Mail, *see* 2008 Annual Compliance Determination, March 30, 2009, at 54 (2008 ACD) and 2009 Annual Compliance Determination, March 29, 2010, at 73 (2009 ACD). With respect to Periodicals, estimating what portion receives an automated incoming sort is discussed in Docket No. RM2010-6, Order No. 400, January 28, 2010; how the cost models should treat allied costs is discussed in the 2008 ACD at 57-58; and calculating the proper percentage of 5-digit bundles, analyzing weight-related cost pools, and gathering Periodicals-specific field data is discussed in Docket No. RM2009-1, Order No. 170, January 12, 2009. With respect to Standard Mail, properly allocating the costs of letters ineligible for the letter rate is discussed in the 2008 ACD at 64-65; negative cost avoidances between Basic and High Density parcels is discussed in the 2007 ACD at 96-97, the 2008 ACD at 66-67, and the 2009 ACD at 88-90; and reconciling the costs estimated for nonprofit Standard Mail with total Standard Mail costs is discussed in USPS-27 FY 2008 Nonprofit Mail Cost Approximations, December 29, 2008, and the 2008 Annual Compliance Report (ACR). With respect to Bound Printed Matter, the need for new methods for estimating the costs avoided by presorting is discussed in the 2008 ACD at 75-76, and the 2009 ACD at 100. The need to develop methods for estimating the costs of new stand-alone Special Services is discussed in the 2009 ACD at 106; the need for distinguishing the costs of Stamp Fulfillment Services from Philatelic Services is discussed in Docket No. MC2009-19, Order No. 487, July 13, 2010, at 5-6; and the need for distinguishing the costs of IMTS-outbound from IMTS-inbound is discussed in the 2009 ACD at 120. Estimating mailer-specific costs by indirect means is discussed in the 2009 ACR in USPS-FY-09 at 109, and the need for improvements is discussed in the 2009 ACD.

¹ Docket No. RM2008-4, Notice of Proposed Rulemaking Prescribing Form and Content of Periodic Reports, August 22, 2008 (Order No. 104).

addressed at the forum. Participants at the public forum may also discuss a protocol whereby the Postal Service or outside contractor conducting a study growing out of this proceeding would afford an opportunity for outside review and input at interim stages. Additional technical conferences may be scheduled to discuss a particular research item or set of items in greater depth.

The Commission will balance the urgency and importance of resolving each issue with the practical considerations of time, cost, and other resource limitations. A schedule with target dates for beginning data collection efforts or completing an initial group of analytical studies will be developed. Formal proposals to change or supplement current analytical principles are expected to grow out of the research completed in response to this proceeding. Such proposals will be vetted as they are now in informal rulemakings devoted to specific detailed changes.

Topics in attachment. [This material appears as an attachment to Order No. 589 as published on the Commission Web site]. Some candidate areas for improvements in data collection and analysis [include:]

1. The data underlying the current estimates of the variability of City Carrier street time were collected in 2002, and the subsequent update of the input data in 2004 produced substantially different results which have not been fully examined in public. Current (and future) operations may differ from those measured in 2002 due to volume declines, route adjustments, and the introduction of FSS. The expense of an appropriate study and its potential to broadly impact attributable cost estimates are likely to be substantial. Therefore, it would be preferable to develop a consensus as to the general design and scope of a study before beginning any data collection. It may also be appropriate to investigate the suitability of data from existing collection systems (*e.g.*, Delivery Operations Information System) to reduce the need for reliance on one-time studies.

