

OFFICIAL TRANSCRIPT OF PROCEEDINGS BEFORE THE POSTAL RATE COMMISSION

In the Matter of:)
)
EXPERIMENTAL RATE AND SERVICE) Docket No. MC2002-2
CHANGES TO IMPLEMENT)
NEGOTIATED SERVICE AGREEMENT)
WITH CAPITAL ONE SERVICES,)
INC.)

Volume 2

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POSTAL RATE COMMISSION

In the Matter of:)
)
EXPERIMENTAL RATE AND SERVICE) Docket No. MC2002-2
CHANGES TO IMPLEMENT)
NEGOTIATED SERVICE AGREEMENT)
WITH CAPITAL ONE SERVICES,)
INC.)

Room No. 300
Postal Rate Commission
1333 H Street, N.W.
Washington, D.C.

Volume 2
Tuesday, December 3, 2002

The above-entitled matter came on for hearing, pursuant to notice, at 9:28 a.m.

BEFORE:

HON. GEORGE A. OMAS, CHAIRMAN
HON. RUTH Y. GOLDWAY, VICE-CHAIRMAN
HON. DANA B. "DANNY" COVINGTON, COMMISSIONER
HON. TONY HAMMOND, Commissioner

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C O N T E N T S

WITNESSES APPEARING:

DONALD JEAN
STUART ELLIOTT
CHARLES CRUM

<u>WITNESSES:</u>	<u>DIRECT</u>	<u>CROSS</u>	<u>REDIRECT</u>	<u>RECROSS</u>	<u>VOIR DIRE</u>
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Stuart Elliott	198				
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P R O C E E D I N G S

(9:28 a.m.)

CHAIRMAN OMAS: Good morning. Today we begin hearing the direct case in support of the proposed negotiated service agreement between the Postal Service and Capital One Services, Incorporated. This morning we will hear testimony from Capital One's witness, Donald Jean and Stuart Elliott. We will also hear testimony from Postal Service witness Charles Crum.

I want to thank the Postal Service and Capital One for their efforts to meet the self-imposed 10-day limit for proposed findings of discovery. Although a few responses have been a day or two late, in general, responses have been timely, and this has enabled parties to successful pose several rounds of questions.

The Commission will be maintaining up-to-date information on the status of the hearing; that is, which witnesses are scheduled and which witnesses have completed their appearance, with a scroll banner on our home page. Please check the website instead of calling our dockets room to get accurate information on how the hearings are progressing.

The Commission now has the ability to accommodate counsel's use of laptop computers. If you would like to use a computer during the hearing, please contact the Commission

1 administrative office. They will try to make arrangements
2 to accommodate on a first-come, first-serve basis.

3 Does anyone have a procedural matter to discuss
4 before we begin the hearing today?

5 (No response.)

6 CHAIRMAN OMAS: Mr. May, would you please call
7 your first witness?

8 MR. MAY: Yes. I call Donald Jean.

9 CHAIRMAN OMAS: Mr. Jean, would you stand, please.
10 Whereupon,

11 DONALD JEAN

12 having been duly sworn, was called as a witness
13 and was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. MAY:

16 Q Mr. Jean, I am going to hand you two copies of
17 document captioned "Direct Testimony of Donald Jean on
18 Behalf of Capital One Services, Inc," COF-T-1.

19 You are the senior vice president of Capital One
20 Services, Inc., are you not?

21 A Right.

22 Q I'm going to ask you to examine those two
23 documents and ask if that's the testimony you prepared for
24 this case?

25 A Yes, it is.

1 Q And if you were to testify at length today, would
2 that be your testimony?

3 A Yes, it is.

4 MR. MAY: Mr. Chairman, I am going to hand these
5 two copies to the reporter, ask that they be transcribed in
6 the record and admitted into evidence.

7 CHAIRMAN OMAS: Is there any objection?

8 (No response.)

9 CHAIRMAN OMAS: Hearing none, I will direct
10 counsel to provide the reporter with two copies of the
11 corrected direct testimony of Donald Jean. That testimony
12 is received and will be transcribed into evidence.

13 (The document referred to was
14 marked for identification as
15 COF-T-1, and received in
16 evidence.)

17 //

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RECEIVED

36
COF-T-1

SEP 19 2 00 PM '02

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**EXPERIMENTAL CHANGES TO
IMPLEMENT CAPITAL ONE NSA**

DOCKET No. MC2002-2

**DIRECT TESTIMONY
OF
DONALD JEAN
ON BEHALF OF
CAPITAL ONE SERVICES, INC**

**TIMOTHY J. MAY
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Counsel for Capital One Services, Inc.

September 19, 2002

INTRODUCTION

My name is Donald Jean, Senior Vice President of Capital One Services, Inc. (Capital One). I earned two degrees from the University of Michigan: Bachelor of Arts in Economics in 1987 and Masters in Business Administration in 1990. Since 1990, I have worked in the credit card industry, both at American Express and Capital One. My team is responsible for the procurement of goods and services, including mailing services, that support Capital One's business.

The purpose of my testimony is to provide descriptions of Capital One's mailing practices, some of the factors that influence our choice of mail products and other marketing media, forecasts of Capital One mail volume for the Test Year, before and after rates, and the benefits to Capital One and other postal stakeholders that would flow from the implementation of the Service Agreement Capital One has negotiated with USPS.

Capital One is the country's sixth-largest credit card issuer. The dollar value of managed loans has more than quadrupled since 1995, as have our earnings. In that time frame, Capital One has become one of the country's largest consumer franchises, with nearly 50 million accounts, and has been cited nationally for its innovative information technology strategies. Capital One also is perennially on Fortune magazine's Top 100 Places to Work in the U.S.

Capital One entered into discussions with the Postal Service regarding a potential customized agreement in hopes of finding a mutually-beneficial arrangement that would help reduce costs and motivate growth. Capital One believes the proposal that has been filed with the Commission offers such an opportunity, as it will reduce the Postal Service's costs in handling undeliverable mail and help the company continue to mail large volumes of First-Class Mail.

I. MAIL PLAYS A VITAL ROLE IN CAPITAL ONE'S MARKETING

Mail reaches all consumer segments in the U.S., regardless of demographic, socioeconomic, or credit class. Using direct mail to deliver messages directly to people who demonstrate credit-worthiness has been at the heart of Capital One's success. Unlike most direct marketers, who rely primarily on Standard Mail, Capital One has found value in using a combination of First-Class Mail and Standard Mail to better target those credit-worthy consumers. This is, in part, due to the higher level of service provided by First-Class Mail (including speed of delivery, provision of forwarding service, and return of undeliverable mail). In fact, I understand that Capital One is now the top originator of First-Class Mail in the U.S.

Capital One utilizes direct mail, along with telemarketing and the Internet, for its direct marketing. Direct mail has played a key role in the success of our business by allowing us the opportunity to quickly and relatively inexpensively test and customize different marketing approaches, capture information about consumer reaction to these approaches, and test innovations in marketing. Rather than "one size fits all" marketing, Capital One has been able to develop what we call "mass customization," which allows us to provide the right financial services and products to the right customer at the right time and at the right price.

II. STRATEGY BEHIND DIRECT MAIL CAMPAIGNS

Capital One continually monitors competitive and market conditions in order to take advantage of potential opportunities. Then, the company employs proprietary risk and response models and analyses to determine to whom it will send marketing offers.

A. Benefits of First-Class Mail

Price, forwarding, and return mail information for First-Class Mail are three of the key factors that help Capital One determine which class of mail to use for a given marketing campaign. Due to the fact that the American public is increasingly mobile, First-Class Mail's forwarding feature can be of great benefit to our business. In addition, speed to market is an important consideration in many campaigns. Consequently, for some of our marketing campaigns, First-Class Mail is the appropriate channel. Return mail information also enhances the effectiveness of our future marketing campaigns.

In recent years, Capital One has generally been moving its solicitation volume from First-Class Mail to Standard Mail. Due to the unique market and environmental conditions in the post-9/11 period, including the anthrax attacks, Capital One utilized First-Class Mail more heavily in the fourth quarter of calendar year 2001 and the first quarter of calendar year 2002. Capital One has since returned to its historical mailing patterns, which place less emphasis on First-Class Mail.

This return to baseline is confirmed by Capital One's recent announcements regarding its strategic emphases in the coming months, which highlight the fact that Q4 2001 and Q1 2002 represented a unique, one-time opportunity.

B. The Proposed Agreement Holds the Potential for Greater First-Class Mail Volume

Because price is only one of the factors in the mail channel decision, we don't believe the proposed discounts will cause Capital One to significantly switch our Standard Mail solicitations to First-Class Mail. However, postage is one of the inputs into our models for determining to whom we should send a particular solicitation. While the company has not developed specific mailing plans utilizing the proposed discount structure, we are aware of a price elasticity study

performed by SLS Consulting indicating a volume response to the proposed agreement between 15 and 53 million pieces annually. The company believes that this range is reasonable if all other factors in the mailing decision are controlled. The use of First-Class Mail and Standard Mail price elasticities to define the range seems reasonable given that Capital One uses First-Class Mail and Standard Mail for similar marketing purposes.

III. FIRST-CLASS MAIL IS USED TO COMMUNICATE WITH EXISTING CUSTOMERS

The company also makes extensive use of First-Class Mail in its communications with existing customers (statements, letters, etc.). Capital One expects account growth to slow somewhat, which will moderate growth in First-Class Mail statement/letter volume. Capital One is also actively pursuing the use of electronic statements. Currently, a small portion of our statements are presented electronically to customers. The company expects this to increase over the course of this agreement, and has set an aggressive target of 25% electronic statements by the end of 2005. Based upon all of these factors, we expect non-solicitation mail volume, in the absence of this agreement, in fiscal 2003 to remain at approximately 2002 levels (640 million pieces).

IV. CAPITAL ONE PROJECTS THAT IT WILL MAIL APPROXIMATELY 1.4 BILLION PIECES OF FIRST-CLASS MAIL IN FY 2003

For the above reasons, in the absence of the proposed agreement, Capital One expects to mail approximately 1.4 billion pieces of First-Class Mail in FY 2003, higher than our current First-Class Mail volumes, but significantly lower than the one-time peak levels reached in the 4th Quarter of calendar year 2001 and 1st Quarter of calendar year 2002. As discussed above, price elasticity models performed by SLS Consulting indicate that, controlling for all other factors, the proposed agreement could cut this projected decrease in First-Class Mail volume by 15 to 53 million pieces.

Table 1. Projection of FY 2003 Pre-NSA Mail Volume

Type	First-Class Mail
Solicitation Mail	768,000,000
Non-Solicitation Mail	640,000,000
Total	1,408,000,000

Table 1 summarizes our FY 2003 "Before Rates" forecast. While Capital One does not typically forecast solicitation volumes in detail more than 6 months into the future, we developed this forecast in the same way that we typically develop forecasts of solicitation volumes for planning purposes. This is done by asking business managers to provide estimates of their anticipated volumes.

V. CAPITAL ONE EXCEEDS POSTAL REQUIREMENTS FOR ADDRESS HYGIENE, AND ADOPTION OF AGREEMENT WILL GREATLY REDUCE PHYSICAL RETURNS

Capital One meets or exceeds postal requirements regarding address hygiene because, quite simply, doing so saves us money. Currently, Capital One runs National Change of Address on existing customer files every 30 days, and complies with all Postal Service address hygiene requirements. Solicitation mail address hygiene processing (typically around 60 days prior to mailing) exceeds the Postal Service's requirement of 180 days. An additional indicator of Capital One's mailpiece quality is its Richmond production site's certification under the Mail Preparation Total Quality Management (MPTQM) program, the first U.S. list mailer to accomplish this. Under the agreement, Capital One is committing to maintain all above practices and will additionally seek MPTQM certification of its Seattle production site.

Due to our efforts, we believe that Capital One address databases are at least as accurate as those of other marketers who utilize First-Class Mail to offer a full range of financial products.

Despite our significant efforts to ensure high address quality, some of our First-Class Mail pieces must be returned. For non-solicitation First-Class Mail, including statements and letters, 1.2 percent are returned. For First-Class Mail solicitations, approximately 6-12 percent are returned, depending on marketing campaign. In 2001, approximately 9.8 percent were returned. In 2002, approximately 9.6 percent have been returned. While the company does not forecast return mail rates, we expect return rates to be similar in the Test Year of this agreement, although, for reasons discussed below, we hope that this agreement will contribute to improved return rates.

