

**POSTAL SERVICE**

**39 CFR Part 121**

**Proposal to Revise Service Standards for First-Class Mail, Periodicals, and Standard Mail**

**Agency:** Postal Service™.

**Action:** Advance notice of proposed rulemaking; request for comments.

**Summary:** The Postal Service seeks public comment on a proposal to revise the service standard regulations contained in 39 CFR Part 121. Among other things, the proposal involves eliminating the expectation of overnight service for First-Class Mail and Periodicals, and, for each of these classes, narrowing the two-day delivery range and enlarging the three-day delivery range. One major effect of the proposal would be to facilitate a significant consolidation of the Postal Service's processing and transportation networks.

**Dates:** Comments must be received on or before [INSERT DATE 30 DAYS FROM DATE OF PUBLICATION IN THE FEDERAL REGISTER].

**Addresses:** Written comments should be mailed to Manager, Industry Engagement and Outreach, United States Postal Service, 475 L'Enfant Plaza, SW, Room 4617, Washington, DC 20260. Comments also may be transmitted via email to [industryfeedback@usps.com](mailto:industryfeedback@usps.com). Copies of all comments will be available for inspection and photocopying at the Postal Service Headquarters Library, 475 L'Enfant Plaza, SW, 11th Floor North, Washington, DC 20260, between 9 a.m. and 4 p.m., Monday through Friday.

**For Further Information Contact:** Anthony Frost, Industry Engagement and Outreach, 202-268-8093; or Emily Rosenberg, Network Analytics, 202-268-5585.

**Supplementary Information:**

The Postal Service's processing and transportation networks were developed, over many decades of growing mail volumes, largely to achieve service standards for First-Class Mail and Periodicals, particularly their overnight service standards. In Section 302 of the Postal Accountability and Enhancement Act of 2006, Congress found that the Postal Service's networks were larger than necessary and directed the Postal Service to consolidate its infrastructure to better align with changing conditions. Since then, the Postal Service has vigorously pursued operational consolidation opportunities to reduce excess capacity in its networks.

However, during the same time period, mail volumes have declined substantially, such that the Postal Service's processing and transportation networks exhibit more excess capacity in relation to current and projected mail volumes than previously anticipated. As a result of the sharp revenue declines associated with falling volumes, as well as other statutorily mandated costs, the Postal Service has experienced significant financial losses for the past four years. Unfortunately, further network consolidations (beyond those that have already been performed or are currently under study), which are necessary to align the Postal Service's infrastructure with current and projected mail volumes and to bring operating costs in line with revenues, will for the most part be unachievable without a relaxation of certain service standards for First-Class Mail, Periodicals, and Standard Mail. The Postal Service is therefore exploring a proposal (the Proposal) to revise these service standards.

## I. Proposed Service Standard Revisions

The Postal Service established its current service standards for market-dominant products on December 19, 2007, in accordance with 39 U.S.C. 3691. The service standards for First-Class Mail, as set forth in 39 CFR 121.1, range from 1 to 3 delivery days for mail that travels within the contiguous United States, and 1 to 5 delivery days for mail that originates or destines in Alaska, Hawaii, or the U.S. territories. One aspect of the Proposal would be to revise 39 CFR 121.1 such that the service standards for First-Class Mail that travels within the contiguous United States would become 2 to 3 delivery days. Similarly, the service standards for First-Class Mail that originates or destines in Alaska, Hawaii, or the U.S. territories would become 2 to 5 delivery days.

In other words, the Postal Service would eliminate the expectation of overnight service for First-Class Mail, narrow the two-day delivery range, and enlarge the three-day delivery range. These changes would apply to all First-Class Mail, including letters, flats, and parcels.<sup>1</sup> The potential impact of the Proposal on First-Class Mail is illustrated below:

### Proportion of First-Class Mail Volume by Service Standard

	Current	Proposed
1-day	41.5%	0 %
2-day	26.6%	50.6%
3-day	31.6%	49.1%
4-day	0.3%	0.3%

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<sup>1</sup> As the Postal Service stated when it established the current service standards, “there are finite limits in the level of service standard differentiation that can be effectively managed on the workroom floors of a complex logistical network.” Modern Service Standards for Market-Dominant Products, 72 FR 72221 (Dec. 19, 2007). Therefore, any service standard revisions adopted by the Postal Service will continue to apply at the class level.

