

LEGAL POLICY & RATEMAKING LAW SECTION
LAW DEPARTMENT



February 26, 2008

Hon. Steven W. Williams, Secretary
Postal Rate Commission
901 New York Avenue, NW
Suite 200
Washington, DC 20268-0001

RE: Docket No. MC2004-4

Dear Mr. Williams:

In accordance with the Commission's Opinion and Recommended Decision in Docket No. MC2004-4, Rate and Service Changes to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc., enclosed is the Postal Service's Data Collection Report for the time period January 1, 2007, to December 31, 2007. Also attached are printouts of the Excel spreadsheets showing the analysis. Please note that this letter and the accompanying report are also being filed electronically.

It will be observed that the analysis accompanying this report, based upon the standard methodology applied previously, suggests that the cumulative net financial effect of the Discover NSA during the reporting period was slightly negative. Such a conclusion, however, rests exclusively on the assumption that the forecast made by Discover regarding how much volume it would mail in the absence of the agreement (i.e., the "before-rates" forecast) remains valid. As discussed in greater detail in the text of the attached Report in response to item 12, that forecast was made over three years in advance of the reporting period, and there are a multitude of reasons to expect that actual events have largely superseded those earlier expectations. Therefore, to suppose (as the standard methodology does) that the availability of discounts had absolutely no positive effect on actual volumes, merely because actual volumes failed to exceed a much earlier forecast of before-rates volumes, seems to raise serious questions of the utility of the standard evaluation methodology under current circumstances. Unfortunately, as has often been noted by the Commission and other, there is no *post hoc* way to state with any certainty what volumes would have been without the discounts afforded by the agreement. These factors should be kept in mind when considering what conclusions regarding

These factors should be kept in mind when considering what conclusions regarding overall value of the agreement can safely be drawn on the basis of the available data.

Sincerely,

A handwritten signature in black ink, appearing to read "Eric P. Koetting". The signature is written in a cursive style with a large initial "E" and "K".

Eric P. Koetting
Brian M. Reimer
Attorneys

Enclosures

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

Data Collection Plan Requirements:

1. Volume of First-Class Mail solicitations by rate category in eligible DFS permit accounts.
2. Volume of First-Class Mail customer mail by rate category in eligible DFS permit accounts.
3. Amount of discounts paid to DFS for First-Class Mail by incremental volume block.
4. Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to DFS.
5. Number of electronic address correction notices provided to DFS for forwarded solicitation mailpieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).
6. Number of electronic address correction notices provided to DFS for solicitation mailpieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).
7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.
8. For each First Class solicitation mailing list run against NCOA, DFS will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.
9. For each Change of Address record that is used to forward a piece of DFS solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.
10. As part of each data collection plan report, the Postal Service will provide an evaluation of the impact on contribution. It will also provide an assessment of trends of DFS's First-Class Mail volume as compared to overall First-Class Mail volume.
11. Volume of Standard Mail solicitations by rate category in eligible DFS permit accounts.
12. A comparison of the estimated mailer-specific costs, volumes, and revenues with the actual mailer-specific costs, volumes, and revenues.

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

1. Volume of First-Class Mail solicitations by rate category in eligible DFS permit accounts.

| | |
|-------------------------------------------------|------------------|
| Nonautomated Presorted Letters | |
| First Ounce | 2,337,269 |
| Additional Ounces | 0 |
| Nonmachineable Pieces | 43,164 |
| Heavy Piece Deduction | 2,380,433 |
| TOTAL Nonautomated Presorted Letters | |
| Automation Presort Letters | |
| LETTERS | |
| Mixed AADC letters | 1,194,256 |
| AADC Letters | 2,818,611 |
| 3-Digit Letters | 79,307,057 |
| 5-Digit Letters | 54,837,025 |
| Additional Ounces | 0 |
| Heavy Piece Deduction | 0 |
| TOTAL Automation Presort Letters | |
| 138,156,949 | |
| Automation Carrier Route Letters | |
| First Ounce | 875,286 |
| Additional Ounces | 0 |
| Heavy Piece Deduction | 0 |
| TOTAL Automation Carrier Route Letters | |
| 875,286 | |
| TOTAL DFS FIRST-CLASS MAIL SOLICITATIONS | |
| 141,412,668 | |

Source: PostalOne!

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

2. Volume of First-Class customer mail by rate category in eligible DFS permit accounts.

| | |
|-----------------------------------------------|--------------------|
| Nonautomated Presorted Letters | |
| First Ounce | 7,478,234 |
| Additional Ounces | 0 |
| Nonmachineable Pieces | 0 |
| Heavy Piece Deduction | 0 |
| TOTAL Nonautomated Presorted Letters | 7,478,234 |
| Automation Presort Letters | |
| LETTERS | |
| Mixed AADC letters | 1,613,798 |
| AADC Letters | 5,979,191 |
| 3-Digit Letters | 219,009,163 |
| 5-Digit Letters | 48,815,058 |
| Additional Ounces | 0 |
| Heavy Piece Deduction | 0 |
| TOTAL Automation Presort Letters | 275,417,210 |
| Automation Carrier Route Letters | |
| First Ounce | 0 |
| Additional Ounces | 0 |
| Heavy Piece Deduction | 0 |
| TOTAL Automation Carrier Route Letters | 0 |
| TOTAL DFS FIRST-CLASS CUSTOMER MAIL | 282,895,444 |

Source: PostalOne!

