



October 16, 2014

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

Re: Docket Nos. R2011-3 and MC2011-19

Pursuant to Order Nos. 694 and 1720, in Docket Nos. R2011-3 and MC2011-19, the Postal Service presents its Data Collection Report for Year 3 of Discover Financial Services, Inc.'s Negotiated Service Agreement with the United States Postal Service.

This report was originally due to the Commission on May 30, 2014.<sup>1</sup> However, due to an administrative oversight caused by a change in staffing, the Postal Service only recently discovered that the report had not been timely filed. The Postal Service's Law Department has implemented corrective measures to minimize such oversights in the future.

Nevertheless, it is important to note that the attached data collection report is being filed in advance of the Commission's Annual Compliance Review, where the Discover NSA will be evaluated for compliance with Title 39. Accordingly, the filing of this data collection report today should not prejudice any party's participation in such upcoming proceedings.

Respectfully,

A handwritten signature in red ink that reads "John F. Rosato".

John F. Rosato  
*Attorney*

<sup>1</sup> In Order No. 694, issued on March 15, 2011, the Commission required the Postal Service to file data collection reports on the Discover NSA no later than 60 days after each anniversary date of the contract's implementation. See Order No. 694, at 22. Since year 3 of the Discover NSA ended on March 31, 2014, the due date for the year 3 data collection report was May 30, 2014.



Data Collection Report For  
Discover Financial Services, Inc.  
Negotiated Service Agreement

Year 3 (April 2013 – March 2014)

**Data Collection Report (Year 3)**  
**Discover Financial Services, Inc. NSA**  
**April 1, 2013 – March 31, 2014**

**INTRODUCTION**

Pursuant to Order Nos. 694 and 1720, in Docket Nos. R2011-3 and MC2011-19, the Postal Service (“Postal Service”) presents its Data Collection Report (“DCR”) for Year 3 of the Discover Financial Services, Inc. (“DFS”) Negotiated Service Agreement (“NSA”).

**DATA COLLECTION REPORT**

- 1. DFS’s volumes entered by qualifying price category for the just ended contract year.**

See Appendix A, page 1

- 2. DFS’s postage paid by qualifying price category for the just ended contract year.**

See Appendix A, page 1

- 3. The adjusted threshold used to establish DFS’ eligibility for rebates and payment of fines, and the calculations underlying the threshold’s determination.**

See Appendix A, page 2

The revenue threshold is adjusted upward by 65 cents for every one dollar decline in DFS’ eligible First-Class Mail (“FCM”) postage of the contract year. DFS must send an extra \$1.65 worth of Standard Mail to offset each dollar decline in postage from FCM. In Year 3 of the contract, DFS’ FCM revenue declined from Year 2. Accordingly, the Year 3 revenue threshold was adjusted upwards by \$1,151,141.

- 4. The index used to establish DFS’s average price increase, and the calculations underlying the index’s determination.**

See Appendix A, page 3.

The Postal Service used an index to establish DFS’ average price increase. This index uses the weighted volume distribution by price category (within a class of mail) for contract Year 3, and then uses the published prices for those categories to examine price change.

Specifically, to calculate the index for FCM, the Postal Service compared the published price for each rate category at the start of Year 3 (37.8 cents) to the

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published price for each rate category at the end of the Year 3 (40.2 cents) for an increase of 2.4 cents per piece, (index of 106.4).

To calculate the index for Standard Mail, the Postal Service compared the published price for each rate category at the start of the Year 3 (21.7 cents) compared to the published price for each rate category at the end of the Year 3 (22.9 cents) for an increase of 1.2 cents per piece (index of 105.8).

**5. The rebate paid or penalty paid by DFS (if any) and the calculations underlying their determination.**

See Appendix A, page 2.

In Year 3 of the agreement, DFS earned a rebate of \$18,537,920.

**6. A list of all subsidiaries and affiliates mailing eligible mailpieces during the contract year as well as lists of all mergers and acquisitions and sales and closures of entities or divisions occurring during the contract year; and volumes associated with such enterprises for that contract year.**

No subsidiaries or affiliates of DFS mailed eligible mailpieces during the third contract year. No mergers or acquisitions were made by DFS during the third contract year.

**7. The methodology and calculation used to determine the increase or decrease in net contribution to the Postal Service as a result of the agreement for the just ended contract year; including a narrative explanation of the methodology used.**

See DCR Appendix A, page 4

In Appendix F, page 1 of *Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add Discover Financial Services Negotiated Service Agreement to the Market-Dominant Product List*, filed on January 14, 2011, the Postal Service provided volume projections for FCM and Standard Mail letter-size mailpieces. Specifically, these projections, which were based on historical trends, represented volume data over a three-year period in the absence of an NSA.

In Appendix A, page 4, the first column of data contains the Year 3 volume projections. Standard Mail letter-size volume data is presented with a low and high estimate. In order to calculate the net contribution increase to the Postal Service, volume projections (both FCM letter-size and Standard Mail low and high estimates) are subtracted from the actual volumes in Year 3. The incremental volume recorded in the third column on page 4 represents the difference between the actual volumes

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in Year 3 (with an incentive offering) and the Year 3 projected volumes (without an incentive offering).

To calculate the net value of the incremental volume, the Postal Service first calculates the average weighted unit contribution for each class of mail. This number is calculated by subtracting the average weighted unit costs (Appendix A, page 1) from the average weighted revenues per piece (Appendix A, page 1). Next, the average weighted unit contribution for each class is multiplied by the respective incremental volume (Appendix, page 4) to calculate the total incremental contribution. Finally, the total earned rebates paid (Appendix A, page 2) are subtracted from the incremental contribution. Using the low and high estimates, the net contribution was between \$16.0 million to \$24.0 million, respectively.

**8. The annual (contract year) actual mailer-specific costs, volumes, and revenues.**

See Appendix A, page 1

**9. A detailed discussion of how the Postal Service believes DFS's own-price elasticities differ from the average elasticities of work shared First-Class Mail and Standard Regular Mail.**

The Postal Service does not measure how elasticities differ by customer. As the Commission is well aware, the Postal Service's elasticity measures are a composite of many customers; each of which may react to price changes differently. The Postal Service does not believe that it would be feasible to collect data from DFS that would enable it to isolate the effect of non-price variables from the effect of price changes. This is because DFS' decision to use the direct marketing channel, rather than one of the competing marketing channels, is a proprietary decision whose various facets cannot reasonably be isolated.

**10. Report the volume of any Priority Mail used in the calculation of the adjusted revenue threshold for contract year 3 and submit a description of the Postal Service's method for verifying the volume shifted from First-Class Mail to Priority Mail.**

The volume that shifted from FCM to Priority Mail during Year 3 of the NSA was 1.7 million pieces. The Priority Mail data was provided to USPS by DFS' approved Mail Service Provider and matched against the Postal Service's data from the Enterprise Data Warehouse ("EDW") and the Product Tracking System ("PTS").