5-day            < 0.1%            < 0.1%

Because service standards for a portion of Periodicals are linked to First-Class Mail service standards, the Postal Service would revise the Periodicals service standards as well. As specified in 39 CFR 121.2, the service standards for Periodicals presently range from 1 to 9 delivery days within the contiguous United States. Under the Proposal, the service standards for both end-to-end and destination-entry Periodicals within the contiguous United States would be revised to a range of 2 to 9 delivery days.

The substantial consolidation of the mail processing network made possible by the above service standard revisions would result in the elimination of some facilities at which Standard Mail users currently enter mail. In particular, it is possible that Area Distribution Centers (ADCs) would no longer be available for entering mail. Therefore, it is possible that the Proposal could require a revision to the current service standard for end-to-end Standard Mail entered at ADCs, as set forth in 39 CFR 121.3(a)(2). The exact nature of this revision is presently unclear.

In addition, although the service standards for other Postal Service products would not be revised, all Postal Service products could experience changes in specific 3-digit ZIP Code origin-destination pairs' transit times. The changed transit times would remain within the current ranges set forth in each product's service standards.<sup>2</sup>

## **II. Changes to Mail Processing and Transportation Networks**

If the Postal Service were to revise service standards as described above, it could significantly improve operating efficiency and lower the operating costs of its mail

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<sup>2</sup> While competitive products' service standards are not published, the transit times for competitive products would remain within the overall ranges that are marketed for those products (such as 1-2 delivery days for Express Mail, and 1-3 delivery days for Priority Mail).

processing and transportation networks. To meet overnight service standards for First-Class Mail, processing facilities currently initiate their primary and secondary sortation cycles well into the evening and early morning hours. In particular, processing facilities generally run their Delivery Point Sequencing programs (DPS) between 12:30 a.m. and 7:00 a.m. DPS is the sortation of the next day's destinating letter- and flat-shaped mail pieces into the precise order in which they will be delivered on carrier routes. After mail is run through DPS, it is transported to delivery units, where it is taken by carriers for delivery. The processing window for DPS operations is set late in the night so that all originating First-Class Mail collected from a processing facility's overnight service area on a particular day can reach the facility before DPS is run that night. This is done to ensure that the portion of the originating First-Class Mail that destimates in the facility's service area is run through DPS that night and delivered by carriers the next day, fulfilling that mail's overnight service standard. Thus, the arrival time of First-Class Mail with an overnight service standard largely dictates the start time for DPS processing.

By eliminating overnight service standards for First-Class Mail, and thus eliminating the need for processing facilities to wait into the night for mail collected during the day to reach the facilities, the Postal Service could move the time for its primary and secondary sortations to much earlier in the day. Under the Proposal, the Postal Service would institute earlier critical entry times and redesign its network so that mail that needs to be processed on a particular day would reach mail processing facilities by 8:00 a.m. Consequently, the Postal Service could begin running DPS at noon. Thus, DPS could be run for 16 hours (12:00 p.m. to 4:00 a.m.) instead of 6.5 hours (12:30 a.m. to 7:00 a.m.) each day.

The Postal Service could also reduce the amount of manual casing that occurs at delivery units. Currently, some First-Class Mail Flats and Periodicals whose zones are processed on the Flats Sequencing System (FSS) arrive at mail processing facilities too late to be sorted by FSS. Because some of these mail pieces have an overnight service standard, they are sorted on the same night to the carrier route level and then transported to delivery units. As a result, these pieces require manual casing at delivery units. Under the revised service standards, such pieces would arrive at processing facilities in time for the next day's FSS sortation, thereby eliminating manual casing of such pieces at delivery units.