Currently, the Postal Service is obligated to physically return undeliverable First-Class Mail. In addition to costing the Postal Service a significant amount of money, for Capital One this process can take weeks and thereby limits our ability to use this information to improve our address database.

The new process for transmitting return mail data electronically will improve timeliness, and we expect the improved information to increase the quality of our address database and reduce our return rate, due to enhanced address suppression on subsequent mailings. By relieving the Postal Service of its obligation to physically return undeliverable mail, this agreement will also substantially reduce postal costs.

Other requirements of the Agreement should improve the quality of Capital One addresses even further. Capital One's obligations under the Agreement include several address quality requirements that are greater than what is required of similarly-situated mailers. The Agreement requires Capital One to implement or maintain the following procedures not required of other

mailers: maintain MPTQM in its Richmond site, achieve MPTQM certification at its Seattle site,

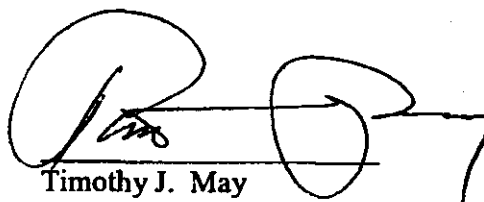
- 2 cleanse address databases for its existing customers not more than 30 days prior to mailing,
- 3 cleanse solicitation address files no more than 60 days prior to mailing, and utilize electronic
- 4 Address Correction Service information in its marketing campaigns.

5 VI. CONCLUSION

- 6 This Agreement offers the potential for greater volume of First-Class Mail (through growth and
- 7 decreased attrition), which contributes to institutional costs at a far greater rate than Standard
- 8 Mail. Incremental First-Class Mail marketing volume has a multiplier effect by creating Business
- 9 Reply Mail and subsequent First-Class Mail statements and correspondence. This Agreement
- 10 will also make Capital One and the Postal Service more efficient and reduce costs.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: September 19, 2002

1 CHAIRMAN OMAS: Mr. Jean, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available to you in the
4 hearing room this morning?

5 THE WITNESS: If questions contained in that
6 packet were posed to you orally today, would your answer be
7 the same as those provided in writing?

8 THE WITNESS: Yes, I believe they would be.

9 CHAIRMAN OMAS: Are there any corrections or
10 additions that you would like to make to your answers at
11 this point?

12 THE WITNESS: No, not at this time.

13 CHAIRMAN OMAS: Counsel, would you please provide
14 copies of the corrected designated written cross-examination
15 of Witness Jean to the reporter? That material is received
16 into evidence and it is to be transcribed into the record.

17 (The document referred to was
18 marked for identification as
19 COS-T-1, and was received in
20 evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Experimental Rate and Service Changes to
Implement Negotiated Service Agreement With
Capital One Services, Inc.

Docket No. MC2002-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN
(COS-T-1)

<u>Party</u>	<u>Interrogatories</u>
American Postal Workers Union, AFL-CIO	APWU/COS-T1-2-3, 5, 9-10 NAA/COS-T1-5-6, 10, 12, 22, 24 OCA/COS-T1-3b, 5-6, 9, 24-25
Newspaper Association of America	APWU/COS-T1-6-7, 10, 12-13, 15, 17 NAA/COS-T1-1, 3, 5-6, 8, 10-18, 20-24 OCA/COS-T1-8-9, 11-13, 20, 24-28
Office of the Consumer Advocate	APWU/COS-T1-1-3, 10-15, 17 OCA/COS-T1-1-3, 6, 8-22, 23c, g, 24-25, 26a, 27-28

Respectfully
submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN (T-1)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

47

<u>Interrogatory</u>	<u>Designating Parties</u>
APWU/COS-T1-1	OCA
APWU/COS-T1-2	APWU, OCA
APWU/COS-T1-3	APWU, OCA
APWU/COS-T1-5	APWU
APWU/COS-T1-6	NAA
APWU/COS-T1-7	NAA
APWU/COS-T1-9	APWU
APWU/COS-T1-10	APWU, NAA, OCA
APWU/COS-T1-11	OCA
APWU/COS-T1-12	NAA, OCA
APWU/COS-T1-13	NAA, OCA
APWU/COS-T1-14	OCA
APWU/COS-T1-15	NAA, OCA
APWU/COS-T1-17	NAA, OCA
NAA/COS-T1-1	NAA
NAA/COS-T1-3	NAA
NAA/COS-T1-5	APWU, NAA
NAA/COS-T1-6	APWU, NAA
NAA/COS-T1-8	NAA
NAA/COS-T1-10	APWU, NAA
NAA/COS-T1-11	NAA
NAA/COS-T1-12	APWU, NAA
NAA/COS-T1-13	NAA
NAA/COS-T1-14	NAA
NAA/COS-T1-15	NAA
NAA/COS-T1-16	NAA
NAA/COS-T1-17	NAA
NAA/COS-T1-18	NAA
NAA/COS-T1-20	NAA
NAA/COS-T1-21	NAA
NAA/COS-T1-22	APWU, NAA
NAA/COS-T1-23	NAA
NAA/COS-T1-24	APWU, NAA

OCA/COS-T1-1	OCA
OCA/COS-T1-2	OCA
OCA/COS-T1-3	OCA
OCA/COS-T1-3b	APWU
OCA/COS-T1-5	APWU
OCA/COS-T1-6	APWU, OCA
OCA/COS-T1-8	NAA, OCA
OCA/COS-T1-9	APWU, NAA, OCA
OCA/COS-T1-10	OCA
OCA/COS-T1-11	NAA, OCA
OCA/COS-T1-12	NAA, OCA
OCA/COS-T1-13	NAA, OCA
OCA/COS-T1-14	OCA
OCA/COS-T1-15	OCA
OCA/COS-T1-16	OCA
OCA/COS-T1-17	OCA
OCA/COS-T1-18	OCA
OCA/COS-T1-19	OCA
OCA/COS-T1-20	NAA, OCA
OCA/COS-T1-21	OCA
OCA/COS-T1-22	OCA
OCA/COS-T1-23c	OCA
OCA/COS-T1-23g	OCA
OCA/COS-T1-24	APWU, NAA, OCA
OCA/COS-T1-25	APWU, NAA, OCA
OCA/COS-T1-26	NAA
OCA/COS-T1-26a	OCA
OCA/COS-T1-27	NAA, OCA
OCA/COS-T1-28	NAA, OCA

APWU/COS-T1-1. If the proposed Negotiated Service Agreement between Capital One Services, Inc. and the United States Postal Service does not begin at the beginning of a USPS fiscal year, when will the reconciliation and adjustments referred to in paragraph III, J-5 first take place? If the reconciliation and adjustments take place during PFY2003 Q4, how will the reconciliation and adjustments be calculated? If the reconciliation and adjustments are calculated during PFY2003 Q4, how will volumes mailed before the beginning of the agreement be treated, and specifically how will the reconciliation and adjustments count volumes mailed before the beginning of the agreement toward the thresholds and the volumes used for the discounts?

ANSWER

Reconciliation and adjustments will take place in the weeks following each postal fiscal quarter during the three years of the Agreement. Volumes mailed prior to implementation of the Agreement will not be included in calculations.

APWU/COS-T1-2. The proposed Negotiated Service Agreement is between the United States Postal Service and Capital One Services, Inc. and its subsidiaries and affiliates. Please identify all of Capital One Services, Inc.'s subsidiaries and affiliates. What is the relationship between Capital One Services, Inc. and Capital One Financial Corporation? Does Capital One Services, Inc. provide services to all of Capital One Financial Corporation's subsidiaries? Please list all the Capital One Financial Corporation subsidiaries for which Capital One Services, Inc. provides services. Is there any provision in the proposed Negotiated Service Agreement or in any other document that would prevent Capital One Services, Inc. from providing mailing services to entities other than subsidiaries of Capital One Financial Corporation? Please identify and detail any such restrictions. Does Capital One Services, Inc. now provide services to any entities other than subsidiaries of Capital One Financial Corporation? Please list all the entities, other than subsidiaries of Capital One Financial Corporation, for which Capital One Services, Inc. provides services. Has Capital One Services, Inc. provided services to any entities other than subsidiaries of Capital One Financial Corporation? Please list all the entities, other than subsidiaries of Capital One Financial Corporation, for which Capital One Services, Inc. has provided services.

ANSWER

Capital One Services, Inc. is a wholly-owned subsidiary of Capital One Financial, providing services to its affiliates. The affiliates relevant to this Agreement are Capital One Bank, Capital One FSB, Capital One Auto Finance, People First LLC, and Amerifree LLC. The list of relevant affiliates may change over time. The company's understanding of the Agreement is that it is limited to mailings by company affiliates.

APWU/COS-T1-3.

- (a) Will the customer mail that is covered under this proposed Negotiated Service Agreement be generated by all the subsidiaries of Capital One Financial Corporation, including its credit card activities (from the Bank and the Savings Bank), its auto loan activities, and its other domestic consumer loan activities? Will auto loan customer mail generated for companies that have purchased auto loans from a subsidiary of Capital One Financial Corporation but are still being serviced by a subsidiary of Capital One Financial Corporation be included in this mail? Will its credit card lending activities include both household and business credit card customers of Capital One Financial Corporation subsidiaries? Please identify with specificity which customer mail is covered under this proposed Negotiated Service Agreement.
- (b) Will the solicitation mail that is covered under this proposed Negotiated Service Agreement be generated by all the subsidiaries of Capital One Financial Corporation including its credit card activities (from the Bank and the Savings Bank), its auto loan activities, and its other domestic consumer loan activities? Will its credit card lending activities include both household and business credit card customer solicitations? Please identify with specificity which solicitation mail is covered under this proposed Negotiated Service Agreement.
- (c) Please identify all of Capital One Services Inc.'s strategic partners and all strategic alliances Capital One Services Inc. has with other entities that could result in mailings covered by the proposed Negotiated Service Agreement. Does Capital One Financial Corporation or any of its other subsidiaries have any additional strategic partners or strategic alliances with other entities that could result in mailings covered by the proposed Negotiated Service Agreement? Please specify whether each partner or alliance could result in customer mail or solicitation mail or both and whether any or all of that mail would be covered by the proposed Negotiated Service Agreement.
- (d) Please identify all of Capital One Services Inc.'s products and services that could result in mailings covered by the Negotiated Service Agreement. Does Capital One Financial Corporation or any of its other subsidiaries have any additional products or services that could result in mailings covered by the proposed Negotiated Service Agreement? Please identify any other products or services that could result in mailings covered by the Negotiated Service Agreement. Please specify whether each product or service could result in customer mail or solicitation mail or both and whether any or all of that mail would be covered by the proposed Negotiated Service Agreement.

ANSWER

- (a) See response to APWU/COS-T1-2. Capital One's customer mail includes all mail relating to accounts serviced by Capital One.
- (b) See response to APWU/COS-T1-2 and 3(a).
- (c) See response to APWU/COS-T1-2.
- (d) See response to APWU/COS-T1-2. The NSA will cover all Capital One First-Class Mail, including mail relating to its lending and banking activities, and products and services relating to its accounts.

APWU/COS-T1-5. On page 5 of your testimony, you provide a Before Rates projection of Capital One's mail volume for FY2003. Were specific economic assumptions used to underlie these forecasts? If so, what specific economic assumptions were used to underlie these forecasts and how sensitive are these forecasts to changes in these economic assumptions? How sensitive are these forecasts to changes in economic conditions? Has Capital One Services, Inc., Capital One Financial Corporation or any consultants employed by either Capital One Services, Inc., Capital One Financial Corporation or any entity related to either Capital One Services, Inc. or Capital One Financial Corporation:

- (a) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percent change in Gross Domestic Product (GDP)?
- (b) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percent change in Personal Consumption Expenditures?
- (c) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percent change in Personal Income?
- (d) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percentage point change in the Unemployment rate?
- (e) estimated relationships between changes in Capital One's solicitation volume and customer account volume and a one percentage point change in interest rates?

If the answer to any of (a) – (e) above is yes, please provide all estimates of those relationships and the source of those of those estimates.

