

ORDER NO. 1430

UNITED STATES OF AMERICA  
POSTAL RATE COMMISSION  
WASHINGTON, DC 20268-0001

Before Commissioners:

George Omas, Chairman;  
Tony Hammond, Vice Chairman;  
Dana B. Covington, Sr.;  
Ruth Y. Goldway; and  
Dawn A. Tisdale

Rules Applicable to Renew or Modify  
Previously Recommended  
Negotiated Service Agreements

Docket No. RM2005-3

NOTICE AND ORDER ESTABLISHING RULEMAKING DOCKET  
FOR CONSIDERATION OF PROPOSED RULES APPLICABLE TO REQUESTS TO  
RENEW OR MODIFY PREVIOUSLY RECOMMENDED NEGOTIATED SERVICE  
AGREEMENTS

(Issued February 10, 2005)

In Opinion and Recommended Decision, Docket No. MC2002-2, (Opinion) the Commission made a commitment to initiate a series of rulemakings designed to facilitate consideration of Postal Service requests based on Negotiated Service Agreements.<sup>1</sup> See, Opinion paras. 1006, 2007, 4026, 4041-2, 7026, and 8023. The first rulemaking, docketed as RM2003-5, developed rules for baseline and for functionally equivalent Negotiated Service Agreements.<sup>2</sup> It also established the

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<sup>1</sup> Docket No. MC2002-2, Experimental Rate and Service Changes to Implement Negotiated Service Agreement with Capital One Services, Inc., was the first docket in which the Commission considered and recommended a Postal Service request predicated on a Negotiated Service Agreement.

<sup>2</sup> PRC Order No. 1391 established the rules applicable to baseline and functionally equivalent Negotiated Service Agreements. The rules are incorporated into the Commission's Rules of Practice and Procedure at Subpart L. 39 CFR 3001.190 et seq.

organizational framework for the complete set of Commission rules applicable to requests based on Negotiated Service Agreements.<sup>3</sup>

A second rulemaking, docketed as RM2005-2, has been initiated to explore whether improvements can be made to the previously issued rules applicable to functionally equivalent Negotiated Service Agreements. The Postal Service first invoked the rules applicable to functionally equivalent Negotiated Service Agreements in requests filed on June 21, 2004, for proposed Negotiated Service Agreements with Discover Financial Services, Inc. and Bank One Corporation<sup>4</sup>.

The rules applicable to new baseline Negotiated Service Agreements remain untested as the Postal Service has not submitted a request for a new baseline agreement.

This Notice and Order represents the initiation of a third rulemaking to address rules applicable to: (1) Postal Service requests to extend the duration of previously recommended and currently in effect Negotiated Service Agreements, and (2) Postal Service requests to make modifications to previously recommended and currently in effect Negotiated Service Agreements. Both sets of rules assume that the previously recommended and currently in effect Negotiated Service Agreements were fully litigated in previous dockets where all outstanding issues have been resolved. The rules also assume that the modifications being proposed in the new requests are non-controversial, and do not materially alter the nature of the existing agreements. These are necessary assumptions if the Commission is to provide expedited review and rapid action in issuing recommendations on such requests. The proposed rules, appearing below the Secretary's signature to this Notice and Order, are discussed below.

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<sup>3</sup> Space was reserved at 39 CFR 3001.197 for requests to renew previously recommended Negotiated Service Agreements with existing participant(s), and at 39 CFR 3001.198 for requests to modify previously recommended Negotiated Service Agreements.

<sup>4</sup> Request of the United States Postal Service for a Recommended Decision on Classifications, Rates and Fees to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc., June 21, 2004; Request of the United States Postal Service for a Recommended Decision on Classifications, Rates and Fees to Implement Functionally Equivalent Negotiated Service Agreement with Bank One Corporation, June 21, 2004.

