

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268

OPERATIONAL AND SERVICE STANDARDS CHANGES TO MEET
STATUTORY REQUIREMENTS FOR RELIABLE, EFFICIENT, HIGH
QUALITY SERVICE AND FINANCIAL SUSTAINABILITY THROUGH AN
INTEGRATED MAIL AND PACKAGE NETWORK

Docket No. N2024-1

NOTICE OF PRE-FILING CONFERENCE
(August 22, 2024)

Pursuant to section 3020.111(d) of title 39 of the Code of Federal Regulations (C.F.R.), the United States Postal Service (Postal Service) hereby notifies the Postal Regulatory Commission (Commission) of our intent to hold a Pre-Filing Conference on September 5, 2024, from 1:00 p.m. to 3:00 p.m. (Eastern time), regarding the Postal Service's plans to transform our processing and transportation networks and to revise our service standards for end-to-end products to align with these operational initiatives. The conference will be held virtually, rather than at a physical location. Representatives of the Postal Service capable of discussing the proposal will be made available at that time.

Proposed Change in the Nature of Postal Services

Under current law, the Postal Service is responsible for providing and promoting adequate and efficient postal services in a financially self-sufficient manner. Today, the Postal Service is not financially self-sufficient and lacks any prospect of becoming self-

sufficient without comprehensive operational changes to reduce costs and increase efficiency. The Postal Service's current processing facilities are outmoded, costly, and underperforming, and our local transportation network has failed to adjust to volume trends and is characterized by excessive costs. Moreover, and as the Commission recently recognized, the Postal Service continues to incur large net losses, our current assets are not sufficient to pay for our current liabilities, our working capital is negative, and our resources are insufficient to pay down our liabilities.

On March 23, 2021, the Postal Service published a ten-year strategic plan, entitled *Delivering for America: Our Vision and Ten-Year Plan to Achieve Financial Sustainability and Service Excellence*. The Plan contains the Postal Service's blueprint for addressing our long-standing financial, operational, and service performance issues and sets forth a positive vision for placing us on a path toward service excellence and financial sustainability through a comprehensive and balanced set of initiatives. We have seen significant successes so far in implementing the Plan, in terms of growing our business through more rational pricing and enhanced products and services (including the introduction of USPS Ground Advantage), improving the working conditions and career paths of our employees, and in implementing self-help initiatives to reduce our costs of performance. These self-help initiatives have included numerous steps to move mail and package volume in a more integrated manner over an improved nationwide ground transportation network, which has led to substantial transportation cost savings and emissions reductions. We have also reduced work hours considerably.

While progress has been made to date, much more work remains to be done for the Postal Service to achieve the goals of the Plan and become a high-performing, financially sustainable organization. We must therefore intensify our efforts to cut our cost of performance and create a rational network that satisfies our service and cost objectives.

Pursuant to the Plan, the Postal Service intends to implement, on a nationwide basis, initiatives to fundamentally transform our processing and transportation networks to achieve greater operational precision and efficiency, significantly reduce costs, and enhance service. Specifically, we intend to systematically redesign and invest in our outmoded processing facilities to create a network of Regional Processing and Distribution Centers or Campuses (RPDCs) and Local Processing Centers (LPCs), which will deploy standardized and logically sequenced operating plans and schedules for the movement of mail and packages, more sortation equipment, optimized transportation routes, and improved operating tactics to increase throughput, gain productivity, and increase asset utilization across the country. In addition, we intend to implement on a nationwide basis the Regional Transportation Optimization (RTO) initiative, which rationalizes our regional transportation network (i.e., trips between the retail/delivery network and the processing network) by eliminating routes and increasing truck utilization, while improving the efficiency and velocity of the processing network. The RTO initiative – which is an evolution of the Local Transportation Optimization (LTO) initiative that we have piloted in limited geographic areas – provides flexibility in regional transportation scheduling, as we will be able to consolidate the drop-off of destinating mail, and the pick-up of originating mail, on the same morning transportation

route for certain 5-Digit ZIP Codes. ZIP Codes will be designated for RTO when the servicing facility from which the collection mail and packages are dispatched is more than 50 miles from the RPDC campus, with the potential for other ZIP Codes to be designated in the future in exceptional circumstances. We estimate that these initiatives will allow the Postal Service to achieve significant cost savings of between \$2.8 billion to \$3.3 billion on an annual basis once fully implemented.

The Postal Service is also proposing to revise our service standards for end-to-end market-dominant and competitive products to align with these operational initiatives; these revisions will create standards that are more operationally precise and specific for customers, enable the Postal Service to maintain or upgrade the service standards for a majority of volume, and enhance the Postal Service's ability to reliably achieve our standards. In particular, we intend to reimagine how we look at service standards by basing them on segments so we can provide our customers with clear, understandable, and logical information about the service we will provide to them from a 5-digit to 5-digit ZIP Code perspective.