ANSWER

No specific economic assumptions were used in creating the Before Rates forecasts. As with any business endeavor, Capital One's future prospects may be affected by economic conditions.

a-e. No

APWU/COS-T1-6. On page 6 of your testimony, you indicate that six to twelve percent of Capital One's First Class solicitation mail is returned as undeliverable. What percent of Capital One's First Class solicitation mail pieces were returned in FY 2000? What factors influence those return rates? Does Capital One endeavor to estimate return rates for mailing lists prior to purchasing or renting the use of them? If so, what sort of decision rules does the company use?

ANSWER

Data for return rates prior to 2001 are not available. Return rates are affected by factors such as the mobility of the addressee. The company does not forecast return rates.

APWU/COS-T1-7. Your forecast of First Class solicitation mail for FY2003 indicates that Capital One expects to mail fewer First Class solicitation pieces in the test year than it did in either FY2002 or FY2001 and that the volume will be less than 2 percent above the levels of FY2000. Do you anticipate that the lower volumes will also lower your return rates for undeliverable mail since it will allow Capital One to use only the higher quality mailing lists available to it? If not, please explain why not.

ANSWER

Capital One always seeks to use the highest-quality prospect data regardless of mail volumes. Consequently, while we would anticipate there would be fewer returns in absolute numbers, we do not forecast return rates and have no basis to expect that there would be a lower rate of return.

APWU/COS-T1-9. On page 4 of your testimony you state that Capital One expects account growth to slow somewhat, which will moderate growth in First-Class statement/letter volume. Does this statement refer only to domestic credit cards? If not, please indicate which lines of Capital One's business this statement covers. Based on the information provided in Mr. Elliott's Exhibit 2 (and his response to OCA/COS-T2-5) the customer mail generated by Capital One grew 39 percent between FY2000 and FY2001 and grew 24 percent between FY2001 and FY2002. By how much do you anticipate customer account growth to slow in FY2003 to account for your statement on page 4 that "...we expect non-solicitation mail volume, in the absence of this agreement, in fiscal 2003 to remain at approximately 2002 levels (640 million pieces)"?

ANSWER

Please see the company's 8-K and 10-Q SEC Filings. The company expects growth to be five to ten percent in 2003.

APWU/COS-T1-10. You state on page 4 of your testimony that Capital One has a target of sending 25% of statements to customers electronically by 2005. This is one factor that causes you to predict virtually flat mail volume in 2003 compared to 2002 absent the proposed Negotiated Service Agreement. Does this target apply to statements to customers of all subsidiaries of Capital One Financial Corporation? If not, to which subsidiaries of Capital One Financial Corporation does it apply? Do you anticipate that Capital One will change its target for electronic statements if the proposed Negotiated Service Agreement is approved? What percentage of Capital One's current statements are presented electronically? How much has that percentage changed during the past year? How did Capital One anticipate meeting its 25% electronic statement target by 2005 prior to the proposed Negotiated Service Agreement? How will those plans change if the Negotiated Service Agreement is approved?

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ANSWER

The company's electronic statement goals apply to all Capital One subsidiaries.

The company has only recently begun its efforts to migrate toward electronic statements, and currently less than one percent of its customer statements are presented electronically. The company does not expect to modify its target based on the NSA.

APWU/COS-T1-11. How long does it currently take from the time Capital One sends out a *First Class mailing until returned mail pieces* from that mailing are used to make changes to the mailing lists Capital One uses? Which mailing lists does Capital One correct based on this information? How long does it currently take from the time Capital One sends out a *Standard mailing until returned mail pieces* from that mailing are used to make changes to the mailing lists Capital One uses? Which mailing lists does Capital One correct based on this information? Has Capital One ever sent out a *Standard mailing* with any of the mailer endorsements in F010.5.3 of the Domestic Mail Manual? If so, what endorsements were used and when? If Capital One no longer uses certain endorsement for *Standard mailings*, why did Capital One cease using those endorsements?

ANSWER

As stated in my testimony (page 6, lines 10-13), the timeline to receive and process information on physically returned mail can take weeks. Standard Mail is not physically returned.

APWU/COS-T1-12. What is the current process that Capital One follows to incorporate the information from returned mail pieces in the various types of mailing lists used by Capital One – customer lists, solicitation lists owned by Capital One, solicitation lists rented by Capital One, other lists? What is the cost to Capital One of incorporating that information per piece of returned mail? Has Capital One analyzed its returned mail pieces to determine the most common reasons for those returns? If so what are those reasons? If not, why not?

ANSWER

In certain circumstances, the company may reflect in its database that a return has occurred for a given address. The company does not calculate cost of incorporating returned mail data. The company also does not receive information regarding the reason for the return.

APWU/COS-T1-13. Under the proposed Negotiated Service Agreement between USPS and Capital One, Capital One agrees to receive electronic ACS information and to incorporate that information into its databases within 2 days. Please explain which mailing lists Capital One's updated databases will cover – customer lists, solicitation lists owned by Capital One, solicitation lists rented by Capital One, other lists? Will the information from ACS get included in both Capital One's First Class and Standard mailing lists? Will Capital One notify the third party owners of mailing lists that it has obtained the use of that there are address corrections that need to be made? Will Capital One check subsequently obtained lists for accuracy against the ACS information prior to using them?

ANSWER

The company will apply ACS data to all of its marketing mailing lists, no matter what their origin. However, the company is not responsible for third party mailing lists.

APWU/COS-T1-14. In your answer to interrogatory OCA/COS-T1-14, you make a distinction between the customer account mail that is sent out by Capital One Services, Inc. and the solicitation mail that is sent out by lettershops Capital One Services, Inc. employs. Please describe the process used by Capital One to provide its mailing lists to these lettershops including such information as timing and who has control of and responsibility for the updating of the mailing.

ANSWER

The company uses industry standard methods of transmitting data to its letter shops. Both the company and the letter shop utilize address hygiene processes prior to entering mail into the postal system.

APWU/COS-T1-15. Please confirm that the elapsed time between when the mailing list for all mailings is last checked against CASS/NCOA and the time the last piece in that mailing is placed in the USPS mailstream is 60 days or less for solicitation mail pieces and 30 days or less for customer mail pieces.

ANSWER

Confirmed.

APWU/COS-T1-17. What type of mail does Capital One produce at its Richmond and Seattle production sites? For which entities does Capital One produce mail at its Richmond and Seattle production sites? Has Capital One experienced lower returned mail rates since its Richmond plant qualified for MPTQM status? What percent of Capital One's First Class customer mail is generated from each of these plants? What percent of Capital One's First Class solicitation mail is generated from each of these plants? What percent of Capital One's Standard mail is generated at each these plants?

ANSWER

Capital One Seattle and Richmond production sites generate substantially all of the company's customer mail. These plants do not generally produce solicitation mail. Accordingly, return rates on mail generated by the company's Seattle and Richmond sites have been very low before and after MPTQM Certification.

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

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**EXPERIMENTAL RATE AND SERVICE
CHANGES TO IMPLEMENT NEGOTIATED
SERVICE AGREEMENT WITH
CAPITAL ONE SERVICES, INC.**

DOCKET No. MC2002-2

**RESPONSE OF WITNESS DON JEAN OF CAPITAL ONE SERVICES, INC.
TO QUESTIONS 1, 3, 5-6, 8-12 OF THE NEWSPAPER ASSOCIATION OF AMERICA**

NAA/COS-T1-1: Please refer to page 1, line 9, of your testimony, where you state your understanding that Capital One is the "top originator" of First-class Mail in the United States.

- a. Please define "originator." Please include in your definition whether you regard customer payment mail as "originated" by Capital One.
- b. What is your basis for that understanding?
- c. In what sense do you believe Capital One is the "top" originator?

ANSWER

- (a) "Originator" is the entity that generates the mail. Hence, Capital One "originates" customer statement mail, but does not "originate" customer payment mail.
- (b) The basis for my understanding is that this is a common sense definition of the term.
- (c) See response to OCA/COS-T1-15.

NAA/COS-TI-3: Do Capital One's Standard mail solicitations use sealed envelopes?

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ANSWER. Yes.

NAA/COS-TI-5: Please refer to page 3, line 19, of your testimony, where you state your⁶⁶ doubt that the proposed volume discounts will cause Capital One to "significantly" switch Standard mail solicitations to First-class mail.

- a. Do you expect that there would be zero switch of solicitations from Standard mail to First-class mail?
- b. If your answer to (a) is other than an unequivocal yes, please explain how much solicitation mail you expect Capital One to switch from Standard to First-class mail in the first year of the NSAs implementation.
- c. If your answer to (a) is other than an unequivocal yes, please explain how much solicitation mail you expect Capital One to switch from Standard to First-class mail in the second year of the NSA's implementation.
- d. If your answer to (a) is other than an unequivocal yes, please explain how much solicitation mail you expect Capital One to switch from Standard to First-class mail in the third year of the NSA's implementation.
- e. Please define "significantly" as you use it.

ANSWER

- 5(a) As I have testified, we do not expect a significant shift, although it may not be zero.
- 5(b), (c), (d). We do not know how much, if any, mail would switch in 2003, 2004 and 2005, although, as testified, we do not believe it would be significant.
- 5(e) We use the term "significant" in the same sense as the definition contained in the standard dictionary reference.

NAA/COS-TI-6: Does Capital One ever use both First-class and Standard mail for mailings in the identical solicitation campaign?

ANSWER. Yes.

NAA/COS-TI-8: Please refer to page 6, lines 8-9, where you state that "Incremental First-class Mail marketing volume has a multiplier effect by creating Business Reply Mail and subsequent First-class Mail statements and correspondence." Please confirm that Capital One's Standard Mail solicitations also have a multiplier effect by creating BRM and subsequent First-class mail. If you cannot confirm, please explain why not.

ANSWER. Confirmed.

NAA/COS-TI-10: Please refer to Capital One Financial Corporation's press release dated October 15, 2002, reporting financial results for the third quarter of 2002. That press release states, inter alia: Marketing expense for the third quarter of 2002 was \$185.8 million, down from \$320.4 million in the second quarter of 2002. The press release also states:

"The lower marketing investment in the third quarter reflects our return to a more normal level of loan growth," said Nigel W. Morris, Capital One's President and Chief Operating Officer. "We expect marketing to increase in 2003 as we take advantage of the attractive opportunities that we see in all major areas of our business including US card, installment and auto loans, and our international activities. This quarter clearly demonstrates our ability to grow our business and profitability on a stronger, more diversified business platform."

Do these developments have any effect on, or require any modification to, the estimated mailing volumes for FY2003 presented by Capital One in this proceeding?

ANSWER. No.

NAA/COS-TI-11: During the negotiations of this NSA with the Postal Service, did Capital One make any representations regarding possible changes in its use of First-class Mail and Standard Mail in the event that no agreement were reached? If so, please describe those representations

ANSWER. No.

NAA/COS-TI-12: During the negotiations of this NSA with the Postal Service, did Capital One make any representations regarding possible changes in its use of First-class Mail and Standard Mail in the event that an agreement were reached? If so, please describe those representations.

ANSWER. No, except to assure the Postal Service that the Agreement would not cause Capital One to shift any significant volume of Standard Mail to First-Class Mail.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-13: *Please refer to your response to APWU/COS-T1-17. At what Capital One production site or sites is solicitation mail produced? Are those sites MPTQM certified, or do you expect them to be during the effective period of the NSA?*

ANSWER

Solicitation mail is not produced at Capital One's sites. As outlined in the NSA, the company's Richmond site is MPTQM certified, and expects its Seattle site to be MPTQM certified no later than December 2003.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-14: Please refer to Section II.G of the NSA, which provides that Capital One "agrees that it cannot use the CSR endorsement as a means to comply with the published Postal Service Move Update requirements for automation compatible mail. Capital One will continue to comply with Move Update through either NCOA match or FastForward." What does Capital One view as the purpose of this provision?

ANSWER

Capital One has no view regarding this provision; it is a part of the NSA at the request of USPS.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-15: Please refer to your response to OCA/COS-T1-20. Today, after Capital One has received a returned piece of First-Class solicitation mail and has updated the company database accordingly, does that prevent Capital One from sending another solicitation to the same address?

