

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Market Dominant Product Prices
Standard Mail
Discover Financial Services

Docket No. MC2015-3

Market Dominant Product Prices
Discover Financial Services (MC2015-3)
Negotiated Service Agreement

Docket No. R2015-2

PUBLIC REPRESENTATIVE MOTION
FOR ISSUANCE OF INFORMATION REQUEST

(November 4, 2014)

Pursuant to 39 C.F.R. §§ 3001.21(a) and 3007.3(c), the Public Representative requests that an Information Request be issued to obtain clarification from the Postal Service concerning several aspects of its request to add a Discover Financial Services (DFS) Negotiated Service Agreement (NSA) to the market dominant product list.¹ The proposed questions seek additional information necessary to allow the Commission and participants to evaluate whether the proposal meets the applicable statutory requirements of 39 U.S.C. §§ 3622 and 3642.

Proposed Questions

1. Please provide DFS's monthly volumes for First Class and Standard Mail for FY 2014.
2. The following table compares the DFS Fiscal Year volumes for FY 2012 and FY 2013 provided by the Postal Service in the data collection reports for the Docket No. R2011-3 DFS NSA (prior DFS NSA) and the information provided in this docket in the workbook "DFS 2014 NSA Financials.xls" Please reconcile the apparent discrepancies.

¹ Notice of the United States Postal Service of Filing Request to Add Discover Financial Services Negotiated Service Agreement to the Market-Dominant Product List, October 27, 2014 (Request).

	R2015-2 Data		R2011-3 Data	
	2012	2013	2012	2013
First-Class Mail Letters	212,566,074	208,651,830	214,751,827	213,528,996
Standard Mail Letters	981,295,363	1,033,178,685	955,827,828	1,036,465,402
Total DFS	1,193,861,437	1,241,830,515	1,170,579,655	1,249,994,398
Source:				
FY12-PRC-LR-6 "ACR_NSA_FY12_report PRC.xls" tab MC2011-19 Discover NSA cells E61, E62				
FY13-PRC-LR-6 "ACR_NSA_FY13_report PRC.xls" tab MC2011-19 Discover NSA cells E63, E64				

3. On page 5 of the Request, the Postal Service states "[b]y offering predictable postage rebates in return for firm commitments to increase postage revenue, the Postal Service believes that it can induce DFS to continue to rely upon mail as a viable and valuable marketing and communications medium. Simply put, this NSA will drive accelerated growth in DFS Eligible Mail and has the potential to positively impact the trajectory of First Class Mail and Standard Mail among other financial services industry mailers."

- a. Please explain whether the Postal Service expects the DFS NSA to induce other financial service mailers to increase volume, and if applicable, please provide the basis for this expectation.
- b. Please explain whether the Postal Service expects that the DFS NSA, as a baseline agreement, will induce other similarly situated financial services mailers to increase volumes because they and the Postal Service will enter into functionally equivalent agreements.
- c. Please describe the ways in which the prior DFS NSA impacted the volume mailed by other financial service companies, if any.

4. Please confirm that under the contract DFS can either achieve a tier 1 rebate or a tier 2 rebate, but not both. If not confirmed, please explain.

5. Contract section IV.E. Termination states: "Each Party reserves the right to terminate this Agreement for convenience prior to the last ninety (90) calendar days of

each Agreement Year, without penalty, with ninety (90) calendar days written notice to the other Party.” Please confirm that if DFS is not on pace to meet the revenue threshold in a given contract year, it can cancel the agreement prior to day 274 of the agreement year and pay no penalty. If DFS cancels the agreement on day 277, and is below the revenue threshold, it would have to pay the penalty. If not confirmed, please explain.

6. Regarding the desirability of functionally equivalent NSAs, the Postal Service states that a “defining characteristic” of DFS is “its expanding Standard Mail advertising, which was over \$300 million in 2013.”

- a. Please provide the number of mailers that generated over \$300 million in Standard Mail revenue in FY 2013.
- b. Please provide the number of financial service companies that generated over \$300 million in Standard Mail revenue in FY 2013.

7. The following table details the Postal Service’s estimate of incremental volume for contract years 1-3 (as provided in the workbook “DFS Appendix”) and the elasticity implied by these estimates.

