

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 2006

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Docket No. R 2006-1

Initial Brief  
  
Of  
  
Discover Financial Services LLC

December 21, 2006

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Discover Financial Services LLC (DFS) respectfully submits this brief in support of the brief filed by the American Bankers Association (ABA).

In its brief the ABA strongly supports the Postal Service’s proposal for First-Class Rates, including delinking and shape-based rates, although it suggests that the passthrough for First Class 3 Digit Automation mail not be less than 100%. DFS endorses that position for the reasons set forth in the ABA brief.

DFS urges the Commission to adopt the Postal Service’s proposal to lower the additional-ounce rate. As DFS Witness Resch’s Testimony illustrated, lowering the additional ounce rate will mean that mailers will no longer have the incentive to “mail to one ounce.” Resch, DFS & MSI-T-1 at 3-6. Rather, mailers will have the incentive to increase the weight of statement mail by adding advertising pieces. This should lead to an increase in the volume of additional ounce mail and an increase in institutional cost contribution. Moreover, as detailed in Witness Resch’s testimony and in the ABA brief, lowering the First-Class additional ounce rate could help curb to some degree the diversion of Bulk First-Class Mail to electronic delivery, by adding an additional marketing component to the mailing of statements.

Both the ABA and DFS oppose all other proposals to modify the Postal Service's proposed First-Class rate structure.

The ABA does not support the Postal Service's proposal to restructure Confirm pricing, but urges the Commission to adopt either OCA's or MMA's proposal to modify Confirm pricing. DFS supports that position and, should the Commission adopt MMA's proposal to include Confirm within First Class for only a minimal cost, DFS urges the Commission not to accept the Postal Service's proposal to precipitously increase Confirm prices for Standard Mail.

Finally, of particular note in the ABA's brief is its argument that in the recent passage of the Postal Accountability and Enhancement Act (the "2006 Act") Congress has provided both the Commission and the Postal Service with clear guidance on the matter of "avoided costs," Efficient Component Pricing, and shape, an issue that has been broadly debated in this case.\* As more thoroughly elucidated in the ABA brief, Section (1) of new Section 3622(e) of the 2006 Act defines a worksharing discount for postal rate-making purposes as a rate discount "provided to mailers for the presorting, prebarcoding, handling, or transportation of mail, . . ." 39 U.S.C. 3622(e)(1) (2006). Thus, under this section, worksharing discounts should only be limited to these four activities, which do not include shape. Thus, "avoided costs" for postal rate-making purposes should be limited to costs that the Postal Service avoids in connection with

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\* Pursuant to the provisions of Section 3622(f), the provisions of 3622(e) are not effective until a certain point in time in the future. Thus, while section 3622(e)—now—only provides the Commission with "guidance" as to how it should resolve the question of worksharing discounts, ECP, and "avoided costs," that "guidance" becomes law at some point in the future. Thus, once that point is reached, worksharing discounts, and the related notion of avoided costs will be limited—by law—to only four activities, presorting, prebarcoding, handling, and transportation of mail. See footnote 9 of the ABA brief for a discussion of when the provisions of 3622(e) become mandatory.

these four activities, and any cost difference caused by shape and piece design should not be considered an avoided cost.

This does not mean, of course, that shape-based costs and other intrinsic costs cannot be recognized in the rate structure. Shape can be so recognized, but it must be done either through different rate elements or through discounts that recognize intrinsic cost differences, as contrasted with “worksharing” discounts that recognize avoided costs. The Commission has done this for years in Periodicals Mail and Standard Mail, where different rate elements and discounts reflect both avoided cost and intrinsic cost differences in shape, distance, editorial content, and mail preparation. All discounts do not have to be “worksharing” discounts, as the editorial discount in Periodicals shows.

DFS along with the ABA, urges the Commission not to consider the benchmarks it sets for letters, flats, and parcels in Bulk First-Class Mail as “worksharing” discounts, but to consider those benchmarks as separate rate elements in the rate structure, reflecting differences in cost due to shape and other intrinsic costs, and to thoroughly and clearly explain that in its decision. DFS suggests that the proper role for “worksharing” discounts and for Efficient Component Pricing is in recognizing true “avoided costs” by pricing down from the benchmarks for discounts for the presorting, prebarcoding, handling, or transportation of mail.

## CONCLUSION

For the reasons stated above and further explained in the ABA brief, the Postal Rate Commission should accept the Postal Service's First Class Rate Proposal including delinking and the additional-ounce proposal, with a 100 percent passthrough for 3-Digit mail. The Commission should reject the OCA and APWU's alternative First-Class Rate Proposals. The Commission should also reject the Postal Service's Confirm proposal but accept either the OCA's or MMA's Confirm pricing proposal.

Respectfully submitted,

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