

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Market Dominant Product Prices
First-Class and Standard Mail
Discover Financial Services

Docket No. MC2011-19

Market Dominant Product Prices
Discover Financial Services (MC2011-19)
Negotiated Service Agreement

Docket No. R2011-3

CHAIRMAN'S INFORMATION REQUEST NO. 1

(Issued January 27, 2011)

To clarify the basis of the Postal Service's request to add a Discover Financial Services (DFS) negotiated service agreement to the market dominant product list, filed January 14, 2011, the Commission requests the Postal Service to provide written responses to the following questions. Answers should be provided as soon as possible, but no later than February 2, 2011.

1. Please confirm that the revenue figure in Discover NSA.xlsx, tab: Value, cell: C39 excludes any sales rebates earned for the 12-month period preceding February 1, 2011 pursuant to Article II.B.1 of the contract. If not confirmed, please provide updated spreadsheets that reflect Article II.B.1 of the contract.
2. 39 CFR 3010.42(c)(1) and (2) require the Postal Service to file estimated mailer specific costs, volumes, and revenues of the Postal Service absent and with implementation of the agreement, respectively. Additionally, if mailer-specific costs are not available, 39 CFR 3010.42(c)(4) requires the Postal Service to provide the source and derivation of the costs that are used as well as a

discussion regarding the currency and reliability of those costs and their suitability as a proxy.

- a. Please identify the locations in the Postal Service's filings where this information is provided. If such information has not been provided, please supplement the filing to provide the necessary information.
 - b. Please provide a narrative explaining the rationale for adjustments made to costs, volumes, and revenues absent and with implementation of the agreement. See Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: C92:F93; see *also* Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: C88:F90.
3. 39 CFR 3010.42(c)(3) requires the Postal Service to file an analysis of the effects of the agreement on the contribution to institutional costs from mailers not party to the agreement. Please identify the location in the Postal Service's filings where this information is provided. If such information has not been provided, please supplement the filings to conform with these requirements.
4. Please explain how the data collection plan presented in Attachment D to the filing conforms with the requirements of 39 CFR 3010.43. If necessary, please revise the proposed data collection plan for the agreement.
5. The Postal Service assumes specific price adjustments for First-Class Mail and Standard Mail in Attachment F. See Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: H74 and H75. Assuming higher than expected price adjustments in contract years 2 and 3, please provide:
 - a. an analysis demonstrating when expected rebates paid will exceed expected additional contribution; and

- b. a narrative explaining the Postal Service's plans to ensure that the agreement improves the net financial position of the Postal Service in accordance with 39 CFR 3010.40(a)(1).
6. In Docket No. R2011-2, rates for eligible First-Class Mail and Standard Mail, as defined in the agreement, receive above-average increases. Please explain why it is reasonable to assume average CPI-U increases for contract prices in the next two rate adjustments. See Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: H74 and H75.
7. The CPI figures calculated in Discover NSA.xlsx, tab: Inflation and Vol Trend, cells: H74 and H75 use the 12-month averages of January through December of each year. Please confirm that these calculations should use the 12-month averages beginning in December and ending 12 months later in November. If not confirmed, please explain if the Postal Service intends to begin filing generally applicable notices of rate adjustment after the December CPI-U figure is released each year, which differs from the recent Docket No. R2011-2 notice of rate adjustment.
8. Article II.E. of the agreement sets forth the penalty that DFS will have to pay if it does not meet the revenue threshold set forth in Article II.B. For years 2 and 3 of the agreement, Article II.E. states that "the parties shall agree upon a penalty for DFS if DFS fails to reach the revenue threshold" for that respective year. Assuming the parties reach agreement, please explain the Postal Service's view whether the change requires the Postal Service to submit a notice of price adjustment to the Commission.

9. The agreement is executed by the Postal Service and DFS, including its subsidiaries and affiliates. Please provide a list of all DFS's subsidiaries and affiliates.
10. Do the cost, revenue, and volume before- and after-rates data provided in the filing reflect all the subsidiaries and affiliates identified in question 9, above?
11. In contract year 3, with a high volume estimate, the Postal Service estimates a negative net value to the Postal Service. See Discover NSA.xls, tab: Value, Cell: F57. For each contract year, please provide:
 - a. a narrative explaining the likelihood of the net value being negative; and
 - b. an analysis demonstrating the volume level when expected rebates paid will exceed expected additional contribution.
12. Please refer to Docket No. ACR 2010 USPS-FY10-30, FY 10 NSA Unit Cost Detail Data Calculation.xlsx, tab: Letters. Please reconcile the figures in this tab with their respective counterparts in USPS-FY10-10 and USPS-FY10-42, Excel file ChIR.1.Q.1.USPS-FY10-10.ACR2010.xlsx. For example, in USPS-FY10-10 the unit mail processing for Automation Mixed AADC Letters is \$0.0874, and in USPS-FY10-30 it is \$0.0926. Please update all applicable workpapers in Docket Nos. ACR2010 and R2010-3.

By the Chairman.

Ruth Y. Goldway