

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Postal Regulatory Commission
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DISCOVER NSA

Docket No. MC2011-19

DISCOVER NSA

Docket No. R2011-3

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S
INFORMATION REQUEST NO. 2**
(February 9, 2011)

Chairman's Information Request (CHIR) No. 2 was issued on February 4, 2011.
The request sought answers no later than February 9, 2011. Attached are the Postal
Service's responses to Questions 1 through 3.

Respectfully submitted,

UNITED STATES POSTAL SERVICE
By its attorneys:

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1. Please refer to your response to CHIR No. 1, question 2. Confirm that the Postal Service's estimates that mailer-specific volumes and revenues assuming implementation of the agreement are equal to DFS' adjusted revenue threshold and corresponding volume in each Contract Year. If not confirmed, please explain.

RESPONSE:

Confirmed.

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2. Please confirm that the Postal Service believes that the instant agreement will improve its net financial position. See 39 U.S.C. 3622(c)(10)(A)(i) and 39 CFR 3010.40(a)(1). If confirmed, please discuss how the Postal Service plans to estimate the improvement in its net financial position as a result of the agreement at the end of each contract year. Also, please include a list of all necessary data to complete this analysis (e.g., volume absent the agreement (anyhow volume), cost and revenue absent the agreement, actual volume, actual revenue, etc. If not confirmed, please explain.

RESPONSE:

Confirmed. The Postal Service will estimate the improvement in contribution from this agreement based on analysis of DFS' actual performance compared to expectations. In particular, since the Postal Service expects the incentives offered in this agreement to generate additional Standard Mail, rather than additional First-Class Mail, deviations from expectations of First-Class Mail decline will form the baseline for analyzing the contribution impact of the agreement. A slower decline in First-Class Mail postage paid by DFS likely translates into a lower value for the agreement (since less Standard Mail growth would be needed to offset the decline). In addition, should economic conditions deviate appreciably from current expectations, the Postal Service might re-evaluate expectations for DFS' Standard Mail growth (both in the absence of and with the agreement). For example, the Postal Service expects DFS' Standard Mail to grow fairly strongly, reflecting our expectation that economic recovery will continue and that consumer spending will expand at a moderate pace; if consumer spending fails to pick up, we would expect DFS' volume—in the absence of the agreement—to grow less strongly. Similar logic would apply in the case of extremely strong growth in consumer spending, and can be extended to other metrics that influence the growth of consumer credit, including household debt, employment and household income.

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The Postal Service will look at these economic indicators, as well as DFS' actual volumes and revenues, actual prices and system-wide costs (and thus, estimated contribution from DFS' mail), and system-wide growth rates as a point of reference to estimate the financial improvement resulting from the agreement.

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3. Please refer to your response to CHIR No. 1, question 4. 39 CFR 3010.43(c) requires the Postal Service to provide, for each 12-month period the agreement is in effect, “[a]n analysis of the impact of the negotiated service agreement on the marketplace, including a discussion of any and all actions taken to protect the marketplace from unreasonable harm.” Please discuss the type of analysis the Postal Service plans to conduct to meet this requirement.

RESPONSE:

As stated in the response to CHIR No. 1, question 3, the Postal Service does not expect the NSA to cause any impact on the broader marketplace. The Postal Service is willing to negotiate functionally-equivalent agreements with similarly-situated mailers, so that any competitor who felt this agreement impacted their business could take advantage of a similar agreement to mitigate that impact. Nevertheless, should the Postal Service become aware of any such impact, it will endeavor to analyze and report on that impact.