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

3. Amount of discounts paid to DFS for First-Class Mail by incremental volume block.

The thresholds and discounts for the NSA are calculated and reconciled on a yearly basis. The schedule shows the declining block discounts available to DFS for a full year. The thresholds increased by 0.5% due to the growth in gross domestic active accounts as reported in their quarterly SEC filings.

| Starting block | Ending block | Incentive | Incentives Paid |
|-----------------------|---------------------|------------------|------------------------|
| - | 411,095,250 | \$0.000 | \$ - |
| 411,095,250 | 441,095,250 | \$0.025 | \$ 330,322 |
| 441,095,250 | 471,095,250 | \$0.030 | \$ - |
| 471,095,250 | 496,095,250 | \$0.035 | \$ - |
| 496,095,250 | 521,095,250 | \$0.040 | \$ - |
| 521,095,250 | - | \$0.045 | \$ - |
| TOTAL | | | \$ 330,322 |

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

Data Collection Plan Requirement Number 4

Volumes of First-Class Mail solicitations bearing the ACS endorsement that are physically returned to DFS.

| Period | Physical Returns |
|---------------|-------------------------|
| January-07 | 156,852 |
| February-07 | 275,449 |
| March-07 | 166,220 |
| April-07 | 106,341 |
| May-07 | 87,513 |
| June-07 | 115,125 |
| July-07 | 287,813 |
| August-07 | 406,610 |
| September-07 | 229,571 |
| October-07 | 252,575 |
| November-07 | 134,751 |
| December-07 | 117,461 |

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

Data Collection Requirement Number 5

Number of electronic address correction notices provided to DFS for forwarded solicitation mail pieces, including the number of notices processed by CFS units and separately for PARS (when fully operational).

| Time Period | Number of ACS Forwarding Notices |
|--------------------|-----------------------------------------|
| January 2007 | 192,965 |
| February 2007 | 187,766 |
| March 2007 | 93,084 |
| April 2007 | 111,603 |
| May 2007 | 273,963 |
| June 2007 | 238,475 |
| July 2007 | 233,217 |
| August 2007 | 242,671 |
| September 2007 | 304,474 |
| October 2007 | 238,371 |
| November 2007 | 133,195 |
| December 2007 | 53,925 |

PARS coverage was not fully operational during the third year of the agreement.

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

Data Collection Requirement Number 6

Number of electronic address correction notices provided to DFS for solicitation mail pieces that would otherwise be physically returned, including the number of notices processed by CFS units and separately for PARS (when fully operational).

| Time Period | Number of ACS UAA Notices |
|--------------------|----------------------------------|
| January 2007 | 195,552 |
| February 2007 | 182,141 |
| March 2007 | 122,314 |
| April 2007 | 91,359 |
| May 2007 | 88,337 |
| June 2007 | 105,027 |
| July 2007 | 97,210 |
| August 2007 | 80,503 |
| September 2007 | 129,521 |
| October 2007 | 137,888 |
| November 2007 | 142,368 |
| December 2007 | 63,672 |

PARS coverage was not fully operational during the third year of the agreement.

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

7. Monthly estimate of the amount of time spent on compliance activity and a description of the activities performed.

| Department | Activity and Description | Work-hours | Time-Frame |
|--------------------|----------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Pricing Strategy | <u>Volume Reconciliation</u> : Reconciling USPS permit volume counts with internal volume counts | 2 | Per Month |
| Pricing Strategy | <u>NSA Data Collection Plan</u> : Ensuring compliance with the Data Collection Plan | 80 | Per Year |
| Address Management | <u>ACS Support</u> : Providing ACS counts and support for ACS related issues | 4 | Per Month |
| Finance | <u>RPW Reporting</u> : Ensuring that discounts are allocated properly in RPW reporting (one-time event) | 1 * | Per Year |
| Finance | <u>Accounting Procedures</u> : Developing accounting controls and procedures for the refund process | 2 * | Per Quarter |
| Legal | <u>Legal Advice</u> : Advising on compliance and preparation of the data collection plan | 18 | Per Year |
| Pricing, Finance | <u>NSA and rate-cases</u> : Ensuring that NSA volumes and affects are accurately reported and accounted for in rate-case filings | 215 * | Per Year |

* These work-hours represent the total time spent on all implemented NSAs.

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

Data Collection Requirement Number 8

For each First Class solicitation mailing list run against NCOA, DFS will provide NCOA contractor reports that separately identify the number of address records checked and the number of corrections made.

No data were captured.

