

CORPORATE AND POSTAL BUSINESS LAW SECTION
LAW DEPARTMENT



March 8, 2013

Shoshana M. Grove
Secretary
Postal Regulatory Commission
901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001

Re: Docket No. R2011-3/MC2011-19

The Postal Service hereby provides notice that it has made a minor amendment to the Discover Financial Services Negotiated Service Agreement (NSA), which was added to the Market-Dominant Product List on March 15, 2011.¹ The agreement was designed, in light of the ongoing diversion of Discover's First Class Mail delivery to electronic delivery, to maintain the total contribution the Postal Service receives from Discover's First-Class Mail and Standard Mail and to provide an incentive, in the form of discounts, for net contribution beyond that.

Discover has made a business decision to upgrade a small portion of its First-Class Mail volume to Priority Mail. This amendment, which is attached, is designed to adjust the threshold for qualifying for discounts to account for that upgrade. Article II.B.6 of the agreement requires the revenue threshold to be adjusted upward by 65 cents for every dollar decline in Discover's First-Class Mail postage. As such, Discover must spend an extra \$1.65 worth of Standard Mail to offset each dollar decline in postage from First-Class Mail to qualify for rebates. Shifting some of Discover's First-Class volume to Priority Mail could thus negatively impact Discover by triggering the revenue threshold adjustment in the NSA for failing to mail at least the same amount of First-Class Mail as it in did the previous year.

The Postal Service has therefore agreed to modify how it calculates Discover's First-Class Mail revenue in the future, for purposes of achieving the revenue threshold, by including the equivalent in revenue of Discover's Priority Mail piece volume multiplied by Discover's average First-Class Mail per-piece postage for the relevant

¹ Docket Nos. R2011-3 and MC2011-19, Postal Regulatory Commission Order No. 694, March 15, 2011.

year. Without altering the structure or the original intent of the agreement, this change will benefit both parties in the NSA because Discover will not be penalized for the upgrade, and the Postal Service will receive a higher contribution per piece from the Discover First-Class mail volume that Discover upgrades to Priority Mail.

The Postal Service believes that this amendment still meets the statutory requirements of improving the net financial position of the Postal Service, while not causing any unreasonable harm to the marketplace.

Sincerely,

Brandy A. Osimokun
Attorney

**AMENDMENT TO NEGOTIATED SERVICE AGREEMENT BETWEEN
THE UNITED STATES POSTAL SERVICE AND
DISCOVER FINANCIAL SERVICES**

The United States Postal Service ("Postal Service"), an independent establishment of the Executive Branch of the United States Government established by the Postal Reorganization Act, Public Law 91-375, as amended, with its principal office at 475 L'Enfant Plaza, SW, Washington, DC 20260 and Discover Financial Services, a Delaware Corporation, with its principal place of business located at 2500 Lake Cook Road, Riverwoods, IL, 60015, and its subsidiaries and affiliates ("DFS") signed the Negotiated Service Agreement Between the United States Postal Service and Discover Financial Services ("Agreement") on December 15, 2010 and December 16, 2010 respectively. The Agreement sets forth the terms and conditions established by the Postal Service and DFS to maintain the total contribution the Postal Service receives from DFS First Class and Standard postage, and to provide an incentive for net contribution growth beyond that.

The Postal Service and DFS hereby agree to amend Section II.B.5 of the Agreement to provide for DFS' unforeseen business decision requiring DFS to upgrade a small portion of its DFS Eligible First-Class Mail to an expedited service, causing a reduction in the DFS Eligible First Class Mail volume. This Amendment establishes the terms and conditions regarding how the Revenue Threshold Adjustment will be calculated to account for any upgrades in service.

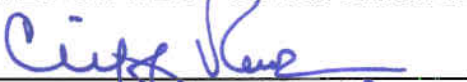
NOW, THEREFORE, the Postal Service and DFS agree to amend section II.B.5 as follows:

In the event, DFS shifts DFS Eligible Mail from First-Class Mail to Priority Mail, the revenue for DFS Eligible First-Class Mail for the current contract year shall be adjusted to include a sum that represents the revenue value of the DFS Priority Mail piece volume, such sum to be calculated by multiplying DFS's priority Mail piece volume by DFS's average DFS Eligible First-Class Mail postage per piece for the current contract year.

Each Party represents that it has caused this Amendment to the Agreement to be executed on its behalf as of the date written below by a representative empowered to bind that Party with respect to the undertakings and obligations contained herein.

UNITED STATES POSTAL SERVICE

DISCOVER FINANCIAL SERVICES

By: 

By: 

Printed Name: Cliff Ruck

Printed Name: Roger Hochschild

Title: UP SALES

Title: President and COO

Date: 1/31/13

Date: 1/24/13