ANSWER

Information that a mailpiece has been returned for a particular address is added to the company's records. This information is then used, in conjunction with other information known about that address, to make mailing decisions in future campaigns.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-16: Please again refer to the response to OCA/COS-T1-20. Today, when Capital One has received a returned piece of First-Class solicitation mail and updated the company database accordingly, does that prevent Capital One from sending *another solicitation to the same address* if it uses a list provided by an outside vendor? Please explain.

ANSWER

See response to T1-15.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-17: Please again refer to the response to OCA/COS-T1-20. Today, when Capital One has received a returned piece of First-Class solicitation mail and updated the company database accordingly, does that prevent Capital One from sending another solicitation to the same address if the mailing is prepared by an outside lettershop? Please explain.

ANSWER

See response to T1-15.

RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)

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NAA/COS-T1-18: When Capital One obtains (via purchase, rental, or exchange) mailing lists from third-party vendors that it uses for its First-Class Mail solicitations :

- a. under what circumstances does it compare those lists with any internal lists that have already received address correction to clean the address; and
- b. please describe any changes to these operations that will occur if the NSA is approved and implemented.

ANSWER

- (a) Capital One lists, whether acquired from external sources or produced internally, are cleansed via established address hygiene processes (e.g. NCOA) and compared to internal return mail databases prior to mailing.
- (b) None.

RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)

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NAA/COS-T1-20: If the NSA is approved and implemented as proposed in this proceeding, please explain what steps Capital One will take to ensure that the electronic address correction information in fact is used to avoid sending a further solicitation to the same address.

ANSWER

Capital One will use electronic ACS information to update its records. This information will then be used, in conjunction with other information known about that address, to make mailing decisions in future campaigns. Capital One and the USPS will jointly develop an audit process to ensure the company's records are updated appropriately with electronic ACS information.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-21: Mail can be returned to sender marked undeliverable for a number of reasons (see DMM F010.4, Exhibit 4.1). During 2001, did Capital One ever sample any of its First-Class undeliverable solicitation mail that is returned to Capital One (including third-party vendors or letter shops employed by Capital One) to ascertain the principle reason(s) why it was undeliverable? If so, please summarize the results. If such results cannot be summarized, please give your best impression as to the major reasons for Capital One's First-Class solicitation mail being returned instead of being forwarded.

ANSWER

No.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-22: Assuming that the NSA were approved and implemented as submitted:

- a. After mailing lists obtained (via purchase, rental, or exchange) from outside vendors are used for First-Class Mail solicitation, and Capital One subsequently obtains electronic information via ACS on pieces that were UAA, what feedback, if any, does Capital One plan to give to its list providers following implementation of the agreement with the Postal Service?
- b. Does Capital One plan to use electronic ACS returns to correct lists obtained (via purchase, rental, or exchange) from third-party providers?
- c. If the response to part b is affirmative, will Capital One return the corrected lists to the appropriate third-party providers? If not, does Capital One at least plan to inform its list vendors as to how "clean" or "dirty" their lists are?
- d. If the response to part b is negative, please explain how the failure to correct lists accords with the agreement, as described in USPS-T-2, page 3, lines 8-9, "to update [Capital One's] lists with new address information within two days of receipt."

ANSWER

- a. None.
- b. No.
- c. Not applicable.
- d. Capital One will update its lists with new address information within two days of receipt. It will not update other companies' databases.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-23: Please refer to your response to APWU/COS-T1-13, which states that "the company is not responsible for third party mailing lists." Please explain what you mean by "not responsible." Does this mean that the company disclaims all responsibility for:

- a. Checking third-party lists against DMA's "Do Not Mail" list prior to use?
- b. Electronically cleaning third-party lists prior to using them for a First-Class solicitation mailing?
- c. Using First-Class Mail that has been physically returned to clean third party lists prior to re-using them?

ANSWER

a,b.,c. No. It means that Capital One is not responsible for updating other companies' databases.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
NEWSPAPER ASSOCIATION OF AMERICA
(NAA/COS-T1-13-18, 20-24)**

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NAA/COS-T1-24: Please refer to Exhibit 2 to the testimony of witness Elliott, as revised.

Would the sum of Capital One's First-Class Mail solicitations from October 2000 through September 2001 serve as a reasonable proxy for Capital One's First-Class Mail solicitation volume for postal fiscal year 2001? If not, please explain what further adjustments would be appropriate or provide, if available, the actual volume of First-Class Mail solicitations.

ANSWER

Yes.

**ANSWER OF CAPITAL ONE SERVICES, INC. WITNESS JEAN TO
INTERROGATORY OF OFFICE OF CONSUMER ADVOCATE**

OCA/COS-T1-1. Please refer to your testimony at page 6, line 10.

- (a) Please confirm that at the present time, Capital One is not a participant in the Address Change Service (ACS) program with respect to its First-Class solicitation mail; that is, Capital One does not place on its First-Class solicitation mailpieces either of the following endorsements: "Address Service Requested" or "Change Service Requested." If you do not confirm, please explain. If you do confirm, please specify the endorsement(s), if any, Capital One places on its First-Class solicitation mail pieces.
- (b) Please confirm that at the present time, Capital One is a participant in the Address Change Service (ACS) program with respect to its First-Class customer account mail; that is, Capital One places on its First-Class customer account mailpieces one of the following endorsements: "Address Service Requested" or "Change Service Requested." If you do not confirm, please explain.

ANSWER:

- (a) Confirmed. Generally, no endorsements are placed on our First Class Mail solicitations.
- (b) Not confirmed. Capital One is not a participant in the ACS program with respect to First-Class customer account mail. Capital One physically receives UAA mail..

OCA/COS-T1-2. Please turn to your testimony at page 2, lines 6-8.

- (a) Please confirm that at the present time, with respect to Capital One's First-Class solicitation mail that is forwarded, Capital One does not receive notification of the recipient's new address. If you do not confirm, please explain how the recipient's new address information that permits forwarding of the mailpiece is provided to Capital One.
- (b) Please confirm that at the present time, with respect to Capital One's First-Class solicitation mail that is physically returned, Capital One utilizes the returned pieces to make corrections to its address databases. If you do not confirm, please explain. If you do confirm, please explain how the returned pieces are handled and processed by Capital One to make corrections to its address databases.

ANSWER:

- (a) Confirmed.
- (b) Not confirmed. Capital One is not provided with corrected address data on mail physically returned.

OCA/COS-T1-3. Please refer to your testimony at page 6, lines 14-18.

- (a) Please confirm that under the NSA, Capital One will receive Change Service Requested, Option 2, at no charge for its First-Class Mail that is undeliverable-as-addressed, in lieu of the physical return of such mail. If you do not confirm, please explain.
- (b) Please confirm that under the NSA, the availability of Change Service Requested, Option 2, at no charge for Capital One's First-Class Mail that is undeliverable-as-addressed will reduce costs to Capital One in comparison to the physical return of such mail. If you do not confirm, please explain.

ANSWER:

- (a) Confirmed, but only as to First-Class Solicitation Mail.
- (b) Confirmed.

OCA/COS-T1-5. Please refer to your testimony at page 3, lines 6-7.

- (a) Please confirm that for some of Capital One's marketing campaigns, First-Class is the only class of mail that may be used for solicitation mail, pursuant to DMM 57 E110.1.4 or 1.5. If you do not confirm, please explain.
- (b) What proportion of Capital One's solicitation mail volume mailed via First-Class in Fiscal Year 2000, 2001 and 2002 was required to be mailed via First-Class, pursuant to DMM 57 E110.1.4 or 1.5?
- (c) Please confirm that for Capital One's customer account mail, First-Class is the only class of mail that may be used, pursuant to DMM 57 E110.1.4 or 1.5. If you do not confirm, please explain.

ANSWER:

- (a) This is not confirmed. The cited regulation does not require that any of Capital One's solicitation mail be sent by First Class Mail.
 - (b) 0% in each year.
 - (c) For Capital One's statement mail, First Class Mail is the required mail class. For some other customer correspondence, Standard Mail is permitted.
-

OCA/COS-T1-6. Please turn to your testimony at page 3, lines 18-20, where you state “we don’t believe the proposed discounts will cause Capital One to significantly switch our Standard Mail solicitations to First-Class Mail.” According to your testimony, there will be some switching of mail, although minimal. Of the estimated 15 million additional pieces of First-Class Mail that will be generated according to the forecast, how many of the additional pieces will be switching from Standard Mail to First-Class Mail?

ANSWER:

It is our understanding that none of the 15 million additional pieces of First Class Mail estimated by SLS is due to Standard Mail migration.

OCA/COS-T1-8. Refer to your testimony at page 6, lines 4-6.

- (a) Please identify and explain the factors that cause Capital One to experience such a high level of returns for First-Class solicitation mail pieces.
- (b) In contrast, please identify and explain the factors that cause Capital One to experience a much lower level of returns for First-Class customer account mail relative to solicitation mail.

ANSWER:

- (a) We do not agree with the characterization that our returns are at "such a high level". Return levels are higher for solicitation mail because Capital One typically does not have established relationships with solicitees.
 - (b) Return levels for customer account mail are lower, since Capital One has existing relationships with its account holders, and thereby has much greater ability to track and maintain address data.
-

OCA/COS-T1-9. Please turn to your testimony at page 6, lines 5-7, where you state that approximately 9.8 percent and 9.6 percent of Capital One's First-Class solicitation mail was returned in 2001 and 2002, respectively.

- (a) Please provide the total number of pieces of First-Class solicitation mail that were returned in 2001 and 2002.
- (b) Of the total number of pieces of First-Class solicitation mail that were returned in 2001 and 2002, please provide the number of pieces for which Capital One was able to effectuate a corrected address.
- (c) Please provide the total number of pieces of Capital One's First-Class solicitation mail that were forwarded in FY 2001 and FY 2002.

ANSWER:

- (a) Capital One does not record the number of returns on a FY basis. For calendar years 2001 and 2002, respectively, returns were 98,125,000 and 70,704,000 (January- September).
 - (b) As stated above, return mail does not contain corrected address information.
 - (c) Capital One has no way to estimate this.
-

OCA/COS-T1-10. Please refer to your testimony at page 5, lines 1-20. Please describe and explain the Mail Preparation Total Quality Management (MPTQM) program.

ANSWER: The MPTQM program is explained in a Power Point presentation jointly prepared by USPS and COS which best explains our understanding of the program. That presentation has been filed as Library Reference COS/LR-I-1.

OCA/COS-T1-11. Please refer to your testimony at page 6, lines 21-22, and page 7, lines 1-4.

- (a) Please confirm that in the absence of the NSA, Capital One would achieve MPTQM certification at its Seattle site. If you do not confirm, please explain.
- (b) Assuming MPTQM certification at the Seattle site in the absence of the NSA, please estimate the percentage of returns for First-Class solicitation mail in FY 2003.
- (c) Assuming the NSA is implemented, please estimate of the percentage of returns of Capital One's First-Class solicitation mail in FY 2003.

ANSWER:

- (a) Capital One continually strives to enhance its mail piece quality, and, towards that end, the company plans to pursue MPTQM certification at its Seattle site.
 - (b)&(c) The company does not forecast return mail rates. In lieu of such a forecast, we expect Test Year rates to be consistent with recent experience (9.6 percent), although we hope future return mail rates will improve.
-

OCA/COS-T1-12. Please refer to your testimony at page 6, lines 14-16.

- (a) Please explain how approval of the NSA will increase the quality of the Capital One address database.
- (b) Please confirm that the NSA, by definition, will reduce the physical return rate for Capital One. If you do not confirm, please explain.
- (c) Does Capital One expect the NSA to "reduce our return rate" beyond reducing the number of physically returned pieces? Please explain.
- (d) Please describe and explain what is meant by the phrase "enhanced address suppression."
- (e) Will "enhanced address suppression" result in a reduced overall "error" rate, i.e., electronic address correction notifications and physical returns?

ANSWER:

- (a) Capital One will receive return mail notification more quickly after the NSA is implemented. In addition, the company understands that the electronic ACS information will include additional data (i.e. return reason codes) that is not received currently. Faster receipt of better data will enhance the company's ability to update address lists for future campaigns.
 - (b) Confirmed.
 - (c) See answers to T1-11(b) and T1-12(a) above.
 - (d) Address suppression refers to the elimination of prospect addresses from a marketing campaign prior to mailing. Suppression can be enhanced by faster receipt of address information.
 - (e) While the company does not forecast return mail rates, improved address suppression should tend to reduce "error" rates.
-

OCA/COS-T1-13. Please refer to your testimony at page 3, lines 9-10, where you state that Capital One has generally been moving its solicitation mail volume from First-Class Mail to Standard Mail.