*Proposed 39 CFR 3001.197 Requests to Renew Previously Recommended Negotiated Service Agreements With Existing Participant(s)*. Subsection (a) establishes that rule 197 is applicable to requests to extend the duration of a previously recommended and currently in effect Negotiated Service Agreement (the existing agreement). The intent is to limit use of the rule to instances where the proposed agreement and the existing agreement share substantially identical obligations. This restriction is necessary to limit the issues open to litigation, and to otherwise expedite the proceeding as much as possible. In instances where there are no contested issues it should be possible for the Commission to issue its recommendation shortly after the prehearing conference.

Rule 197 allows for three instances where modifications to the terms and conditions (including modifications to the Domestic Mail Classification Schedule) may be appropriate: (1) correcting a technical defect, (2) updating the schedule of rates and fees, and (3) accounting for an intervening event since the recommendation of the existing agreement. The rule notes that the above modifications should not materially alter the nature of the existing agreement. This notation serves as a reminder of the limited applicability of rule 197, and that modifications of any substance may not allow for expedited review, or in the more extreme case may cause the request to be considered de novo. This rule is inapplicable when material features are proposed to be significantly modified, added, or removed from the existing agreement.

The exceptions are provided predominately to allow for correction of errors or to update the terms and conditions to the current situation when the existing agreement is renewed. The correction of technical defects, for example, allows for correction of scrivener's errors, and to correct for errors in description. An example of an error in description could be an instance of where the parties to the contract, the Commission, and the participants in the original docket understood the intent of a term or condition, but what was actually described in the documentation was technically not correct. Thus, the exception would allow the documentation to be corrected or clarified.

Updating the schedule of rates and fees refers to updating the schedule of rates and fees to reflect the current conditions at the time the Negotiated Service Agreement is extended. It does not refer to a wholesale revamping of the schedule of rates and fees to accommodate new or remove existing incentives, or which change the underlying nature of the existing agreement.

Accounting for intervening events since the recommendation of the existing agreement refers to an internal or an external event, typically unanticipated or unforeseen, that has occurred since recommendation of the agreement and that has an impact on some aspect of the agreement. For example, a merger, a change in the nature of a provided postal service, or an external economic occurrence that forces a change in business plans could be intervening events. It is important to stress that the more significant the event and the associated modification required, the less applicable rule 197 becomes and the more likely that the request would have to be considered *de novo*.

Subsections (a)(1) through (7) highlight particular areas of interest to the Commission in reviewing requests to renew existing agreements. Supplemental testimony might be required to fully comply with these subsections.

Subsection (a)(1) requires identification of the record testimony from the existing agreement docket, or any other previously concluded docket, on which the Postal Service proposes to rely. The identified record testimony will form the basis of the record of the instant request, with supplemental testimony completing the record where necessary.

Subsection (a)(2) focuses on the modifications that are being proposed to be made to the agreement, which includes the terms and conditions of the actual contract and the contents of the Domestic Mail Classification Schedule as previously recommended by the Commission and approved by the Governors of the United States Postal Service. It requires a “from to” description of all proposed modifications to the agreement’s documentation.

Subsection (a)(3) requires an explanation or reason for the modifications that are being proposed to be made to the agreement. It focuses on describing the technical defect, rationale for revising the schedule of rates and fees, or intervening event, if any, that has necessitated a proposed modification.

Subsection (a)(4) requires the Postal Service to provide all studies pertinent to the request which have been completed since the recommendation of the existing agreement. These studies are likely to be probative of the level of success of the existing agreement or they might shed light on the proposals being made in the request.

Subsection (a)(5) requires a financial analysis applicable to the existing agreement comparing actual performance with predicted performance. Because the request for extending the duration must occur before the actual termination date of the existing agreement, an allowance is made for a final projection based on actual data. Except for the final projection, all of the data required to comply with this subsection previously should have been collected as required by the existing agreement's data collection plan.<sup>5</sup> The intent of this subsection is to facilitate the continuation of beneficial agreements.

Subsection (a)(6) requires a financial analysis to be performed over the duration of the extended agreement. The analysis is to be performed utilizing the methodology employed by the Commission in its recommendation of the existing agreement. Utilizing the Commission's methodology to the maximum extent possible should avoid the need to re-examine and possibly relitigate methodology-related issues, which should result in an expedited proceeding. The financial analysis will weigh heavily in the Commission's recommendation.

