

UNITED STATES OF AMERICA
POSTAL RATE COMMISSION
WASHINGTON, DC 20268

Rate and Service Changes to Implement
Functionally Equivalent Negotiated Service
Agreement With Discover Financial Services, Inc.

Docket No. MC2004-4

PRESIDING OFFICER'S INFORMATION REQUEST NO. 1

(Issued July 14, 2004)

Proponents are requested to provide responses to the questions set out below to assist in developing a record in this case. To facilitate inclusion of these answers in the record, Proponents are to identify a witness prepared to attest to the accuracy of the answers and be prepared to explain to the extent necessary the basis for the answers at our hearings. Answers are to be provided by July 26, 2004.

1. Please refer to DFS-T-1 at page 14, lines 1-3.

a) Has Discover used Address Correction Service for First-Class Mail solicitations?

If so, please provide the following information:

- i. Identify any time period over which the service was used;
- ii. Identify the date the service was last used; and
- iii. If the service is no longer used, describe the reasons for discontinuing use of the service.

b) Please identify the source of the data upon which witness Giffney based her return rate estimates (e.g., written records, written compilations of data, personal recollections, etc.). If based on written records or compilations of data, please provide this information (or a detailed summary of this information).

- c) Please identify any changes in the nature of Discover's recent First-Class Mail solicitations that may have affected return rates as compared to the mail upon which witness Giffney based her estimates. Also, please explain any adjustments incorporated into witness Giffney's estimates to account for such changes.
2. Witness Ayub (USPS-T-1) asserts that the Discover NSA is functionally equivalent to the Capital One NSA. He also utilizes cost figures from Docket No. MC2002-2 as inputs to the estimated impact of the proposal on Postal Service finances. Has witness Ayub reviewed the results since the implementation of the Capital One NSA to test the accuracy of the cost estimates relied upon in support of the current proposal? If so, please present a summary of his findings.
 3. Refer to Rule 193(e)(1), and USPS-T-1, Appendixes A and B. The return costs of manual letters and electronic letters, as well as the ACS success rate used to estimate the financial impact of the proposal do not appear to be mailer-specific. Please provide the bases for utilizing each figure, including a discussion of the suitability of the proposed factors as proxies for Discover-specific figures. If the Postal Service considers the costs to be mailer-specific, please provide a discussion of the variances between the mailer-specific costs and system-wide average costs.
 4. Refer to USPS-T-1, Appendixes A and B. Please confirm that the estimated financial impact does not include any explicit adjustments for the effects of the planned implementation of the Postal Automation Redirection System (PARS). If confirmed, please explain why no adjustment is made for the effects of PARS and discuss the current implementation schedule for PARS as it relates to the proposed NSA. If not confirmed, please identify the adjustments.

5. Refer to Rule 196(a)(2) and Request, Attachment E, page 14. Is the negotiated “competitive cap” viewed as a satisfactorily equivalent substitute for the stop-loss provision in the Capital One NSA recommended by the Commission and approved by the Governors? If not, please explain and revise the attachment as necessary.

6. Refer to USPS-T-1, pages 14-15. Please provide any available empirical evidence for the evaluation of the impact of the proposal on competitors. For example, has the Postal Service performed any surveys, market data analysis, ad hoc conversations with competitors of Discover, or has the Postal Service learned anything about the impact on competitors from its implementation of the Capital One NSA?

7. Please refer to USPS-T-1, pages 11-14 and Docket No. MC2002-2 Tr. 2/334. Witness Ayub accepts the forecasts of before-rates volume, after-rates volume and estimated return rates provided by Discover witness Giffney (DFS-T-1) and characterizes the after-rates volume estimates as conservative. Please provide any independent analysis done by the Postal Service to evaluate the reasonableness of the mailer-provided forecasts of: (a) before-rates volumes, (b) after-rates volumes and (c) estimated return rates.

8. Please Refer to Docket No. MC2002-2, Opinion para. 3050-51, and Tr. 9/1868 and 1876. In that case, the Postal Service indicated that it was reviewing possible pricing approaches to physical return of mail and electronic equivalents to consider alternative ways to address the apparent pricing anomaly with respect to the return of undeliverable-as-addressed First-Class Mail. Please update the Commission on the status of this review and how it affected the Postal Service's decision to enter into the proposed agreement with Discover.

George Omas
Presiding Officer