



July 11, 2013

Shoshana M. Grove
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001

Re: Docket Nos. R2011-3 and MC2011-19

Pursuant to Order No. 694 in Docket Nos. R2011-3 and MC2011-19, the Postal Service presents its Data Collection Report on the Discover Financial Services, Inc.'s Negotiated Service Agreement with the United States Postal Service.

Sincerely,

Brandy A. Osimokun
Attorney

**MC2011-19 Data Collection Report
Discover Financial Services NSA
April 1, 2012 – March 31, 2013
Year 2**

- 1. DFS's volumes entered by qualifying price category for the just ended contract year.**

[See DFS DCR Appendix A Year 2, page 1](#)

- 2. DFS's postage paid by qualifying price category for the just ended contract year.**

[See DFS DCR Appendix A Year 2, page 1](#)

- 3. The adjusted threshold used to establish DFS' eligibility for rebates and payment of fines, and the calculations underlying the threshold's determination.**

The revenue threshold is adjusted upward by 65 cents for every one dollar decline in DFS' eligible First-Class mail postage of the contract year. DFS must send an extra \$1.65 worth of Standard Mail to offset each dollar decline in postage from First-Class Mail. In Year 2 of the contract, DFS First-Class Mail revenue declined from the Base Period, therefore the Year 2 revenue threshold was adjusted upwards by \$718,323.

[See DFS DCR Appendix A Year 2, page 2.](#)

- 4. The index used to establish DFS's average price increase, and the calculations underlying the index's determination.**

To establish DFS' average price increase, the Postal Service used an index which uses the weighted volume distribution by price category (within the class of mail) for the year preceding contract Year 2 and then uses the published prices in both years for those categories to examine the price change effect.

[See DFS DCR Appendix A Year 2, page 3.](#)

- 5. The rebate paid or penalty paid by DFS (if any) and the calculations underlying their determination.**

In Year 2 of the agreement, DFS earned a rebate of \$9,233,198.32

[See DFS DCR Appendix A Year 2, page 2.](#)

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- 6. A list of all subsidiaries and affiliates mailing eligible mailpieces during the contract year as well as lists of all mergers and acquisitions and sales and closures of entities or divisions occurring during the contract year; and volumes associated with such enterprises for that contract year.**

DFS made one acquisition during the second contract year, the Home Loan Center. The Home Loan Center did not mail any eligible mail pieces during the second contract year.

- 7. The methodology and calculation used to determine the increase or decrease in net contribution to the Postal Service as a result of the agreement for the just ended contract year; including a narrative explanation of the methodology used.**

In the Postal Service filing request of the Discover NSA (MC2011-19), Appendix A, volumes projections were stated for First Class Mail letter-size and Standard Mail letter-size over the three year period of the agreement. Specifically, these projections (based on historical trends) represent volume data over a three year period in the absence of an incentive offering, without an NSA. Please note in Appendix A, page 4 of the Data Collection Plan, the first column of data contain the Year 2 volume projections. Standard Mail letter-size volume data is presented with a Low and High estimate.

To calculate the net contribution increase to the Postal Service as a result of the incentives, the volume projections (both First Class Mail letter-size and Standard Mail low and high estimates) are subtracted from the Year 2 actual volumes. This incremental volume as recorded in column (3) of the attached Appendix A, page 4, represents the difference between Year 2 actual volumes (with an incentive offering) and the Year 2 projected volumes (without an incentive offering). Likewise, this incremental volume represents the increased volume as a result of the NSA.

To calculate the net value of the incremental volume, we start with the average weighted revenue per piece for each mail category (as stated in Appendix A, page 1), minus the average weighted unit cost (Appendix A, page 1) to determine the average weighted unit contribution. The average weighted unit contribution is multiplied by the respective incremental volume to calculate the new total contribution.

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The next step is to calculate the net value of the agreement by subtracting the total earned rebates paid (Appendix A, page 2). Using the low and high estimate ranges, the agreement will generate an additional \$22.3 million to \$26.8 million in net contribution after rebates. The complete calculations are provided in the attached Appendix A, page 4.

- 8. The annual (contract year) actual mailer-specific costs, volumes, and revenues.**

See DFS DCR Appendix A Year 2, page 1.

- 9. A detailed discussion of how the Postal Service believes DFS's own-price elasticities differ from the average elasticities of work shared First-Class Mail and Standard Regular Mail.**

The Postal Service generally does not possess the data needed to quantify the uncertainty and variability of other non-price outside events for individual mailers. Therefore, we cannot isolate the effect of non-price variables for individual customers from the effect of price changes. With the lack of valid observations, customer specific elasticity is difficult to calculate, and therefore since we do not know what it could be, the sub-class price elasticity and the customer specific elasticity are not comparable.

Moreover, in this instance, the Postal Service does not believe it would be feasible to collect data from this mailer that would enable the Postal Service to isolate the effect of non-price variables from the effect of price changes. This is because a mailer's decision to use the direct marketing channel rather than one of the competing marketing channels is generally a decision whose various facets cannot reasonably be isolated.