Subsection (a)(7) requires the Postal Service to identify circumstances that are unique to the request. This is a catch-all provision where the proponents can provide the Commission with additional information pertinent to the Commission's analysis. For example, any change in a service, change in a mailer's business plans, or change in the

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<sup>5</sup> Required by 39 CFR 3001.193(g), as of requests filed after February 11, 2004.

interaction between the mailer and the Postal Service since the initial recommendation that potentially bears on the Commission's recommendation should be discussed.

Subsection (b) requires the Postal Service to provide written notice of its request to certain participants who are assumed to be those potentially interested in the proceeding. This is in addition to the public notice that will result from filing the request. The requirement balances the Commission's intent to limit the time period for intervention which will help expedite consideration of requests under this rule, and the requirement for interested participants to be adequately notified of a pending proceeding.

Subsection (c) establishes that a prehearing conference will be scheduled for each request. At the time of the prehearing conference, participants shall be prepared to address whether or not it is appropriate to proceed under the rules for renewing existing agreements, and whether or not there are any material issues of fact that require discovery or evidentiary hearings. The Commission will promptly determine, on the basis of materials submitted with the request and argument presented at or before the prehearing conference, whether or not it is appropriate to proceed under these rules and what direction the proceeding should follow. If it is determined that it is not appropriate to proceed under 39 CFR 3001.197, the Commission shall proceed under 39 CFR 3001.195. After experience is gained operating under rule 197(c), and the review of Negotiated Service Agreements becomes routine, the Commission will entertain proposals to further streamline the early phases of the proceeding.

*Proposed 39 CFR 3001.198 Requests to Modify Previously Recommended Negotiated Service Agreements.* Subsection (a) establishes that rule 198 is applicable to requests to modify a previously recommended and currently in effect Negotiated Service Agreement (the existing agreement). The intent of the rule is to expedite proceedings where limited modifications are being proposed that do not materially alter the nature of the agreement. The rule limits modifications to those: (1) correcting a technical defect, (2) accounting for unforeseen circumstances not apparent when the existing agreement was first recommended, and (3) accounting for an intervening event

since the recommendation of the existing agreement. The allowed modifications are not meant to include instances where a material feature is proposed to be significantly modified, added, or removed from the existing agreement. Restricting the allowable types of modifications is necessary to limit the issues open to litigation, and to otherwise expedite the proceeding as much as possible. The proceeding should take considerably less time to review, depending upon the extent of the modifications, than having to review the entire agreement de novo.

The correction of technical defects, and accounting for intervening events since the recommendation of the existing agreement were discussed above in proposed rule 197. Accounting for unforeseen circumstances not apparent when the existing agreement was recommended is intended to allow for modifications to be made after some experience has been gained operating under the agreement. For example, it might not be initially recognized that there is a more advantageous method of performing a specific function under the agreement. In such an instance, it might be appropriate to modify the agreement to reflect utilization of the more advantageous method.

Subsections (a)(1) through (6) highlights particular areas of interest to the Commission in reviewing requests to modify existing agreements. Supplemental testimony might be required to fully comply with these subsections.

Subsection (a)(1) requires identification of the record testimony from the existing agreement docket, or any other previously concluded docket, on which the Postal Service proposes to rely. The identified record testimony will form the basis of the record of the instant request, with supplemental testimony completing the record where necessary.

Subsection (a)(2) focuses on the modifications that are being proposed to be made to the agreement, which includes the terms and conditions of the actual contract and the contents of the Domestic Mail Classification Schedule as previously recommended by the Commission and approved by the Governors of the United States

Postal Service. It requires a “from to” description of all proposed modifications to the agreement’s documentation.

Subsection (a)(3) requires an explanation or reason for the modifications that are being proposed to be made to the agreement. It focuses on describing the technical defect, unforeseen circumstance, or intervening event that has necessitated the proposed modification.