2. Mail processing is the largest source of volume-variable costs in the postal system. Despite its prominence, its volume variability has never been successfully modeled. The Commission currently uses a general assumption that mail processing costs vary in proportion to volume with the exception of a few minor operations. Mail processing might not vary in proportion to volume in certain processing environments. Considerable progress has been made in developing a valid theoretical approach

to modeling volume-variable mail processing costs. However, lack of data on volumes finalized at processing plants that are reasonably free of measurement error has remained an obstacle to implementing a theoretically sound approach.³ An important area of investigation is whether this obstacle could be overcome through ubiquitous use of an Imb that tracks each piece of bulk-entered mail through the mail processing network, coupled with the use of mail history data that tracks each individually-entered piece of mail through that network. *Id.* at ¶ 92, n.15, and ¶ 102, n.20. If comprehensive tracking of plant-level volumes is not realistic anytime soon, the potential value of modeling mail processing costs with the aid of plant-specific piece handling and other data should be evaluated. Plant-specific data might furnish instrumental variables capable of overcoming the problem of measurement error in what is supposed to serve as the volume variable (*id.*, ¶¶ 148–156) and might provide valuable control variables that would make successful modeling of mail processing cost variability more feasible.

3. In Docket No. ACR2008, the Postal Service identified group-specific costs for competitive products in Cost Segment 18 (Administration and Regional Operations) that are incurred for only one product group. The Postal Service identified these costs through a management questionnaire sent to all Headquarter's finance number groups asking whether the work conducted within that finance number was for the support of one specific product or a group of products. Additional work in this area would include the expansion of this exercise to other cost segments, as well as the possible development of decision rules to designate mixed group activity costs as group specific.⁴

4. The study underlying the variability of Cost Segment 8, Vehicle Service Drivers (VSDs), was adopted in Docket No. R97–1 and has not been revised. Changes in operations are likely to have altered the behavior of VSD costs since this study, and therefore the need for an updated study should be assessed. Also, when the Commission recently approved the short-term use of the Intra-SCF cubic-foot-miles proxy as the VSD distribution key, it instructed the Postal Service to move away from the use of proxies. *Id.* at 39. In the 2009 ACR, the Postal Service indicated that it

planned to sample VSD in FY 2010, but that it had no current plans to review the variability.⁵ The Postal Service's schedule for these efforts could be reviewed in this docket.

5. The Postmaster Variability Study was completed in 1984. It has not been updated and may no longer be representative of current variability of postmaster costs.⁶ Specifically, according to the OIG, the analysis used FY 1979 postmaster salaries and FY 1978 Workload Service Credit (WSC) Index data to determine that the estimated postmaster variability was 18.23 percent. For example, the minimum postmaster salary for Executive and Administrative Schedule (EAS)–23 increased from \$22,500 in 1979 to \$52,433 in 2008.⁷ The difficulty of developing an up-to-date analysis of postmaster variability could be explored.⁸

It is ordered:

1. Initial comments are due on or before February 18, 2011.

2. Pursuant to 39 U.S.C. 505, Robert N. Sidman is designated as the Public Representative in this proceeding to represent the interests of the general public.

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

By the Commission.

Ruth Ann Abrams,

Acting Secretary.

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³ See Docket No. ACR2009, USPS–FY09–9—FY 2009 ACR Roadmap Document, December 29, 2009, at 112.

⁶ United States Postal Service, Office of Inspector General (OIG), Audit Report—Management of Special Studies (Report Number CRR–AR–10–0002), March 19, 2010, at 2 (OIG Report).

⁷ The 1984 study was based on postmaster salaries EAS–22 and below, which has since changed to include EAS–23.

⁸ The Commission accepted the Postmaster Variability Study in 1984. At that time, the Commission recommended the Postal Service update the study with current salary and WSC data in subsequent rate cases. According to the OIG, in 1997 and again in 2007, the Postal Service considered conducting a new study; however, management set aside the study due to higher priority work. The OIG says that Postal Service personnel stated they are awaiting Commission guidance to prioritize updating the Postmaster Variability Study. See OIG Report, Appendix B, for detailed analysis of this topic.

³ See PRC Op. R2006–1, ¶¶ 85–122.

⁴ See Docket No. RM2008–2, Order No. 115, Order Accepting Certain Analytical Principles for Use in the Postal Service's Periodic Reports, October 10, 2008, at 11–13.