Our current First-Class Mail and USPS Ground Advantage standards are predicated solely on plant-to-plant (i.e., on 3-Digit to 3-Digit ZIP Code) driving distances. We will transition to 5-Digit to 5-Digit ZIP Code (i.e. Post Office to Post Office) service standards that maintain the existing delivery day ranges for both First-Class Mail and USPS Ground Advantage while accurately and logically reflecting the three operational legs applicable to the movement of mail and packages: collection to origin processing (Leg 1), origin processing to destination processing (Leg 2), and destination processing to delivery (Leg 3). We will also transition the service standards for end-to-end USPS

Marketing Mail and Package Services so that they are based on the standards for First-Class Mail and USPS Ground Advantage, respectively, which will result in a shorter day range for these products when compared to the current service standards.

The proposed changes will lead to a net positive impact for First-Class Mail, as well as for end-to-end USPS Marketing Mail, Periodicals, and Package Services, from a service standard perspective. Most volume will retain the same service standard as under the current service standards or see service standard improvements because the operational changes will enable us to provide accelerated service in Leg 2 compared to our current standards. Some mail and packages will experience a longer service standard (although still within the current day-ranges), primarily because the standards will incorporate 1 day within Leg 1 for all volume originating in a 5-Digit ZIP Code that is designated for RTO. All volume will benefit from greater service reliability. We will also adjust the determination of our service standards to exclude Sundays and holidays as transit days for mail and packages entered on a Saturday or the day before a holiday (which is a small proportion of volume); they are already non-delivery days.

The Postal Service has significant discretion to determine how to fulfill our statutory obligations, including the discretion to determine how to best balance considerations of service adequacy with the need for economical and cost-effective operations. The new service standards, and the operational changes to which they are aligned, appropriately balance service levels with economical and cost-effective operations. Implementation of these initiatives is essential for us to reduce our costs and achieve the overall level of savings necessary for the Postal Service to have the prospect of achieving financial stability. In doing so, we will revitalize and rationalize our

network in a way that enables us to provide the same or enhanced service standards for a majority of volume, and greater service reliability for all volume. The changes we are contemplating will also enable us to improve service for commercial mailers and be more competitive in certain key portions of our package business, which is also critical to achieving financial stability.

The urgent need for the changes we are proposing cannot be overstated, as we are in a perilous fiscal condition and wholly lack the financial flexibility under the current business model to absorb long delays before implementing a restructuring plan. The Postal Service's ability to capture the financial benefits afforded by the proposed changes is critical to our financial survival and to the continued operations of the Postal Service as a self-funded going concern.

Notwithstanding this urgency, the Postal Service would not implement the proposed service standard changes any sooner than 90 days after a request for an advisory opinion is filed with the Commission (which would occur following the Pre-Filing Conference), meaning any implementation of the proposed service standards would not occur until the next calendar year. The Postal Service may implement discrete aspects of the operational initiatives during this period consistent with the fact that they are currently being piloted, but any changes would be limited in scope. With respect to the mail processing facility reviews (MPFRs) that the Postal Service conducted in preparation for implementing certain of the changes discussed above, we have already confirmed that no additional movement of processing operations associated with these MPFRs will occur until January 2025 at the earliest. Moreover, the Postal Service will not implement LTO or RTO at any new locations beginning in

September and through Election Day in November.

As such, these proposed changes will not impact Election Mail for the upcoming election or our preparedness for Peak Season 2024. For the upcoming election, the Postal Service will again deploy our long-standing practices to ensure the appropriate handling and timely delivery of Election Mail; we will therefore be executing extraordinary measures beyond our normal course of operations around Election Day throughout the Nation. We will also engage in certain specific additional measures in those limited areas that are subject to the current LTO pilots to ensure that there is no impact as a result of those pilots, and that all Election Mail is delivered in a timely manner.

Registration

The Postal Service plans to hold the above-mentioned virtual Pre-Filing Conference regarding its proposed changes on September 5, 2024, from 1:00 p.m. to 3:00 p.m. (Eastern time), to provide an opportunity to educate the public on our plans, and for interested persons to give feedback to the Postal Service that we may use to modify or refine our proposal before it is filed with the Commission. Information and instructions regarding how to participate in the virtual Pre-Filing Conference may be found at: <https://about.usps.com/what/strategic-plans/delivering-for-america/details.htm>.

Unless all available spaces are taken sooner, registration will be open until September 3, 2024, at 12:00 p.m. (Eastern time).

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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