Subsection (a)(4) requires the Postal Service to provide all studies pertinent to the request which have been completed since the recommendation of the existing agreement. These studies are likely to be probative of the level of success of the existing agreement or they might shed light on the proposals being made in the request.

Subsection (a)(5) requires a financial analysis to be performed over the duration of the extended agreement. It should be performed only if the proposed modification has an effect upon the financial analysis in the opinion recommending the existing agreement. The analysis is to be performed utilizing the methodology employed by the Commission in its recommendation of the existing agreement. Utilizing the Commission’s methodology, to the maximum extent possible, will avoid the need to reexamine and possibly relitigate methodology-related issues, which should result in an expedited proceeding.

Subsection (a)(6) requires the Postal Service to identify circumstances that are unique to the request. This is a catch-all provision where the proponents can provide the Commission with additional information pertinent to the Commission’s analysis. For example, any change in a service, change in a mailer’s business plans, or change in the interaction between the mailer and the Postal Service since the initial recommendation that potentially bears on the Commission’s recommendation should be discussed.

Subsections (b) and (c) parallel the notice and prehearing conference requirements discussed above for 39 CFR 3001.197(b) and (c).

*Comments.* By this Order, the Commission hereby gives notice that comments from interested persons concerning the proposed amendments to the Commission’s

Rules are due on or before March 14, 2005. Reply comments may also be filed and are due April 11, 2005.

*Representation of the general public.* In conformance with 39 CFR 3624(a) of title 39, U.S. Code, the Commission designates Shelley S. Dreifuss, Director of the Commission's Office of the Consumer Advocate, to represent the interests of the general public in this proceeding. Pursuant to this designation, Ms. Dreifuss will direct the activities of Commission personnel assigned to assist her and, upon request, will supply their names for the record. Neither Ms. Dreifuss nor any of the assigned personnel will participate in or provide advice on any Commission decision in this proceeding.

It is ordered:

1. Docket No. RM2005-3 is established to consider Commission Rules applicable to Postal Service proposals to extend the duration of, or make modifications to, previously recommended and currently in effect Negotiated Service Agreements.
2. Interested persons may submit comments no later than March 14, 2005.
3. Reply comments also may be filed and are due April 11, 2005.
4. Shelley S. Dreifuss, Director of the Office of the Consumer Advocate, is designated to represent the interests of the general public in this docket.

5. The Secretary shall arrange for publication of this Notice of Proposed Rulemaking in the *Federal Register*.

By the Commission.  
(SEAL)

Steven W. Williams  
Secretary

List of Subjects in 39 CFR Part 3001

Administrative Practice and Procedure, Postal Service

For the reasons discussed above, the Commission proposes to amend 39 CFR part 3001 as follows:

PART 3001 — RULES OF PRACTICE AND PROCEDURE

1. The authority citation for part 3001 continues to read as follows:

Authority: 39 U.S.C. 404(b); 3603; 3622-24; 3661, 3662, 3663.

2. Amend § 3001.197 as follows:

- a. Revise the heading of section 3001.197 to read as follows: Requests to renew previously recommended Negotiated Service Agreements with existing participant(s).
- b. Add new paragraphs (a), (b) and (c) to read as follows:

**Subpart L – Rules Applicable to Negotiated Service Agreements**

**§ 3001.197 Requests to renew previously recommended Negotiated Service Agreements with existing participant(s).**

(a) This section governs Postal Service requests for a recommended decision seeking to extend the duration of a previously recommended and currently in effect Negotiated Service Agreement (existing agreement). The purpose of this section is to establish procedures that provide for accelerated review of Postal Service requests to extend the duration of an existing agreement under substantially identical obligations. In addition to extending the duration of the existing agreement, modifications may be entertained that do not materially alter the nature of the existing agreement for the purposes of: correcting a technical defect, updating the schedule of rates and fees, or accounting for an intervening event since the recommendation of the existing agreement. The Postal Service request shall include:

