Postal Rate Commission
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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Rate and Services Changes to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc.	)	Docket No. MC 2004-4

RESPONSE OF DFS
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1
(POIR 1 Q1 and 5)
July 26, 2004

As a co-proponent, DFS hereby provides responses to Presiding Officer's Information Request (POIR1) No. 1, questions 1 and 5. The POIR was issued on July 14, 2004, and requested responses by July 26, 2004. Discover is answering questions one and five. The Postal Service is answering 2 through 8. Thus both are answering question five from their own perspective. Each question is stated verbatim and followed by the response.

Respectfully submitted,

/S/

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Responses of Witness Giffney to POIR 1, number 1

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.

DFS Response:

1a. No.

1b. The data was based on a compilation of data from 1999 to 2002 on multiple solicitation mailings that DFS tracked for returns. Out of a total of 128,750,000 outgoing pieces, 11,990,000 were returned. That yields a return rate of 9.31%:
The 1999 and 2000 mailings were Standard mail, for which DFS used ACS. The 2001, and 2002 were First Class Mailings. DFS used all the data we had, since we have no reason to doubt that the lists we use for First-Class Mailings and Standard Mailings are of the same quality, for UAA purposes.

1c. DFS cannot identify any changes in process or practices that would affect its current return rate as compared to that in its testimony.

Responses of Witness Giffney to POIR 1, number 5

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.

Response

DFS believes that its "competitive cap" is a satisfactory equivalent substitute for the stop-loss provision in the Capital One NSA recommended by the Commission and approved by the Governors.

First, DFS believes that the federal government, having negotiated a rate and service agreement with a specific company, Capital One, has a duty to provide competitors of Capital One with a proportionate business opportunity, should they desire. That duty is fulfilled with the negotiation and approval of a functionally equivalent NSA that is proportionately equal in size to that of Capital One. If DFS is not offered a proportionately equal bargain, the government has not met its obligation.

The DFS NSA is proportionately equal in size to that of Capital One because it has a proportionate cap. Capital One's first-year volume projections for its NSA were $1.4 billion. DFS's first-year volume projections are 451 million. That is a ratio of .32. The cap in Capital One's NSA was $40.6 million. By negotiating an NSA with a cap of $13 million (.32 of $40.6 million), DFS believes that the Postal Service has fulfilled its duty to provide DFS with a proportionate business opportunity.

Second, in the Capital One case the Commission said that, because there was no "plausible estimate" of the volume of First-Class Mail that Capital One would send during the term of the NSA if no discounts were made available, a significant risk exists that discounts to Capital One could exceed costs avoided by the Postal Service. For this reason the PRC created a "stop-loss." cap. That is not the case here. DFS has provided not just plausible evidence, but its actual budget number and its actual current

projections. Moreover, unlike Capital One, Discover has a stable, even declining volume history that supports the credibility of that budget number. There is no reasonable risk that the Postal Service could lose money on this NSA, and thus no reason for a stop-loss provision.

Certificate of Service

I hereby certify that I have this date caused to be served the foregoing document in accordance with Section 12 of the Commission's Rules of Practice.

/S/
Robert J. Brinkmann
July 26, 2004