The Postal Service believes that, with the longer processing windows and other changes described above, it could consolidate mail processing operations from over 500 locations currently to fewer than 200 locations, resulting in lower facilities costs and significant labor workhour savings.<sup>3</sup> It could also reduce the total amount of machinery needed to run DPS, on a national level, by approximately one-half. This would allow for greater reliance on machinery that incurs lower maintenance costs.

In addition, the Postal Service could improve the efficiency of its transportation network. To meet the current service standards, a large proportion of the Postal Service's mail trucks operate at low levels of capacity. With a reduced number of processing locations and longer processing windows, the Postal Service could reduce the number of mail trucks it needs and ensure that more of those trucks operate at higher levels of capacity.

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<sup>3</sup> The effects of the Proposal would be limited to the approximately 460 Processing and Distribution Centers, Customer Service Facilities, Logistics and Distribution Centers, Surface Transfer Centers, and associated Annexes. The Proposal should not affect Network Distribution Centers, Air Mail Centers, Remote Encoding Centers, and International Service Centers.

The Postal Service believes that the consolidations and reductions described above would result in an infrastructure that better aligns with current and projected mail volumes and would lead to significant cost containment opportunities.

### **III. Effects of the Proposal**

The Postal Service has listed briefly below several major effects that the Proposal may have:

- The reduced availability of locations at which drop ship discounts may be applied could require changes to commercial mailers' transportation networks. For national mailers, this could result in cost savings, given that they would transport mail to fewer locations. For regional and local mailers, the reduced availability of business mail entry units and drop ship locations could cause additional costs, if they have to transport mail over longer distances.
- Commercial mailers who use products that have zone-based pricing may experience price changes, if the locations at which they currently enter mail are eliminated and the nearest available locations are within different 3-digit ZIP Codes.
- Commercial mailers of First-Class Mail, Periodicals, and Standard Mail who seek to have their mail reach recipients on specific delivery days may have to restructure their production cycles to align with the changed critical entry times and reduced number of entry points.
- While some commercial mailers could effectively maintain same-day processing and overnight delivery by restructuring their production cycles

to align with the changed critical entry times, this would not be possible for retail First-Class Mail customers, because mail pieces dropped off at blue collection boxes and other retail collection points before 8:00 a.m. would not be collected and transported to processing locations in time for same-day processing.

- The longer processing windows could enhance the reliability of the Postal Service in meeting the revised service standards.

#### **IV. Request for Comments**

The Postal Service requests comments on all aspects of the Proposal. In particular, the Postal Service solicits comments on the effects that the Proposal could have on senders and recipients of First-Class Mail, Periodicals, and Standard Mail, as well as any potential effects on users of other mail classes. Mail users are encouraged to comment on the nature and extent of costs or savings they might experience as a result of the changes described in this notice, as well as any additional possible benefits they foresee. Comments explaining how mail users might change their mailing practices or reliance on the mail if the Proposal is implemented also are encouraged. The provision of empirical data supporting any cost-benefit analysis also would be useful. In addition, the Postal Service seeks suggestions on how to modify the Proposal to better serve mail users. Further, the Postal Service requests mail users' views regarding the application of the policies and requirements of title 39 of the U.S. Code, particularly sections 101, 403, 404, and 3691, to the Proposal and to service standard revisions generally.

The Postal Service intends to consider comments received in response to this notice as it determines whether and how to amend its service standard regulations. This request for comments is being pursued in concert with other customer and public outreach activities, through mailer and other organizations, and through consultation with individual customers and groups of customers. If the Postal Service should decide to move forward with the Proposal, it will publish a proposed rule in the Federal Register and solicit public comment. It also would request an advisory opinion from the Postal Regulatory Commission pursuant to 39 U.S.C. 3661(b).

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