

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

POSTAL RATE AND FEE CHANGES, 2006

)
) Docket No. R 2006-1
)

Reply Comments of
Discover Financial Services LLC

(May 11, 2007)

Discover Financial Services LLC (DFS) submits the attached letter as its Reply
Comments in the above-captioned proceeding.

Respectfully submitted,

/S/ Robert Brinkmann

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May 11, 2007

The Honorable Daniel Blair
Chairman, Postal Regulatory Commission
901 New York Avenue, Suite 200
Washington, D.C. 20268-0001

Re: Reconsideration of Standard Mail Flats

Dear Chairman Blair:

This letter is Discover Financial Services LLC's ("DFS") response to the Comments filed by the Postal Service and others in Docket R2006.

In its Initial Comments, the Postal Service proposes an increase of \$.007 in standard mail automation rates in order to "re-subsidize" catalogues. DFS strongly opposes this suggestion.

Instead, should the Commission conclude that relief for catalogues is warranted, DFS suggests that the Commission take a multi-faceted approach. Such an approach could: (i) draw down the contingency, as suggested by the Direct Marketing Association ("DMA"); (ii) rebalance rates among flats, as acknowledged by the Postal Service as being within the Commission's authority; and (iii) reexamine and readjust the Commission's elasticity conclusions, as Time-Warner, Postcom and the DMA have all suggested. See DMA Initial Comments at 3-4, 6, 9-12; Postal Service Initial Comments at 9; Postcom Initial Comments at 4-6; and Time-Warner Initial Comments at 1. This approach would allow the Commission to provide relief to the catalogues but not penalize other mailers in the process.

Although the Postal Service characterizes its proposal to raise standard letters by \$.007 as not being "excessive," this proposal translates into an additional \$4 to \$5 million in postage for DFS over the next year. Postal Service Initial Comments at 8. Other large mailers, including financial institutions, would experience proportionally similar increases. DFS believes that such a standard mail rate increase is excessive, particularly when its purpose is not to cover the costs of standard letter mail, which is easy for the Postal Service to process, but to cover the costs of standard flat mail, which is far more difficult and costly to process.

In addition to being excessive, a second rate increase would raise serious doubts about the dependability and reliability of the postal marketing channel and would cause the industry to re-examine its direct marketing plans. We have a number of other marketing channels we use to communicate with our customers. We are using these other marketing channels successfully and with an additional rate increase we would have to reexamine expanding our use of these channels to the detriment of the Postal Service. Given the

concerns about dependability and reliability, some of the loss in mail volume could be permanent. In effect, this rate increase may in fact cause a decrease in the Postal Service's revenue.

In summary, if the Commission concludes that it must give catalogues relief, it should not raise standard mail automation rates but instead rebalance among flats, draw down the contingency, and/or reexamine and readjust its elasticity conclusions.

Thank you for considering our views.

Sincerely,

A handwritten signature in black ink, appearing to read "Colleen Zambale", with a long horizontal flourish extending to the right.

Colleen Zambale
Vice President, Marketing Operations
Discover Financial Services LLC

cc: United States Board of Governors