- (a) Are solicitation pieces that are moved from First Class Mail to Standard Mail virtually the same in content? Please explain, noting any differences.
- (b) Please provide a representative First-Class solicitation piece.
- (c) Please provide a representative Standard Mail solicitation piece.

ANSWER:

- (a) Yes. The general substance and terms typically remain constant.
- (b)&(c) Representative samples of First Class and Standard Mail Class solicitation pieces have been filed as Library Reference COS/LR-1-2.

OCA/COS-T1-14. Please refer to your testimony at pages 3 and 4, where you discuss the use of First-Class Mail to communicate with existing customers and for marketing campaigns.

- (a) Please confirm that whenever possible, Capital One combines into a single mailing its First-Class customer account mail and its First-Class solicitation mail. If you do not confirm, please explain.
- (b) Please confirm that Capital One Services, Inc., has more than one First-Class Mail permit. If you do not confirm, please explain.
- (c) Please confirm that Capital One uses one First-Class permit for its customer account mail and a separate permit for its First-Class solicitation mail. If you do not confirm, please explain.

ANSWER:

- (a) Not confirmed. Solicitation mail is unnecessary for current account holders.
 - (b) Confirmed.
 - (c) Nearly all of the company's customer mail is metered. The company's business partners (letter shops) utilize many permits for solicitation mailings.
-

OCA/COS-T1-15. Please refer to your testimony at page 2, lines 8-9, where you state, "In fact, I understand that Capital One is now the top originator of First-Class Mail in the U.S." Please discuss the basis for your understanding quoted above. Please provide citations to sources, written or otherwise, that support your understanding.

ANSWER:

My understanding is based on oral statements made to Capital One by senior USPS officials. The Postal Service has not shared with us any information about the mail volumes of other mailers.

OCA/COS-T1-16. Please refer to your testimony at page 6, lines 1-2, where you state “[w]e believe that Capital One[’s] address databases are at least as accurate as those of other marketers who utilize First-Class Mail to offer a full range of financial products.” Please discuss the basis for your belief, and provide citations to sources, written or otherwise, that support your belief.

ANSWER:

Capital One is unaware of any USPS or industry data that confirms this. However, our belief is based on our use of return mail data to suppress undeliverable addresses from future campaigns and our utilization of CASS/NCOA updates on a much more proactive basis than required by USPS.

OCA/COS-T1-17. Please refer to your testimony at page 7, lines 1-4, where it states, "and utilize Address Correction Service information in its marketing campaigns."

- (a) Please confirm that under the NSA, Capital One will receive Change Service Requested, Option 2, at no charge for its First-Class solicitation mail. If you do not confirm, please explain.
- (b) Please confirm that under the NSA, Capital One will receive Change Service Requested, Option 2, at no charge for its First-Class customer account mail. If you do not confirm, please explain.

ANSWER

17(a) Confirmed. See response to OCA/COS-T1-3(a).

17(b) Not confirmed. See response to OCA/COS-T1-3(a).

OCA/COS-T1-18. Please refer to your testimony at page 6, lines 1-9.

- (a) Please provide the percentage of Capital One's First-Class solicitation mail that was forwarded in FY 2000, FY 2001 and FY 2002.
- (b) Please provide the percentage of Capital One's First-Class customer account mail that was forwarded in FY 2000, FY 2001 and FY 2002.

ANSWER

- (a) See response to OCA/COS-T1-9(c).
- (b) See response to OCA/COS-T1-9(c).

OCA/COS-T1-19. Please refer to your testimony at page 6, lines 21-22, and page 7, lines 1-4.⁹⁹

- (a) Assuming the NSA is implemented, please estimate the percentage of physical returns of Capital One's First-Class solicitation mail in FY 2004 and FY 2005, the second and third years of the agreement, respectively.
- (b) Assuming the NSA is implemented, please estimate the percentage of physical returns of Capital One's First-Class customer account mail in FY 2003, FY 2004 and FY 2005, the three-year period of the agreement.
- (c) Assuming the NSA is implemented, please estimate the percentage of Capital One's First-Class solicitation mail that will be forwarded in FY 2003, FY 2004 and FY 2005, the three-year period of the agreement.
- (d) Assuming the NSA is implemented, please estimate the percentage of Capital One's First-Class customer account mail that will be forwarded in FY 2003, FY 2004 and FY 2005, the three-year period of the agreement.

ANSWER

- (a) As indicated in our response to OCA/COS-T1-11(b) and (c), the Company does not forecast return mail rates.
- (b) See (a) above.
- (c) See response to OCA/COS-T1-9(c).
- (d) See response to OCA/COS-T1-9(c).

OCA/COS-T1-20. Please refer to your response to OCA/COS-T1-2(b), where it states

“Capital One is not provided with corrected address data on mail physically returned.”

- (a) Please confirm that the sole use to Capital One of undeliverable-as-addressed (UAA) First-Class solicitation mailpieces that are physically returned mail is for purposes of removing the names on such mailpieces from your solicitation mailing list(s). If you do not confirm, please describe other actions taken with respect to physically returned solicitation pieces.
- (b) For UAA First-Class solicitation mailpieces that are physically returned, please state whether such pieces have any value. If they do have value, what is the nature of the value to Capital One?

ANSWER

- (a) Confirmed as clarified: The sole use to Capital One of UAA solicitation mailpieces that are physically returned is for purposes of updating the company solicitation databases with returned mail information.
- (b) See response to Part (a).

OCA/COS-T1-21. Please refer to your testimony at page 7, lines 3-4. Please confirm that Capital One has already developed the software code, or purchased vendor software, to automatically update its address databases within 2 business days of receiving electronic Address Change Service (ACS) information. If you do not confirm, please explain.

ANSWER

Confirmed.

OCA/COS-T1-22. Please refer to your testimony at page 7, lines 3-4, wherein you discuss the cleansing of solicitation address files.

- (a) Please explain how Capital One intends to update its solicitation address files pursuant to the proposed NSA to utilize electronic ACS information.
- (b) Is Capital One's process of cleansing its solicitation address files through the National Change of Address (NCOA) system (no more than 60 days prior to mailing) different from the process it intends to implement to utilize electronic ACS information in its marketing campaigns? Please explain all such differences, if any.
- (c) Will the process of utilizing electronic ACS information in its marketing campaigns produce a different solicitation address file as compared to cleansing its solicitation address files through the National Change of Address system no more than 60 days prior to mailing? Please explain.

ANSWER

- (a) Capital One understands that it will regularly receive electronic files of ACS information from the USPS. The company will update the relevant solicitation databases with the information from this file within two days of receipt.

OCA/COS-T1-23. Please refer to your testimony at page 7, lines 3-4, wherein you discuss the cleansing of solicitation address files.

- (c) Are solicitation address files utilized by Capital One continuously updated with new names? If so, from where do the new entries and updates originate? Please explain current practices, and explain such practices (if different) under the NSA.
- (g) What is the advantage of updating a solicitation address file within 2 business days as opposed to updating the solicitation address file 60 days prior to mailing the solicitation?

ANSWER

- (c) Solicitation files utilized by Capital One are regularly updated with new names.

New data comes from various sources, including external lists and internal prospect databases. These practices will not change under the NSA.

- (g) The advantage of utilizing two-day-old electronic ACS information is that it is typically more current than the NCOA's data, thus increasing the probability of a given mailpiece reaching the intended recipient.

RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
OFFICE OF THE CONSUMER ADVOCATE
(OCA/COS-T1-24-26(a), 27-28)

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OCA/COS-T1-24. Please refer to your response to OCA/COS-T1-2. Please explain how First-Class solicitation mailpieces that are physically returned are handled and processed by Capital One.

ANSWER

Mailpieces are returned to a third-party vendor, who keys and transmits mailpiece identification data to the company and destroys the mailpiece.

RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
OFFICE OF THE CONSUMER ADVOCATE
(OCA/COS-T1-24-26(a), 27-28)

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OCA/COS-T1-25. Please refer to your responses to OCA/COS-T1-20(a).

- (a) Please confirm that with respect to First-Class solicitation mailpieces that are physically returned, the term "updating" includes the activity "address suppression," as described in your response to OCA/COS-T1-12(d). If you do not confirm, please explain.
- (b) Please confirm that with respect to First-Class solicitation mailpieces that are physically returned, the term "updating" includes correcting addresses in solicitation databases. If you do not confirm, please explain.
- (c) With respect to First-Class solicitation mailpieces that are physically returned, please describe and explain any other activities or uses encompassed by the term "updating", as used in your response.

ANSWER

- (a) Not confirmed. Information that a mailpiece has been returned for a particular address is added to the company's records. This information is then used as part of the mailing decision process for future campaigns.
- (b) Not confirmed. The company does not receive corrected addresses.
- (c) None.

**RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
OFFICE OF THE CONSUMER ADVOCATE
(OCA/COS-T1-24-26(a), 27-28)**

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OCA/COS-T1-26. Please refer to the response of USPS witness Plunkett to APWU/USPS-T1-1, redirected from witness Bizzotto, which states, in part: My understanding is that Capital One places the updated information into a database that it maintains for its returns. Any address that Capital One uses for its First-Class Mail solicitations is then run against the return database.

- (a) Please confirm that witness Plunkett's understanding is correct. If you do not confirm, please explain.

ANSWER

Confirmed.

RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
OFFICE OF THE CONSUMER ADVOCATE
(OCA/COS-T1-24-26(a), 27-28)

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OCA/COS-T1-27. Please refer to your response to OCA/COS-T1-18(a) and (b), where you state, by reference to OCA/COS-T1-9(c), that "Capital One has no way to estimate" the percentage of Capital One's First-Class solicitation and customer account mail that is forwarded. Also, please refer to the response of Postal Service witness Crum to APWU/USPS-T3-4(d), which states "I am assuming that Capital One's First-Class Mail is forwarded at or below the average rate." Do you have any information that would support witness Crum's assumption? Please explain.

ANSWER

The company has no information that would support or undermine witness Crum's assumption.

RESPONSE OF CAPITAL ONE SERVICES, INC.
WITNESS DONALD JEAN TO INTERROGATORIES OF
OFFICE OF THE CONSUMER ADVOCATE
(OCA/COS-T1-24-26(a), 27-28)

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OCA/COS-T1-28. Please refer to your response to OCA/COS-T1-21.

- (a) What was the date of acquisition of the software to automatically update address databases?
- (b) What does this software do to "automatically update" address databases?
- (c) Please refer to your testimony at page 6, lines 12-13. With respect to physical returns, is Capital One currently using this software to improve its address database?
- (d) Under the terms of the NSA, will the software acquired by Capital One produce anything different from what it produces now in terms of improving its address database? Please describe such differences, if any.

ANSWER

- (a) The company did not acquire software to update its address databases. The address update process has been developed internally over the past several years.
- (b) Data from the company's third party processor is electronically received and automatically combined with existing company data.
- (c) Yes, the company currently uses this information to improve address quality of future mailings.
- (d) The company does not plan to acquire software to support the NSA. Under the terms of the NSA, the company's process will not change, although the results may change based on improved timeliness and data quality received via electronic ACS.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for Witness Jean?

3 (No response.)

4 CHAIRMAN OMAS: Mr. Costich?

5 MR. COSTICH: Thank you, Mr. Chairman.

6 CROSS-EXAMINATION

7 BY MR. COSTICH:

8 Q Mr. Jean, I am going to hand you two copies of
9 your responses to Interrogatories OCA/COS-T1-30 and 32.

10 A Thank you.

11 Q If I were to ask you those questions orally today,
12 would your answers be the same?

13 A Yes, they would be.

14 MR. COSTICH: Mr. Chairman, I would move the
15 admission of those interrogatory responses.

16 CHAIRMAN OMAS: So ordered.

17 (The document referred to was
18 marked for identification as
19 OCA/COS-TA-30-32, and received
20 in evidence.)