	Contract Year 1	Contract Year 2	Contract Year 3
<u>Before-Rates Volume</u>			
First-Class Mail	201,009,500	193,974,168	187,185,072
Standard Mail	828,784,277	780,714,789	735,433,331
<u>Incremental Volume</u>			
First-Class Mail	31,621,918	41,579,390	48,368,487
Standard Mail	194,796,365	255,723,302	301,004,761
<u>Percent Volume Change</u>			
First-Class Mail	15.7%	21.4%	25.8%
Standard Mail	23.5%	32.8%	40.9%
Rebate Percentage	2.5%	2.5%	2.5%
<u>Implied Price Elasticity</u>			
First-Class Mail	-6.29	-8.57	-10.34
Standard Mail	-9.40	-13.10	-16.37

- a. Please confirm the implied elasticities listed above accurately reflect the data provided by the Postal Service. If not confirmed, please explain.

- b. If part a is confirmed, please provide additional justification supporting applicable of these elasticities to DFS.
 - c. If part a is not confirmed, please calculate and provide justification for implied elasticities for each year of the DFS NSA.
8. In the workbook “DFS Appendix,” the Postal Service assumes that the exigent surcharge will be removed during contract year 2.
- a. Please confirm that the Postal Service estimates that, absent the implementation of the DFS NSA, DFS’s volumes will continue decline during contract year 2 despite a real price decrease of 4.3 percent. If not confirmed, please explain.
 - b. Please confirm that if the DFS NSA is implemented, the Postal Service estimates that the 2.5 percent price decrease will incentivize over 255 million pieces of Standard Mail in contract year 2. If not confirmed, please explain.
 - c. Please provide additional analysis to support the Postal Service’s estimation that a 2.5 percent price decrease will lead to increased volume, while a 4.3 percent price decrease will lead to a decrease in mail volume.
9. In Docket No. R2013-11, the Postal Service used its roll forward model to estimate volume change due to the proposed price increases. The following table² details how the Postal Service estimated that the CPI price change of Docket No. R2013-10 would impact Standard Mail (as a class) and Standard Mail Letters volume.

² The file “Nick.Statmnt.Attach.Rev.11.22.13.xls” was used to create this table. Specifically, tab “Attach 1 – Mail Volume” cells J15 and N15 were used for the Total Standard Mail Volume forecast. Further, note that the J15 value for Standard Mail reflects a full year of implementation of the CPI prices. Tab “Attach 10 2014 Contribution” cell D21 was used for the Standard Mail Letters FY 2014 BR Forecast. Tab “Attach 12 2014 Cont AR 10-1-13” cell D21 was used for the Standard Mail Letters FY 2014 AR Forecast.

	2014 BR Forecast	2014 AR Forecast	Change in Volume
	(Millions)	(Millions)	(Millions)
All Standard Mail	81,856	81,395	-462
Standard Mail Letters	48,432	48,164	-268

In this docket, the Postal Service estimates that providing DFS a 2.5 percent price decrease in contract year 3 will incentivize over 300 million pieces of additional Standard Mail, an increase of 41 percent. In Docket No. R2013-11, the Postal Service estimated that increasing prices for all standard mailers by 1.6 percent would decrease volume by 462 million pieces, a 0.56 percent decrease in volume. Further, the Postal Service estimated that increasing prices for all Standard Mail Letter mailers by 1.6 percent would decrease volume from 48.3 billion pieces to 48.1 billion pieces. Please explain why the Postal Service believes that DFS's response to price changes diverges dramatically from that of other Standard mailers. Please include data gathered during the prior DFS NSA that supports this belief.

10. In the FY 2013 Annual Compliance Determination, the Commission directed the "Postal Service to provide in its FY 2014 ACR a detailed analysis of the lessons learned from the DFS NSA. Specifically, the Postal Service shall address: (1) how well the NSA achieved its goal of maintaining DFS's total contribution from First-Class Mail and Standard Mail; (2) how well the NSA achieved its goal of providing an incentive for growth in net contribution beyond that; (3) the lessons the Postal Service has learned regarding methods for staunching First-Class Mail volume declines; and (4) what efforts the Postal Service has made to develop a net value method with quantitative inputs."³ If that report has been developed, please provide it.

Respectfully Submitted,

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³ FY 2013 ACD at 68-69.

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