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

Data Collection Requirement Number 9

For each Change of Address record that is used to forward a piece of DFS solicitation mail through ACS under the Agreement, the Postal Service will provide the date the record was created, its move effective date, whether it was for a family or individual move, and each date that the record was used to forward a mail piece. No other information from the record would be provided.

No data were captured.

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

10. As part of each data collection plan report, the Postal Service will provide an evaluation of the impact on contribution. It will also provide an assessment of trends of DFS's First-Class Presorted Letter Mail volume as compared to overall First-Class Presorted Letter Mail volume.

| | |
|-------------------------------------------------------------------------------------|----------------|
| Total USPS First-Class Presorted Letter Mail Volume January 2006 – December 2006 | 49,715,917,946 |
| Total USPS First-Class Presorted Letter Mail Volume January 2007 – December 2007 | 49,549,619,944 |
| Increase / (Decrease) | (166,298,002) |
| Percentage Increase / (Decrease) | -0.33% |

| | |
|------------------------------------------------------------------------------------|--------------|
| Total DFS First-Class Presorted Letter Mail Volume January 2006 – December 2006 | 494,523,844 |
| Total DFS First-Class Presorted Letter Mail Volume January 2007 – December 2007 | 424,308,112 |
| Increase / (Decrease) | (70,215,732) |
| Percentage Increase / (Decrease) | -14.20% |

In the time period January 2006 – December 2006, the DFS Total First-Class Presorted Letter Mail volume accounted for 1.68% of the total USPS First-Class Presorted Mail Volume.

In the time period January 2007 – December 2007, the DFS Total First-Class Presorted Letter Mail volume accounted for 0.86% of the total USPS First-Class Presorted Mail Volume.

Source: USPS Revenue, Pieces, and Weight (RPW) Report

**MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007**

11. Volume of Standard Mail solicitations by rate category in eligible DFS permit accounts.

Standard Mail Letters Regular

| Mail Category | Volume |
|---------------------|---------------------------|
| Mixed AADC Auto | 5,644,233 |
| AADC Auto | 12,201,858 |
| 3-Digit Auto | 258,104,155 |
| 5-Digit Auto | 305,670,470 |
| Basic Nonauto | 5,708,589 |
| 3/5 Digit Nonauto | 2,392,537 |
| Total Volume | <u>589,721,841</u> |

Standard Mail ECR Letters

| Mail Category | Volume |
|-----------------------|--------------------------|
| Basic Nonauto Letters | 11,440,986 |
| Basic Auto Letters | 27,731,943 |
| Saturation Letters | 100,220 |
| Total Volume | <u>39,273,149</u> |

Flat-size Mail Category

| | |
|---------------------|--------------------------|
| Nonauto Basic | 129,786 |
| Nonauto 3/5 Digit | 234,885 |
| Auto Basic | 114,720 |
| Auto 3/5 Digit | 19,056,670 |
| Total Volume | <u>19,536,060</u> |

Non-letter size Standard Mail ECR

| | |
|-------------------------|------------------|
| Basic Non-letter | 4,649,280 |
|-------------------------|------------------|

| | |
|--------------------|---------------------------|
| GRAND TOTAL | <u>653,180,331</u> |
|--------------------|---------------------------|

MC 2004-4 Data Collection Report
Discover Financial Services
January 2007 – December 2007

12. A comparison of the estimated mailer-specific costs, volumes, and revenues with the actual mailer-specific costs, volumes, and revenues.

The attached Appendix sets forth the requested comparison of actual versus forecasted cost, volumes and revenues, using the same format as applied in previous NSA reports. The Appendix suggests that, because discounts paid (plus the costs of forwarding) exceeded ACS costs savings, the net value to the Postal Service for the year was slightly negative. Since the actual volume was below the before-rates volume forecast, however, no allowance was made that some of the 13 million pieces for which discounts were granted might have been pieces which otherwise would not have been mailed as First-Class Mail, and therefore no allowance was made that any such converted pieces would have added to the net value of the deal via higher unit contribution. While those assumptions are in accord with the methodologies employed in previous data collection reports, there are reasons to question their application in this instance.

The Discover Financial Services NSA is in its final year of a three-year contract. The forecasts upon which the terms of the deal were negotiated were made in calendar 2003. In the changing financial landscape of the national economy, through the housing/mortgage crisis, fluctuating interest rates, and falling consumer confidence, the financial services industry has been hit rather hard. "Credit card mail volume declined in 4th quarter 2007 as issuers, straining from fall-out due to the mortgage crisis and concern about an uncertain economy, cut back on direct marketing activity," according to Mail Monitor, the direct mail tracking service from Synovate. Mail Monitor also reports that "During Q4 2007, 1,285.7 million offers were received by US households, down from 1,501.6 million offers received during Q4 2006, a 14% decrease. Response rates were flat at 0.5%. Overall mail volume for the year was 5.2 billion, down almost 10% from 5.8 billion in 2006."