21 MR. COSTICH: I will hand two copies to the
22 reporter.

23 //

24 //

25 //

OCA/COS-T1-30. Please refer to your responses to OCA/COS-T1-25(a) and NAA/COS-T1-15, which state

Information that a mailpiece has been returned for a particular address is added to the company's records. This information is then used as part of the mailing decision process for future campaigns.

- (a) Under Capital One's current practices, where a First-Class solicitation mailpiece has been returned for a particular address," does the "mailing decision process" include the option that the address on such a returned mailpiece may be used in subsequent First-Class solicitation mail marketing campaigns? Please explain.
- (b) Under the Negotiated Service Agreement (NSA), where Capital One will receive an electronic notification that a First-Class solicitation mailpiece has been "returned" for a particular address, will the "mailing decision process" include the option that the address for such a "returned" mailpiece may be used in subsequent First-Class solicitation mail marketing campaigns? Please explain.
- (f) Will the "mailing decision process" differ as a result of the NSA? Explain fully.

ANSWER

- (a) Yes, under Capital One's current practices, the "mailing decision process" could result in a subsequent mailpiece being sent to an address that has had a prior return. The decision to mail to a certain name and address combination is based on several factors, of which the occurrence of a prior return is one.

(b) See response to (a).

(f) The "mailing decision process" will not differ as a result of the NSA. However, as a result of receiving faster, richer data, the end result of said process may differ.

OCA/COS-T1-32. Please refer to your response to OCA/COS-T1-24.

- (a) Currently, how often (i.e., daily, weekly, monthly, some other regular period, or periodically) does the third-party vendor transmit “mailpiece identification data” to Capital One?
- (b) Currently, how much time typically elapses between the receipt of the third-party vendor transmission of mailpiece identification data and the updating of Capital One’s address databases? Please explain.
- (c) Currently, does the third-party vendor also transmit the reason stated on the face of the returned mailpiece that caused the return?
 - (i) If this is correct, does Capital One make use of the transmitted information concerning the cause of the returned mailpiece? Please explain.
 - (ii) If this is not correct, what are Capital One’s reasons for not making use of such transmitted information?
- (d) Because Capital One will receive electronic notifications pursuant to Change Service Requested (CSR), Option 2, under the NSA, is it fair to conclude that a reduction in the third-party vendor keying of mailpieces that would otherwise be

returned is one of the cost reductions that will accrue to Capital One, and confirmed in response to OCA/COS-T1-3(b)? Please explain.

ANSWER

- (a) Capital One's third-party vendor transmits data to the company each business day.
- (b) Typically, 2 days elapse between receipt of third-party vendor transmission of data and updating of Capital One's records.
- (c) No, the third-party vendor does not transmit reason for the return of the mailpiece.
- (d) Although not material, the company does expect modest reduction in its return mail processing costs under the NSA.

1 CHAIRMAN OMAS: Thank you.

2 This brings us to oral cross-examination. Three
3 parties have requested oral cross-examination: The American
4 Postal Workers Union, AFL-CIO, Ms. Catler; Newspaper
5 Association of American, Mr. Baker; and the Office of
6 Consumer Advocate, Mr. Costich.

7 Is there any other party that wants to cross-
8 examination Witness Jean?

9 (No response.)

10 CHAIRMAN OMAS: Ms. Catler? It seems Ms. Catler
11 is not with us today.

12 CHAIRMAN OMAS: Mr. May? I'm confused.

13 (Pause.)

14 MR. MAY: I believe Mr. Baker is next.

15 CHAIRMAN OMAS: Yes, Mr. Baker.

16 MR. BAKER: Thank you, Mr. Chairman, and good
17 morning, Mr. Jean.

18 THE WITNESS: Good morning.

19 CROSS-EXAMINATION

20 BY MR. BAKER:

21 Q My name is Bill Baker and I will be asking you
22 questions this morning on behalf of the Newspaper
23 Association of America. Just want to start with a couple of
24 questions about your background.

25 Are you the person who is ultimately responsible

1 for Capital One's mailing operation?

2 A I play a role in it. I wouldn't necessarily say I
3 would necessarily be accountable for it. I am responsible,
4 for example, for the relationships that Capital One
5 maintains with key mail service providers, including USPS,
6 but also letter shops, data services, that type of thing.

7 Q Okay. Did you personally negotiate this NSA?

8 A I did not.

9 Q Okay. Persons under your supervision or
10 different?

11 A Yes.

12 Q And according to testimony in this proceeding that
13 even without the NSA Capital One would mail about 1.4
14 billion pieces of First Class mail in the coming years; is
15 that not right?

16 A That's correct. We don't ordinarily do
17 projections, but for purposes of the NSA we projected about
18 1.4 billion pieces for First Class mail.

19 Q Yes, that works out by my math about 44 pieces a
20 second for every day of the year. Does that sound right?

21 A That may be correct.

22 Q Okay. Could you take a look at page 5 of your
23 testimony at the bottom? And in their is a passage where
24 you are describing in some steps the detail that Capital One
25 currently takes to maintain to address hygiene.

1 A Yes, I see that.

2 Q And you mention the Seattle, the Richmond plan,
3 and I believe you are also seeking MPTQM certification of
4 the Seattle plant?

5 We asked you in NEA-13, which you may turn to, or
6 questioned about it, and I was a bit surprised by your
7 response where you said, "Solicitation mail is not produced
8 at Capital One sites."

9 Do you see that?

10 A I don't actually -- I don't have another copy. My
11 copy was passed up front.

12 THE WITNESS: Thank you, Tim.

13 BY MR. BAKER:

14 Q Do it have it now?

15 A I do, yes.

16 Q Okay. So the first sentence in that answer says,
17 "Solicitation mail is not produced at Capital One sites."
18 And then you go on in the next sentence repeat that the
19 Richmond site is MPTQM certified and expect Seattle sites to
20 be soon or in a year.

21 Where is Capital One's solicitation mail produced?

22 A Capital One utilized the services of a variety of
23 large mail service providers throughout the United States.

24 Q So there is a number of them around the country
25 that you use?

1 A Yes.

2 Q Okay. Roughly how many?

3 A In terms of actual letter shops, if you are
4 familiar with that term, we utilize three primary letter
5 shops, I believe, with some other relationship at the
6 secondary level.

7 Q And how many other facilities would you use, mail
8 service providers of some kind would you use to produce your
9 solicitation mail? Do you use anyone else beyond those
10 three letter shops?

11 A There are other aspects in terms of printing
12 service providers, lithographers, there is a handful of
13 other service providers in the mailing. So I would tell you
14 that we believe in forming very strong business
15 relationships with our suppliers, so for the mail, roughly
16 speaking, there may be 10 or more; roughly 10 business
17 partners that we work with to produce our solicitation mail.

18 Q Are those letter shops that produce the
19 solicitation mail MPTQM certified?

20 A I don't believe that they are.

21 Q Do you know if they are in the process of becoming
22 so?

23 A I'm not currently aware whether they are.

24 Q All right. And the Richmond and Seattle sites
25 that you refer to in your testimony and in your response to

1 NAA-13 mail, your customer account mail; is that correct?

2 A Customer mail is produced by our Capital One
3 facilities, correct.

4 Q Okay. I want to talk a little bit about the
5 returns process, the process for which you get returned mail
6 now.

7 A Okay.

8 Q Postal Service Witness Plunkett has told us that
9 physical returns are sent to post office box addresses in
10 Richmond, Virginia. Is that the procedure today?

11 A That's my understanding, yes.

12 Q And that would continue under the NSA? Returns,
13 to the extent you get returns, would that continue under the
14 NSA?

15 A To the extent we actually receive physical
16 returns, they would be sent to the Richmond address; that's
17 correct.

18 Q I personally happen to recently receive a Capital
19 One solicitation from Capital One Small Business Services.

20 That's one of yours?

21 A I believe so, yes.

22 Q And this one actually happens to be standard mail,
23 but I notice that it has a return address of P.O. Box 85149,
24 Richmond, Virginia, 23295-001.

25 And I wanted to ask you, do all Capital One

1 solicitation pieces use the same return address?

2 A Honestly, I don't know for sure. I believe that
3 we do have solicitation returns at Richmond. I don't know
4 for sure if it's all the exact same address.

5 Q Do you know if they all use the same ZIP code for
6 the returning address?

7 A I don't know for sure. I believe so, but I don't
8 know for sure.

9 Q Are you aware of any differences in the return
10 addresses between First Class mail and Standard mail on
11 those?

12 A I'm not aware.

13 Q I notice that this ZIP code ends in 0001, which is
14 not the Post Office Box number that I observed on the piece,
15 and that's suggest to me that this is a unique five-digit
16 code specific to Capital One.

17 Do you know if that's true?

18 A I don't know for sure.

19 I also wanted to just clarify that standard mail
20 is not returned.

21 Q I understand that. This envelope happened to have
22 the return address on it.

23 A Sure. Sure.

24 Q Where is that post office box address physically
25 located in Richmond?

1 A I don't know for sure. I believe it's in our
2 production facility, but I don't know for sure.

3 Q You believe it's in your production facility?

4 A Yes. I believe mail is returned to our production
5 facility in Richmond, yes.

6 Q Is that co-located at a postal facility?

7 A Oh, I'm sorry.

8 Is the mail returned to the Postal Service and
9 then provided to us?

10 Q Yes, I want to understand the process of how the
11 returned pieces get to you, and I am starting with the post
12 office box address itself, is that a Postal Service facility
13 or is that yours?

14 A I would assume that's actually a Postal Service
15 facility. I don't know for sure, but I would assume comes
16 from the Postal Service directly, and they deliver it to our
17 production facility.

18 Q How is it delivered to your production facilities?

19 A Specifically?

20 Q Yes.

21 A I'm not familiar with the specific operations of
22 it, but it's delivered -- I'm sure, as you have indicated,
23 we mail a lot of mail so we do receive large amounts of mail
24 delivered in whatever way the post office deems most
25 efficient for processing and handling.

1 Q In a response the Postal Service provided last
2 week, it stated that "Capital One's returned pieces are
3 routed through the Richmond ADC."

4 Does that mean anything to you? Do you have an
5 understanding of what that phrase would mean?

6 A I'm afraid it doesn't.

7 Q Okay. Now I want to ask about what happens to the
8 mail that comes into the post office return address.

9 You just said you believe it gets somehow from the
10 Postal Service facility to a Capital One production
11 facility; is that correct?

12 A I believe, yes.

13 Q Do you know whether the Postal Service delivers
14 that or do you have your third-party vendor pick it up and
15 take it to you?

16 A It's my believe that we actually deliver our mail
17 to a third-party service provider for processing.

18 Q So it goes from the Postal Service to Capital One
19 and then Capital One gives it to the third-party vendor?

20 A That's my belief, yes.

21 Q Is your Richmond production facility co-located
22 with the Postal Service's facility? The same building?
23 Same location? Do you know that?

24 A No, I don't believe it is.

25 Q It is a different place. Okay.

1 How often do you get returned pieces? Daily?

2 A I believe we receive mail every business day, yes.

3 Q Okay. And in response, I believe it was to OCA
4 question -- I believe it was No. 9 to you, you gave us --
5 provided the actual number of returns for calendar year 2001
6 and 2002 of 98 million and 78 million plus, respectively.

7 A Yes.

8 Q Is the returned mail picked up six days a week?
9 Seven? Five?

10 A I believe our returned mail is picked up -- I know
11 it's picked up five days a week. I'm not sure if it's
12 picked up on Saturdays or not.

13 Q Okay. Well, let's assume that you pick it up six
14 days a week. Ninety-eight million plus pieces works out to
15 approximately a quarter of a million, 268,000 or so pieces a
16 day.

17 Does that sound about like the volume you are
18 getting in returns?

19 A I haven't worked out the math, but I am sure you
20 have. Your calculations sound reasonable.

21 Q Does that sound unreasonable?

22 A It doesn't sound unreasonable.

23 Q Okay. So that's a lot of mail you are getting
24 every day.

25 A It is.

1 Q Okay. And do you know the average weight of your
2 pieces? Half-ounce?

3 A We stay within standard -- I should say standard.
4 We stay within First Class guidelines, so less than a half-
5 ounce, I would believe.

6 Q Okay. So it's several tons worth of mail you are
7 getting daily?

8 A It's lots of mail. Certainly.

9 Q Okay. All right, now I want to move on to a
10 slightly different subject. Your testimony and in the
11 interrogatories you refer to a third-party agent who
12 basically process returned information for you, okay?