- (1) Identification of the record testimony from the existing agreement docket, or any other previously concluded docket, on which the Postal Service proposes to rely, including citation to the locations of such testimony;
- (2) A detailed description of all proposed modifications to the existing agreement;
- (3) A detailed description of any technical defect, rationale for revising the schedule of rates and fees, or intervening event since the recommendation of the existing agreement, to substantiate the modifications proposed in (a)(2);
- (4) All studies developing information pertinent to the request completed since the recommendation of the existing agreement;
- (5) A comparison of the analysis presented in § 3001.193(e)(1)(ii) and § 3001.193(e)(2)(iii) applicable to the existing agreement with the actual results ascertained from implementation of the existing agreement, together with the most recent available projections for the remaining portion of the existing agreement, compared on an annual or more frequent basis;
- (6) The financial impact of the proposed Negotiated Service Agreement on the Postal Service in accordance with § 3001.193(e) over the extended duration of the agreement utilizing the methodology employed by the Commission in its recommendation of the existing agreement; and
- (7) If applicable, the identification of circumstances unique to the request.

(b) When the Postal Service submits a request to renew a Negotiated Service Agreement, it shall provide written notice of its request, either by hand delivery or by First-Class Mail, to all participants in the Commission docket established to consider the original agreement.

(c) The Commission will schedule a pre-hearing conference for each request. Participants shall be prepared to address at that time whether or not it is appropriate to proceed under § 3001.197, and whether or not any material issues of fact exist that require discovery or evidentiary hearings. After consideration of the material presented in support of the request, and the argument presented by the participants, if any, the Commission shall promptly issue a decision on whether or not to proceed under § 3001.197. If the Commission's decision is to not proceed under § 3001.197, the docket will proceed under § 3001.195.

3. Amend § 3001.198 as follows:
  - a. Revise the heading of section 3001.198 to read as follows: Requests to modify previously recommended Negotiated Service Agreements.
  - b. Add new paragraphs (a), (b) and (c) to read as follows:

**§ 3001.198      Requests to modify previously recommended Negotiated Service Agreements.**

(a) This section governs Postal Service requests for a recommended decision seeking a modification to a previously recommended and currently in effect Negotiated Service Agreement (existing agreement). The purpose of this section is to establish procedures that provide for accelerated review of Postal Service requests to modify an existing agreement where the modification is necessary to correct a technical defect, to account for unforeseen circumstances not apparent when the existing agreement was first recommended, or to account for an intervening event since the recommendation of the existing agreement. This section is not applicable to requests to extend the duration of a Negotiated Service Agreement. The Postal Service request shall include:

- (1) Identification of the record testimony from the existing agreement docket, or any other previously concluded docket, on which the Postal Service proposes to rely, including citation to the locations of such testimony;
- (2) A detailed description of all proposed modifications to the existing agreement;
- (3) A detailed description of the technical defect, unforeseen circumstance, or intervening event, to substantiate the modifications proposed in (a)(2);
- (4) All studies developing information pertinent to the request completed since the recommendation of the existing agreement;
- (5) If applicable, an update of the financial impact of the Negotiated Service Agreement on the Postal Service in accordance with § 3001.193(e) over the duration of the agreement utilizing the methodology employed by the Commission in its recommendation of the existing agreement; and
- (6) If applicable, the identification of circumstances unique to the request.

(b) When the Postal Service submits a request to modify a Negotiated Service Agreement, it shall provide written notice of its request, either by hand delivery or by First-Class Mail, to all participants in the Commission Docket established to consider the original agreement.

(c) The Commission will schedule a pre-hearing conference for each request. Participants shall be prepared to address at that time whether or not it is appropriate to proceed under § 3001.198, and whether or not any material issues of fact exist that require discovery or evidentiary hearings. After consideration of the material presented in support of the request, and the argument presented by the participants, if any, the Commission shall promptly issue a decision on whether or not to proceed under § 3001.198. If the Commission's decision is to not proceed under § 3001.198, the docket will proceed under § 3001.195.