These developments clearly cast doubt on the continued validity of an estimate, made several years earlier in an entirely different economic environment, of what Discover's 2007 volumes would have been without this NSA. And while Discover's volumes have declined over the last year, at least Discover has continued to mail solicitations as First-Class Mail. To the extent that one of the primary purposes of the NSA was to convert pieces to First-Class Mail that would have otherwise been sent as Standard Mail, the totality of the available information does not preclude the possibility that the NSA actually had this effect during the period covered by this report. If any such conversions did occur, then the attached financial analysis necessarily understates the financial value of the agreement to the Postal Service during 2007.

USPS Discover NSA January 2007 - December 2007

Appendix A: page 1

USPS Value Calculation

| | | DISCOVER YEAR 3 (January 2007 - December 2007) | |
|----------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------|--------------------|
| | | MC2004-4 Filing (Year 3) | Actual |
| (1) | Total After Rates Volume | 461,000,000 | 424,308,112 |
| (2) | Threshold | 405,000,000 | 411,095,250 |
| (3) | Volume Above Threshold | 56,000,000 | 13,212,862 |
| (4) | Projected Before Rate Volume | 441,000,000 | 441,000,000 |
| (5) | Leakage Volume | 36,000,000 | 13,212,862 |
| (6) | Incremental Pieces | 20,000,000 | 0 |
| (7) | Standard Mail Volume SPLY | | 692,425,812 |
| (8) | Standard Mail Volume Actual | | 653,180,331 |
| (9) | Conversion Percentage | 100% | 100% |
| (10) | Statement Mail | 287,000,000 | 282,895,444 |
| (11) | Marketing Mail | 174,000,000 | 141,412,668 |
| | | 461,000,000 | 424,308,112 |
| New FCM Mail Contribution | | | |
| (12) | Increased Volume | 20,000,000 | 0 |
| (13) | DISCOVER FCM Revenue per Piece | \$ 0.292 | \$ 0.317 |
| (14) | DISCOVER FCM Cost per Piece | \$ 0.109 | \$ 0.111 |
| (15) | DISCOVER FCM Contribution per Piece | \$ 0.183 | \$ 0.206 |
| (16) | DISCOVER Standard Mail Contribution per Piece | \$ 0.090 | \$ 0.088 |
| (17) | DISCOVER Contribution | \$ 7,074,861 | \$ 0 |
| (18) | Discount on Incremental Volume | \$ 3,823,675 | \$ 0 |
| (19) | New FCM Mail Contribution (net discounts) | \$ 3,251,186 | \$ 0 |
| Discount Leakage | | | |
| (20) | Leakage Volume | 36,000,000 | 13,212,862 |
| (21) | Total Discount Leakage | \$ 930,000 | \$ 330,322 |
| Return Cost Savings | | | |
| (22) | Manual Letter Return Cost | \$ 0.573 | \$ 0.335 |
| (23) | Electronic Letter Return Cost | \$ 0.357 | \$ 0.138 |
| (24) | Letter Return Cost Savings | \$ 0.216 | \$ 0.197 |
| (25) | # of ACS Letter Returns | 2,644,830 | 1,435,892 |
| (26) | ACS Letter Savings | \$ 572,130 | \$ 282,871 |
| (27) | ACS Flat Savings | \$ 0 | \$ 0 |
| (28) | ACS Savings | \$ 572,130 | \$ 282,871 |
| Discover Forwarding Costs | | | |
| (29) | Cost of Providing ACS notices for forwards | \$ 0.061 | \$ 0.093 |
| (30) | Number of ACS notices provided | 0 | 2,303,709 |
| (31) | Total Forwarding Costs | \$ 0 | \$ 215,248 |
| (32) | Total USPS Value | \$ 2,893,316 | -\$ 262,699 |
| (1) | PostalOne! | | |
| (2) | MC2004-4 Rate Filing, Actual reflects subsequent application of threshold adjustment clause. | | |
| (3) | (1) - (2) | | |
| (4) | MC2004-4 Rate Filing | | |
| (5) | For filing: [4] - [2]; For actual: [3] | | |
| (6) | (3) - (5) | | |
| (7) | PostalOne! | | |
| (8) | PostalOne! | | |
| (9) | MC2004-4 Rate Filing | | |
| (10) | For MC2004-4 DFS-1; for Actuals PostalOne! | | |
| (11) | For MC2004-4 DFS-1; for Actuals PostalOne! | | |
| (12) | Incremental Pieces = (6) | | |
| (13) | For MC2004-4 USPST-1 Appendix A; for Actuals, Appendix A of this filing page 2 | | |
| (14) | For MC2004-4 USPST-1 Appendix A; for Actuals Appendix A of this filing, page 3 | | |
| (15) | For MC2004-4 USPST-1 Appendix A; for Actuals (13) - (14) | | |
| (16) | For MC2004-4 USPST-1 Appendix A; for Actuals Appendix A of this filing, page 8 | | |
| (17) | For MC2004-4 USPST-1 Appendix A; for Actuals, (12) * ((15)-(16)) | | |
| (18) | Total Discounts Earned - Discount Leakage (21) | | |
| (19) | (17) - (18) | | |
| (20) | (5) | | |
| (21) | Leakage assumed from Before Rates forecast in MC2004-4 USPS-T-1 Appendix A, Disc&Exp; Actual reflects subsequent application of the threshold adjustment clause | | |
| (22) | For MC2004-4 USPST-1 Appendix A; For Actuals, FY 2007 UAA Model, Table 5.9. | | |
| (23) | For MC2004-4 USPST-1 Appendix A; For Actuals, FY 2007 UAA Model, Table 5.5. | | |
| (24) | (22) - (23) | | |
| (25) | DFS and USPS reports | | |
| (26) | (24) * (25) | | |
| (27) | For MC2004-4 Filing, USPS-T-1 Appendix A, page 11; Actuals -- No flat volume | | |
| (28) | (26) + (27) | | |