13 And in the answer that you filed yesterday to OCA
14 question 32 to you, you stated that the third party, Capital
15 One third-party vendor transmits data to the company each
16 business day. So that would be correct -- that would
17 include corrected information that they glean from the
18 returned pieces; is that correct?

19 A We don't receive any corrected information. The
20 only information that third-party subscriber provide to us,
21 they receive the physical mail, they key in the name and
22 address and send us back a file informing us that the name
23 and address --

24 Q Was returned.

25 A -- was returned and undeliverable.

1 Q All right. So you get the information that a
2 piece with this name and address was returned; and that's
3 it?

4 A Yes.

5 Q Okay. So the mail comes in to your facility. You
6 take it -- or it gets picked up or you take it to the third-
7 party vendor. Are they in Richmond, too?

8 A Yes, sir.

9 Q And do they get it the same day you get it?

10 A I'm not familiar with the actual mechanics. I
11 know that we certainly make efforts because we deliver on a
12 daily basis. I'm not sure if it's delivered the same day or
13 next day.

14 Q Okay.

15 A I think its safe to say it's probably within one
16 day turnaround.

17 Q And in OCA-32, you state that typically two days
18 elapse between the receipt of the third-party vendor
19 transmission and the updating of your records; is that
20 correct?

21 A The receipt of the electronic file and the
22 updating to our database, it's generally done within two
23 days, correct.

24 Q Okay. And that possibly one more day between
25 the -- well, how many days does it take the vendor to

1 transmit the fact that there was a return for a name and
2 address after it gets the piece from you?

3 A The amount of time it takes between us delivering
4 the mail to the third-party service provider and receiving
5 the file can vary, but it can take up to several weeks.

6 Q Okay. So it can take about a day for you -- a day
7 or less for you to get it to the vendor. I can take several
8 weeks for them to process the fact of the return and get
9 that to you, and then you update it within two days?

10 A Yes, sir.

11 Q Okay. Under the NSA you have agreed to update
12 your databases with electronic address correction service
13 notices within two business days and to use that information
14 in all future marketing campaigns.

15 So one feature of the NSA for you is that you
16 would receive these electronic address information instead
17 of most of your physical returns; is that correct?

18 A We would receive electronic information in lieu of
19 physical returns for our solicitation mail, correct.

20 Q Right. Would the EECS information go through the
21 third-party vendor or would it go straight to you?

22 A Information would be sent straight to us.

23 Q Okay. Would that data end up in the same
24 databases as the physical returned information you get from
25 your third-party vendor?

1 A Yes, sir.

2 Q Okay. And then one of our earlier questions to
3 you, I think it was NAA-20, you stated that Capital One
4 would use electronic ACS information to update its records.
5 This information is then used in conjunction with other
6 information known about that address to make mailing
7 decisions in future campaigns.

8 Is that the process we have just discussed?

9 A Yes, I believe it is.

10 Q Okay. And do you have a name for these databases?
11 Are these return databases, or what do you call them
12 internally?

13 A There is a lot of different -- to me it's just
14 better to refer to them as database, customer database,
15 prospect database; the databases that this letter referred
16 to.

17 Q How many databases are there?

18 A Difficult question to answer. I don't know we
19 necessarily think about our information at Capital One as
20 one databases or many databases. I would say that in the
21 end information is knowledge, and we have linkages to all of
22 our data, so we have one integrated set of information and
23 data. There are those who actually use different pieces of
24 different information, but generally speaking, it's an
25 integrated customer and prospect database.

1 Q Have an vision of it being an enormous oracle
2 database. Is that what you're -- something like that?

3 A Not actually oracle, but yes, it's actually not
4 that far off.

5 Q And by contrast, today when you have a
6 solicitation that's forwarded, that simply happens and you
7 don't know anything about it; is that right?

8 A Under current process?

9 Q Currently.

10 A Yes, if a piece is forwarded, we do not know that
11 it's forwarded.

12 Q Okay. I want to talk about -- now I'll change the
13 subject and talk a little bit about your solicitations
14 process.

15 At a projected volume of about 768 million First
16 Class mail solicitations, that works out to more than two
17 million pieces every day of the year, which is a lot of mail
18 that's being sent out, solicitations. And I want to ask a
19 question first about jargon.

20 Does the term "campaign" mean something to you in
21 this context?

22 A Tell me more.

23 Q Well, I was going to describe a marketing campaign
24 as a particular marketing proposal sent to a particular
25 mailing list. Does that term --

1 A I'm familiar with that, I'm familiar with that
2 definition.

3 Q In general terms, how does a marketing campaign
4 originate within Capital One?

5 MR. MAY: Mr. Chairman, I believe not only is this
6 question irrelevant, but it also begins to invade what is
7 proprietary information of the company.

8 CHAIRMAN OMAS: Mr. Baker?

9 MR. BAKER: Mr. Chairman, I don't believe I am
10 getting anywhere close to proprietary information of the
11 company because I intend to ask the question in general
12 terms. The point of the question is the foundation of one
13 to get to how a mailing of a particular campaign and lists
14 are created which goes to the accuracy of the lists.

15 MR. MAY: But Mr. Chairman --

16 CHAIRMAN OMAS: Let the witness try to answer to
17 the best of his ability.

18 THE WITNESS: I'm sorry. Could you repeat the
19 question?

20 BY MR. BAKER:

21 Q Well, let me ask you this. Capital One is engaged
22 in many, many different marketing campaigns as I understand
23 it; is that correct?

24 A As you defined a campaign, yes, that's correct.

25 Q And my impression is, and I've heard public

1 presentations by Capital One people that there are very
2 talented people within Capital One who are constantly
3 devising new approaches or new marketing pitches, if you
4 will. And when they are devising these pitches, they are
5 also envisioning marketing that particular approach or that
6 campaign to a particular mailing list that they obtain from
7 a variety of sources.

8 A Yes, as I said in my testimony, the term we use is
9 to try to develop the right product for the right customers
10 at the right time at the right price. We do believe that's
11 one of the things we are reasonably good at.

12 Q Okay. And you know, you generate your lists to
13 the recipients of the campaign either internally or from
14 renting them from outside, list vendors; is that correct?

15 A A variety of ways. Those are -- correct. Those
16 are way we generate --

17 Q Are there other ways?

18 A Credit bureau information is another way to do
19 that.

20 Q And can you give me an approximate figure for the
21 number of mailing lists that Capital One rents each year?

22 MR. MAY: Again, I don't understand the relevance
23 of the question, and that could be a commercial sensitive
24 subject.

25 CHAIRMAN OMAS: Let's try to go forward. I don't

1 see where that -- how many mailing lists they rent or
2 whatever could be proprietary information.

3 MR. MAY: Well, but also, Mr. Chairman, I don't
4 understand what it has to do with any of the issues in this
5 case.

6 MR. BAKER: Mr. Chairman, I am trying to find out
7 from the witness the mailing solicitations that his company
8 does. I understand that he has testified that he uses NCOA
9 information and has some information for the internal lists,
10 but apparently does not for the external list. I am trying
11 to at least get a handle on the proportions of the
12 solicitations mailed that are based on external lists.

13 BY MR. BAKER:

14 Q Can you give me a proportional answer?

15 A I'm afraid I don't think about it in those terms
16 so I actually don't know how many quantitative lists we use,
17 and I don't have a sense of proportions either.

18 Again, we actually used information in an
19 integrated evaluative process and source of listing is a
20 variable, but there are many variable that we think about in
21 terms of identify which prospects to try to target for
22 future mail campaigns.

23 Q In your testimony at page 3, line 18 I believe it
24 is, if you could refer to that. No, that's not the place.
25 Actually line 18. You used the term "mail channel

1 decisions." What is that?

2 A That makes reference to the fact that there are
3 multiple channels that we make use of to try to solicit a
4 prospect to become a Capital One customer. Other channels
5 include telemarketing, and as I indicated here in the
6 testimony.

7 Q Is this the point in the process where Capital One
8 decides to proceed with a particular marketing campaign or
9 is this a different stage of the process?

10 A I'm sorry. Help me understand.

11 Q Well, I understand that Capital One, as I
12 understand it, has a proprietary system of, I assume,
13 consumer computer analysis and different human judgments
14 that decides whether a particular marketing campaign is
15 worth doing; is that fair?

16 A We use a variety of information to determine
17 future mail strategy, different campaign strategies,
18 correct.

19 Q That's your secret sauce?

20 A I believe it's one of our core competencies, yes.

21 Q Okay, and I believe that's -- and what is the
22 ingredients of that, the factors that guide that decision
23 are proprietary to the company?

24 A I believe so.

25 Q Okay. So when you are at the mail channel

1 decision that you refer to in your testimony, has there been
2 a decision made to proceed or is the mail channel, that is,
3 First Class and/or telemarketing perhaps, part of that
4 decision-making process?

5 A I could speak to that in general terms and say
6 that it is our secret sauce. It is a pretty complicated
7 process, and we evaluate to solicit or not to solicit on
8 several occasions in our process. We evaluate which channel
9 at multiple different stages. So it's -- I'm not trying to
10 be evasive. Evaluation takes place at several different
11 times during a several week process.

12 Q In your response to NAA-18 to you, and I will just
13 read the question. You say that, "The Capital One lists,
14 whether acquired from external sources or produced
15 internally are cleansed via established hygiene processes,
16 (EGNCOA), and compared to internal returned mail databases
17 prior to mailing."

18 When does that cleansing or comparison occur in
19 the process? Is that the last thing before the mailing is
20 done.

21 A I can't speak to the exact specifics, but I can
22 tell you generally we actually do address hygiene at several
23 stages, which is why we believe we are likely to be one of
24 the -- have some of the high standards in terms of address
25 hygiene of any direct mailer in the country, but we do

1 internal address hygiene, and address hygiene also takes
2 place at our letter shops.

3 Q Is address hygiene part of the mail channel
4 decision?

5 A I don't believe so. Those two don't -- I don't
6 think about those two things together.

7 Q Okay. So back to the mail channel decision for a
8 second. I am assuming, and I am hoping you can answer this,
9 that there is a range of possible outcomes of the mail
10 channel decision, and that would include to do the campaign
11 as some devised or to not do it, or to do part of it, or to
12 do it in one way or another.

13 Are those the range of possible -- is that the
14 kind of decisions that's made in the mail channel decision?

15 A Those are elements that we consider in a campaign,
16 yes.

17 Q And the verdict that comes out of the decision is
18 either to do some mail or not mail or something in a
19 campaign; is that -- to proceed or not?

20 A Those are two possibilities.

21 Q Are there other possibilities?

22 A Well, again, you are making an assumption that we
23 have decided to mail. We may choose to leverage the
24 internet. We may choose to do telemarketing; may choose to
25 not do the prospect at all. It's an integrated marketing

1 decision as opposed to thinking about it as we're going to
2 mail or not.

3 Q So you are deciding whether to proceed and what
4 means?

5 A And how.

6 Q Okay. Now, once you decided you're going to mail,
7 back in Interrogatory 18 we ask about, and you compare the
8 proposed mailing lists to the internal returned mail
9 databases, and those are the databases that we talked about
10 earlier that came from third-party vendors.

11 A Yes.

12 Q And you used a formulation -- one question here.
13 And under the NSA mail is -- is there any difference in the
14 mail channel decision? Only what NSA will do differently
15 for you is give you different information at the mailing
16 end; is that correct? Or how will NSA affect your mail
17 channel decision?

18 A I believe the mail -- it will affect it broadly
19 speaking. However, the NSA would give us information sooner
20 and richer data in terms of internal information, so that
21 will potentially have some influence.

22 Q In a number of your interrogatory answers, NAA-15
23 was one and there was some others, you used -- you were
24 asked how Capital One uses the information as a factor for
25 return of First Class mail pieces from a solicitation, and

1 you used the following language:

2 "Information that a mail piece has been returned
3 for a particular address is added to the company's records.
4 This information is then used in conjunction with other
5 information know about that address to make mailing
6 decisions in future campaigns." And you used that language
7 a number of times that that's the case.

8 A Yes.

9 Q Now, the OCA and we both asked a number of
10 questions about that, but let's just turn to No. 30 which
11 you answered yesterday. Do you have that, OCA-30 to you?