USPS Discover NSA January 2007 - December 2007

Appendix A: page 2

Marketing Mail Revenue per Piece

Discover Marketing Mail
 First-Class Mail By Rate Category
 January 2007 -December 2007 Presorted Letter Volumes

| | (1) <u>Year 3</u> <u>Volume</u> | (2) <u>Average Revenue</u> <u>per piece</u> | (3) <u>Revenue</u> |
|---------------------------------------------------|---------------------------------------|---------------------------------------------------|-----------------------|
| Nonautomated Presorted Letters | | | |
| First Ounce | 2,337,269 | \$ 0.372 | \$ 869,611 |
| Additional Ounces | - | | - |
| Nonmachinable Pieces | 43,164 | \$ 0.373 | \$ 16,100 |
| Heavy Piece Deduction | - | | - |
| Total Nonautomated Presorted Letters | 2,380,433 | \$ 0.372 | \$ 885,711 |
| Automation Presort Letters and Flats | | | |
| Letters | | | |
| Mixed AADC Letters | 1,194,256 | \$ 0.342 | \$ 407,851 |
| AADC Letters | 2,818,611 | \$ 0.329 | \$ 926,182 |
| 3-Digit Letters | 79,307,057 | \$ 0.321 | \$25,491,669 |
| 5-Digit Letters | 54,837,025 | \$ 0.308 | \$16,893,481 |
| Additional Ounces | | | - |
| Heavy Piece Deduction | | | - |
| Flats | | | |
| Mixed ADC Flats | | | - |
| ADC Flats (b) | | | - |
| 3-Digit Flats | | | - |
| 5-Digit Flats | | | - |
| Additional Ounces | | | - |
| Heavy Piece Deduction | | | - |
| Nonmachinable Pieces | | | - |
| Total Automation Presort Letters and Flats | 138,156,949 | | \$43,719,183 |
| Automation Carrier Route Letters | | | |
| First Ounce | 875,286 | \$ 0.290 | \$ 253,833 |
| Additional Ounces | | | |
| Heavy Piece Deduction | | | |
| Automation Carrier Route Letters | 875,286 | | \$ 253,833 |
| Total DISCOVER First-Class Presort Letters | 141,412,668 | | 44,858,727 |
| | Revenue per Piece | | \$ 0.317 |

DISCOVER FIRST-CLASS MAIL PRESORT MARKETING LETTERS/FLATS UNIT COST ESTIMATES

| | | |
|---------------------------------------------|-------------|--------------------------|
| DISCOVER Solicitation Return Percentage = | 2.67% | (1) Adjusted for Actuals |
| DISCOVER Statement Return Percentage = | 1.20% | (2) |
| Average Presort Letters Return Percentage = | 1.71% | (3) |
| FY 2007 Customer Mail Volume = | - | (4) Adjusted for Actuals |
| FY 2007 Solicitation Mail Volume = | 141,412,668 | (5) Adjusted for Actuals |
| Manual Returns Unit Cost = | \$ 0.335 | (6) |
| Electronic Returns Unit Cost = | \$ 0.138 | (7) |
| Address Change Service (ACS) Success Rate = | 38.1% | (8) Adjusted for Actuals |
| Contingency Factor = | 1.000 | (9) |

| | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) | (22) | (23) |
|-----------------------------------------------------------|---------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|------------------------------|-------------------------------|-----------------------------------|-----------------------------|------------------------------|------------------------------------------------|----------------------------------------------|----------------------------------------------------|--------------------------------------------------|------|
| | FY 2007 NATIONWIDE MAIL MIX | | | | | | | DISCOVER MAIL MIX | | | | | | |
| Rate Category | FY 2007 Mail Proc Unit Cost (Dollars) | FY 2007 Delivery Unit Cost (Dollars) | FY 2007 Other Unit Cost (Dollars) | FY 2007 Total Unit Cost (Dollars) | FY 2007 Mail Volume (Pieces) | FY 2007 Mail Volume (Percent) | FY 2007 Total Unit Cost (Dollars) | Year 3 Mail Volume (Pieces) | Year 3 Mail Volume (Percent) | Current Returns Adjustment Unit Cost (Dollars) | Current w/Rets Adj Total Unit Cost (Dollars) | After Rates Returns Adjustment Unit Cost (Dollars) | After Rates w/Rets Adj Total Unit Cost (Dollars) | |
| FIRST-CLASS MAIL LETTERS | | | | | | | | | | | | | | |
| Nonautomation Presort Letters | \$ 0.127 | \$ 0.044 | \$ 0.018 | \$ 0.189 | 1,653,029,525 | 3.31% | \$ 0.189 | 2,380,433 | 1.68% | | | | | |
| Automation Presort Letters | | | | | | | | | | | | | | |
| Automation Mixed AADC | \$ 0.078 | \$ 0.044 | \$ 0.018 | \$ 0.139 | 3,014,173,757 | 6.03% | \$ 0.139 | 1,194,256 | 0.84% | | | | | |
| Automation AADC | \$ 0.061 | \$ 0.042 | \$ 0.018 | \$ 0.121 | 2,496,802,015 | 5.00% | \$ 0.121 | 2,818,611 | 1.99% | | | | | |
| Automation 3-Digit | \$ 0.057 | \$ 0.041 | \$ 0.018 | \$ 0.116 | 21,997,777,272 | 44.01% | \$ 0.116 | 79,307,057 | 56.08% | | | | | |
| Automation 5-Digit | \$ 0.038 | \$ 0.040 | \$ 0.018 | \$ 0.095 | 19,711,912,418 | 39.44% | \$ 0.095 | 54,837,025 | 38.78% | | | | | |
| Automation Carrier Route | \$ 0.023 | \$ 0.087 | \$ 0.018 | \$ 0.127 | 341,920,881 | 0.68% | \$ 0.127 | 875,286 | 0.62% | | | | | |
| Automation Presort Flats | | | | | | | | | | | | | | |
| Automation Mixed ADC | \$ 0.542 | \$ 0.134 | \$ 0.070 | \$ 0.746 | 51,519,834 | 0.10% | \$ 0.746 | - | 0.00% | | | | | |
| Automation ADC | \$ 0.403 | \$ 0.134 | \$ 0.070 | \$ 0.607 | 109,727,522 | 0.22% | \$ 0.607 | - | 0.00% | | | | | |
| Automation 3-Digit | \$ 0.308 | \$ 0.134 | \$ 0.070 | \$ 0.511 | 275,537,270 | 0.55% | \$ 0.511 | - | 0.00% | | | | | |
| Automation 5-Digit | \$ 0.186 | \$ 0.134 | \$ 0.070 | \$ 0.390 | 328,946,742 | 0.66% | \$ 0.390 | - | 0.00% | | | | | |
| WEIGHTED AVERAGE / TOTAL | \$ 0.057 | \$ 0.043 | \$ 0.018 | \$ 0.118 | 49,981,347,236 | 100.00% | \$ 0.110 | 141,412,668 | 100.00% | \$ 0.003 | \$ 0.113 | 0.001219925 | \$ 0.111 | |
| Total Unit Cost Estimates, Including Contingency = | | | | | | | | | | | \$ 0.113 | 0.111 | | |
| | | | | | | | | | | | Current (24) | After Rates (25) | | |

(1) Actual Return Rates
 (2) Actual Return Rates
 (3) Update to USPS-LR-L-61 FY 2007
 (4) This worksheet only addresses cost of Marketing mail.
 (5) Actual Volume
 (6) FY 2007 UAA Model, Table 5.9
 (7) FY 2007 UAA Model, Table 5.5
 (8) Actual ACS Success Rate
 (9) R2006-1
 (10) Intentionally left blank
 (11) USPS-FY07-10 and USPS-FY07-11
 (12) USPS-FY07-19
 (13) USPS-FY07-2 FY 2007 Cost Segments and Components Report

(14) (11) + (12) + (13)
 (15) USPS FY 2007 RPW
 (16) (15) / [Sum (15)]
 (17) Line Item (14), Total - Allocated by (19)
 (18) Attachment A, Page 2
 (19) (18) / [Sum (18)]
 (20) (6) * [(4) * [(2) - (3)] + (5) * [(1) - (3)]] / [(4) + (5)]
 (21) Sum (17) + (20)
 (22) [(8) * (7) + [1 - (8)] * (6)] * [(5) * [(1) - (3)]] + (6) * (4) * [(2) - (3)] / [(4) + (5)] - (3) * ((6) - (7)) * (8) * (5) / ((4) + (5))
 (23) Sum (17) + (22)
 (24) (21) * (9)
 (25) (23) * (9)

USPS Discover NSA January 2007 - December 2007**Appendix A: page 4***Statement Mail Revenue per Piece*

Discover Statement Mail
First-Class Mail By Rate Category
January 2007 - December 2007 Presorted Letter Volumes

| | (1) Year 3 <u>Volume</u> | (2) Average Revenue <u>per piece</u> | (3) <u>Revenue</u> |
|---------------------------------------------------|----------------------------------------|----------------------------------------------------|------------------------------|
| Nonautomated Presorted Letters | | | |
| First Ounce | 7,478,234 | \$ 0.372 | \$ 2,782,651 |
| Additional Ounces | | \$ 0.000 | - |
| Nonmachinable Pieces (a) | | \$ 0.373 | - |
| Heavy Piece Deduction | | \$ 0.000 | - |
| Total Nonautomated Presorted Letters | 7,478,234 | | \$ 2,782,651 |
| Automation Presort Letters and Flats | | | |
| Letters | | | |
| | 275,417,210 | | |
| Mixed AADC Letters (b) | 1,613,798 | \$ 0.342 | \$ 551,112 |
| AADC Letters (b) | 5,979,191 | \$ 0.329 | \$ 1,964,762 |
| 3-Digit Letters | 219,009,163 | \$ 0.321 | \$ 70,389,545 |
| 5-Digit Letters | 48,815,058 | \$ 0.308 | \$ 15,039,919 |
| Additional Ounces | | \$ 0.000 | - |
| Heavy Piece Deduction | | \$ 0.000 | - |
| Flats | | | |
| Mixed ADC Flats (b) | | \$ 0.000 | - |
| ADC Flats (b) | | \$ 0.000 | - |
| 3-Digit Flats (c) | | \$ 0.000 | - |
| 5-Digit Flats (c) | | \$ 0.000 | - |
| Additional Ounces | | \$ 0.000 | - |
| Heavy Piece Deduction | | \$ 0.000 | - |
| Nonmachinable Pieces (a) | | \$ 0.000 | - |
| Total Automation Presort Letters and Flats | 275,417,210 | | \$ 87,945,339 |
| Automation Carrier Route Letters | | | |
| First Ounce | | \$ 0.290 | - |
| Additional Ounces | | \$ 0.000 | - |
| Heavy Piece Deduction | | \$ 0.000 | - |
| Automation Carrier Route Letters | | | - |
| Total First-Class Presort Letters | 282,895,444 | | 90,727,989 |
| | Revenue per Piece | | \$ 0.321 |

USPS Discover NSA January 2007 - December 2007**Appendix A: page 6***Discover UAA volumes*

| | (1) | (2) | (3) | (4) | (5) |
|----------------|-----------------------------------|-------------------------|---------------------------|------------------------|--------------------|
| | First-Class Mail Marketing | | | % of Electronic | |
| Period | Volume | Physical Returns | Electronic Returns | Returns | Return Rate |
| January 2007 | 13,774,558 | 156,852 | 195,552 | 55.49% | 2.56% |
| February 2007 | 13,491,851 | 275,449 | 182,141 | 39.80% | 3.39% |
| March 2007 | 5,393,174 | 166,220 | 122,314 | 42.39% | 5.35% |
| April 2007 | 6,989,337 | 106,341 | 91,359 | 46.21% | 2.83% |
| May 2007 | 14,539,507 | 87,513 | 88,337 | 50.23% | 1.21% |
| June 2007 | 12,900,559 | 115,125 | 105,027 | 47.71% | 1.71% |
| July 2007 | 12,903,042 | 287,813 | 97,210 | 25.25% | 2.98% |
| August 2007 | 14,954,316 | 406,610 | 80,503 | 16.53% | 3.26% |
| September 2007 | 15,086,661 | 229,571 | 129,521 | 36.07% | 2.38% |
| October 2007 | 13,762,065 | 252,575 | 137,888 | 35.31% | 2.84% |
| November 2007 | 9,681,806 | 134,751 | 142,368 | 51.37% | 2.86% |
| December 2007 | 7,935,792 | 117,461 | 63,672 | 35.15% | 2.28% |
| Totals | 141,412,668 | 2,336,281 | 1,435,892 | 38.07% | 2.67% |

(1) PostalOne

USPS Discover NSA January 2007 - December 2007

Appendix A: page 7

ACS notices breakdown

| Period | (1) Forwarding | (2) Returns | (3) Total | (4) % Forwarding | (5) % Return |
|----------------|-------------------|------------------|------------------|---------------------|-----------------|
| January 2007 | 192,965 | 195,552 | 388,517 | 49.67% | 50.33% |
| February 2007 | 187,766 | 182,141 | 369,907 | 50.76% | 49.24% |
| March 2007 | 93,084 | 122,314 | 215,398 | 43.21% | 56.79% |
| April 2007 | 111,603 | 91,359 | 202,962 | 54.99% | 45.01% |
| May 2007 | 273,963 | 88,337 | 362,300 | 75.62% | 24.38% |
| June 2007 | 238,475 | 105,027 | 343,502 | 69.42% | 30.58% |
| July 2007 | 233,217 | 97,210 | 330,427 | 70.58% | 29.42% |
| August 2007 | 242,671 | 80,503 | 323,174 | 75.09% | 24.91% |
| September 2007 | 304,474 | 129,521 | 433,995 | 70.16% | 29.84% |
| October 2007 | 238,371 | 137,888 | 376,259 | 63.35% | 36.65% |
| November 2007 | 133,195 | 142,368 | 275,563 | 48.34% | 51.66% |
| December 2007 | 53,925 | 63,672 | 117,597 | 45.86% | 54.14% |
| Totals | 2,303,709 | 1,435,892 | 3,739,601 | 61.60% | 38.40% |

USPS Discover NSA January 2007 - December 2007**Appendix A: page 8***Discover Volume*

| Period | (1) Statement | (2) Marketing | (3) Total First-Class Mail |
|----------------|-------------------------|-------------------------|--------------------------------------|
| January 2007 | 25,031,299 | 13,774,558 | 38,805,857 |
| February 2007 | 21,649,710 | 13,491,851 | 35,141,561 |
| March 2007 | 24,711,511 | 5,393,174 | 30,104,685 |
| April 2007 | 22,776,590 | 6,989,337 | 29,765,927 |
| May 2007 | 23,825,814 | 14,539,507 | 38,365,321 |
| June 2007 | 23,218,256 | 12,900,559 | 36,118,815 |
| July 2007 | 23,497,314 | 12,903,042 | 36,400,356 |
| August 2007 | 24,293,704 | 14,954,316 | 39,248,020 |
| September 2007 | 23,198,255 | 15,086,661 | 38,284,916 |
| October 2007 | 24,510,910 | 13,762,065 | 38,272,975 |
| November 2007 | 23,423,421 | 9,681,806 | 33,105,227 |
| December 2007 | 22,758,660 | 7,935,792 | 30,694,452 |
| Totals | 282,895,444 | 141,412,668 | 424,308,112 |

USPS Discover NSA January 2007 - December 2007

| Appendix A, page 9 | (1) | (2) | (3) | (4) | (5) | (6) |
|---------------------------------|----------|--------|-------|---------|-----------|--------------|
| Standard Mail unit contribution | Volume % | Volume | Rates | Revenue | Unit Cost | Contribution |

Standard Mail Regular Revenue per piece

| Letter-size Mail Category | | | | | | |
|----------------------------------|--------|--------------------|---------|----------------------|--------|--|
| Mixed AADC Auto | 0.86% | 5,644,233 | \$0.224 | \$1,264,154 | 0.1131 | |
| AADC Auto | 1.87% | 12,201,858 | \$0.213 | \$2,603,632 | 0.0997 | |
| 3-Digit Auto | 39.51% | 258,104,155 | \$0.192 | \$49,669,912 | 0.0963 | |
| 5-Digit Auto | 46.80% | 305,670,470 | \$0.176 | \$53,677,250 | 0.0805 | |
| Basic Nonauto | 0.87% | 5,708,589 | \$0.268 | \$1,532,039 | 0.1287 | |
| 3/5 Digit Nonauto | 0.37% | 2,392,537 | \$0.242 | \$579,269 | 0.1295 | |
| Total | | 589,721,841 | | \$109,326,256 | | |

Letter-size Standard Mail ECR

| Mail Category | | | | | | |
|-----------------------|-------|-------------------|---------|--------------------|--------|--|
| Basic Nonauto Letters | 1.75% | 11,440,986 | \$0.181 | \$2,068,717 | 0.1185 | |
| Basic Auto Letters | 4.25% | 27,731,943 | \$0.156 | \$4,337,456 | 0.0915 | |
| Saturation Letters | 0.02% | 100,220 | \$0.149 | \$14,900 | 0.0788 | |
| Total | | 39,273,149 | | \$6,421,074 | | |

Flat-size Mail Category

| | | | | | | |
|-------------------|-------|-------------------|--------|--------------------|--------|--|
| Nonauto Basic | 0.02% | 129,786 | 0.2933 | \$38,068 | 0.4548 | |
| Nonauto 3/5 Digit | 0.04% | 234,885 | 0.2414 | \$56,712 | 0.3351 | |
| Auto Basic | 0.02% | 114,720 | 0.2554 | \$29,298 | 0.4527 | |
| Auto 3/5 Digit | 2.92% | 19,056,670 | 0.1930 | \$3,677,617 | 0.3186 | |
| Total | | 19,536,060 | | \$3,801,696 | | |

Non-letter size Standard Mail ECR

| Mail Category | | | | | | |
|----------------------|-------|------------------|--------|------------------|--------|--|
| Basic Non-letter | 0.71% | 4,649,280 | 0.1614 | \$750,333 | 0.0815 | |
| Total | | 4,649,280 | | \$750,333 | | |

| | | | | | | |
|-----------------------------------|------|--------------------|----------------|----------------------|----------------|----------------|
| Weighted Average per piece | | | \$0.184 | | \$0.096 | \$0.088 |
| | 100% | 653,180,331 | | \$120,299,358 | | |

- (1) Percentage of Rate Category volume to Total Standard Mail volume
- (2) PostalOne
- (3) (4)/(2)
- (4) PostalOne
- (5) Weighted average cost per piece using USPS-FY07-10 and USPS-FY07-11 and USPS-FY07-19 and USPS-FY07-18
- (6) Average Revenue per piece minus weighted average cost per piece.