12 A No, I don't.

13 Thank you.

14 Q Take a moment to review your answer there.

15 (Pause.)

16 THE WITNESS: You referred me to question 30?

17 MR. BAKER: Thirty, yes.

18 THE WITNESS: Yes. Okay, I have read through it.

19 BY MR. BAKER:

20 Q In subpart A of that you state that "Under the
21 current practices the mailing decision process could result
22 in a subsequent mail piece being sent to an address that has
23 had a prior return."

24 That's correct, right?

25 A We're talking about the current process.

1 Q Yes. And that would -- the decision to proceed
2 with that mailing to a dress that had a prior return, is
3 that part of the mailing decision process or is that part of
4 the that would occur when you cleanse the list?

5 A I'm sorry. Say the question again?

6 Q All right. For that to happen, Capital One must
7 by computer or otherwise look at an address, see on its
8 internal returns with that prior mailing address to that was
9 returned, and still decide to mail a piece to that address,
10 correct?

11 A Yes. May I see if I can help you out here?

12 Q Yes.

13 A Today, if we receive that information from our
14 third-party service provider which indicates that for a name
15 and address the mail was returned. Now, we don't know why
16 it was returned. We don't know if it was an address
17 problem. Maybe the address was fine and the name was the
18 problem. Maybe it was the timing, maybe it was a college
19 student, for example, there may have been a lot of different
20 reasons why it might have been returned.

21 We do use the fact that it was returned as a piece
22 of very important information in evaluating future mail
23 campaigns and future prospect lists.

24 The point I want to share with you and we shared
25 with USPS is that Capital One has absolutely no interest

1 whatsoever in sending out mail that we don't think has --
2 that doesn't make good business sense. We only want to mail
3 mail that we think makes good business sense for us.

4 Q Okay. So your testimony is, at least today, it
5 may be Capital One's business judgment to make a piece to an
6 address that it knows it has had a prior return from because
7 it has reason to think the second piece might be more
8 successful?

9 A It is possible. Not likely, but there are
10 occasions where it is possible, and it has happened.

11 Q And under the NSA, will it still be possible for
12 that to happen?

13 A Yes. Can't speak to what will happen because we
14 don't have the agreement yet, but I believe it will still be
15 possible. Factors to consider, however, are that with the
16 NSA we will receive information faster. We will also
17 receive reasons for the return, which we don't receive
18 today, and most importantly we will receive in cases where
19 forwarding takes place we will see the forwarding address.

20 And I will tell you that if we receive a
21 forwarding address, we will suppress the previous address
22 when we receiving forwarding address information.

23 Q And right now you don't know how many addresses
24 that will be for forwarding?

25 A Correct.

1 Q Do you think it's a big number or small number?

2 A I honestly haven't put a lot of time into evaluate
3 whether it's big or small.

4 Q You don't know if it's as many as your physical
5 returns?

6 A I honestly don't.

7 Q You don't know. Okay.

8 When Capital One compares the prospective mailing
9 lists to your internal returned mail databases, is that done
10 electronically by computer?

11 A I'm sorry?

12 Q Is the process of comparing the mailing lists to
13 the internal returns done by a computer process?

14 A Yes, it's not done manually. It's done by a
15 merging technology yes.

16 Q And does that comparison allow Capital One to
17 delete some but not all addressees from the list?

18 A Just to clarify language. We receive the
19 information and we intend for our database to indicate for
20 that name and address there was a return.

21 Q Right.

22 A Then we make future decisions about what to do.
23 That may lead to a suppression, it may not.

24 Q Okay. Is it possible for a particular single
25 mailing campaign that some addresses will be suppressed and

1 other that had returns won't be because of your judgment?

2 A That was -- yes, that's the point. It is
3 possible.

4 Q Okay. All right, could you turn to page 6 of your
5 testimony? I want to change to a different subject at this
6 point. And just focus your attention at the bottom lines,
7 20 and 21 in particular.

8 And in there you state that, "Capital One's
9 obligations under the agreement includes several address
10 quality requirements that are greater than what is required
11 of similarly situated mailers."

12 Did you have any particular mailers in mind when
13 you said that?

14 A I can't say that I did, no.

15 Q Can you think of any similarly situated mailers to
16 Capital One?

17 A The point here was that -- what we were trying to
18 speak to in the testimony was that we are committing to NCOA
19 processing staying within 30 days for customer mail, and
20 within 60 days for prospect solicited mail that is greater
21 than the requirements for the Postal Service, what the
22 Postal Service requires of mailers today. That was the
23 intent of the testimony.

24 Q How often do you currently -- you referred to the
25 NCOA within 60 days for solicitation mail. What is your

1 current practice for that?

2 A I mentioned that previously that actually there
3 are several times we do it internally. We also run it at
4 our letter shops, so it takes place on several -- at several
5 different stages.

6 Q Today, pre-NSA, are your mailing lists probably
7 using NCOA files within 60 days of the mailing?

8 A Our mailing lists?

9 Q Yes.

10 A Today?

11 Q Yes.

12 A We already today do the processing of customer
13 mail within 30 days and solicitations within 60 days, so
14 while we are committing to this as part of the NSA, we are
15 generally doing it today already.

16 Q All right, thank you. That was the point. And
17 one last line of questions for you.

18 Your question has to do with whether or how much,
19 if any, of your solicitation volume might shift from
20 standard to First Class mail, and there were some
21 interrogatories on the subject.

22 And I believe you stated that you do not expect "a
23 significant amount to shift, although it's possible that
24 some may." Is that correct?

25 A That's correct.

1 Q Okay. Can you give us a definition of
2 "significant"?

3 A Mr. May was kind enough to have me refer to a
4 dictionary last night so I did do that, and meaningful and
5 important were two synonyms I came up with, so I hope that
6 will suffice for you. He really did.

7 Q The phrase "important" was the word?

8 A Meaningful, important, yes.

9 Q Would one percent of your mail be a significant
10 amount of mail?

11 A I would prefer not to make -- that would be a
12 judgment on my part. I think it's fair to say that folks
13 could determine different levels to be significant.

14 Q Yes, one percent of 768 million pieces of
15 solicitation of more than 7 million pieces of mail.

16 A Yes. My point is that others might find that to
17 be significant.

18 Q Do you?

19 A Depends in what context. On an absolute basis,
20 you might find that significant. On a relative basis, it is
21 one percent.

22 MR. BAKER: Mr. Chairman, I have no more
23 questions.

24 CHAIRMAN OMAS: Thank you, Mr. Baker.

25 Mr. Costich.

1 MR. COSTICH: Thank you, Mr. Chairman.

2 CROSS EXAMINATION

3 BY MR. COSTICH:

4 Q Good morning, Mr. Jean.

5 A Good morning.

6 Q I would first like to follow up on a few of Mr.
7 Baker's questions.

8 You spoke of using letter shops that are located
9 in various parts of the country; is that correct?

10 A Yes.

11 Q Do you those letter shops mail to separate parts
12 of the country or do they mail nationwide?

13 A Clarify the question. Are you asking me if we
14 have a specific letter shop strategy to use certain letter
15 shops for certain part of the country?

16 Q Yes.

17 A The answer is no, we don't have a letter shop
18 strategy to segment the country for certain letter shops.

19 Q So any --

20 A They do mail nationwide.

21 Q You said you had a contractor or a vendor who
22 currently processes your returns; is that correct?

23 A Yes, we did discuss that.

24 Q Will you continue to use that vendor or contractor
25 during the period of the NSA?

1 A We will because we still plan of receiving some
2 physical returns, physical returns of customer mail, and if
3 there is any slippage that comes through, we would use the
4 third-party service provider for the slippage as well.

5 Q And the third-party vendor will continue to supply
6 the same kind of information that it supplies now?

7 A Yes.

8 Q Same electronic format?

9 A Yes.

10 Q Will that electronic format be similar to what the
11 Postal Service will provide you under the NSA?

12 A I'm not familiar with the specifics of the file
13 configurations. I do know that we do not plan to have a
14 separate process for the NSA information versus the
15 information from third-party service providers. So there is
16 probably some consistency there. But again the Postal
17 Service will provide us with additional information that
18 this third-party service provider does not provide.

19 Q Currently you use the return information as part
20 of the decision process as to whether to mail to a
21 particular address; is that correct?

22 A We use the return mail information to evaluate
23 whether to mail to future prospects at addresses. We don't
24 mail to -- we mail to people, not addresses, but address is
25 an important component of that.

1 Q I believe you said in response to an OCA
2 interrogatory that you have already purchased the software
3 that will be used to update your address files?

4 A To the best of my recollection, we did not
5 purchase because we are leveraging in-house software, but we
6 are prepared to process information.

7 Q I'm sorry for the use of the word "purchase."
8 Acquired one way or another; is that correct?

9 A I think so, yes.

10 Q I guess I am trying to get at how you will use the
11 additional information that the Postal Service provides
12 about returns during the pendency of the NSA.

13 A It's difficult for me to give you a lot of details
14 because we obviously don't have it. We don't have the
15 information that NSA provides today, so I'm not able to tell
16 you intimately, you know, how we will use that additional
17 data.

18 Also, as I stated earlier, that the process we use
19 to do targeting is one of our core competencies, or secret
20 sauces as referred to.

21 I can say, however, that while we don't forecast
22 return mail in the future and we don't forecast in the
23 example of reductions, we certainly are hopeful --
24 optimistic that the information provided through the NSA
25 will lead to better, cleaner targeted -- you know, better

1 hygiene for our lists. We certainly hope for a lower return
2 of mail by having this information.

3 Q To use that information, will you have to modify
4 the software that you currently use for updating your
5 address files?

6 A No. I discussed this with my folks extensively,
7 and we do not believe that we will have to do any
8 modification in our evaluation process.

9 Q Okay, let's try to distinguish between the
10 decision-making model and the process of updating address
11 files.

12 Will you have to modify the software that performs
13 that updating function in order to make use of the new
14 information that the Postal Service is providing you?

15 A Again, it's my understanding that we do not need
16 to make any modifications. And we will receive additional
17 information, so that in itself is a modification. But in
18 terms of the process itself we will not need to make any
19 modifications in our processing to accommodate the
20 additional data received from the Postal Service.

21 Q Perhaps I'm not quite using the exact word. The
22 Postal Service presumably will be providing you with more
23 fields of data --

24 A Right.

25 Q -- than you get from your contractor?

1 A That's correct.

2 Q And those extra fields can be accommodated with
3 the software that you have now for address updates?

4 A It's my understanding that is the case, yes.

5 Q And your decision-making software will not have to
6 be modified to look at those new fields?

7 A Yes, that's the clarification. We will have
8 additional information to evaluate. So in terms of
9 developing or algorithms, will that potentially influence
10 our algorithms? Yes, I think that's a fair statement to
11 make.

12 Again, I can't speak to -- by not having that
13 information, I can't speak to you how the algorithms will be
14 adjusted. But is it possible that the algorithm itself can
15 be modified? Yes, it's possible.

16 Q Well, would it be necessary to modify the
17 algorithm in order to make use of any new information that
18 you might want to make use of?

19 A Yes, we will make modifications. I don't believe
20 there -- let's be clear though, I don't believe there is
21 technical modification as much as evaluative modifications
22 in how we make decisions. But the technology changes are
23 modest, if any.

24 Q But until you actually gets your hands on the
25 information from the Postal Service you won't know whether

1 you will be modifying your decision-making program?

2 A That's correct.

3 Q I believe you said when you get information about
4 returns from your vendors, you use that in the decision-
5 making process as to whether to remail?

6 A Yes.

7 Q And that will continue under the NSA, correct?

8 A The information received from the Postal Service
9 will be used in the decision-making process, yes.

10 Q Well, again, the information as to the fact of a
11 return will continue to be used; is that correct?

12 A Yes.

13 Q Now the other information that the Postal Service
14 will be supplying you can only be used if in some way you
15 modify the evaluation program; is that correct?

16 A As an example, under the NSA we will receive a
17 forwarding address, so we will use that new address as part
18 of our evaluation to do a future mail to that prospect or
19 not, so that information would be used.

20 Q Now we're talking about returns here. You will
21 only get returns if they can't be forwarded; is that
22 correct?

23 A Well, once we get information from the Postal
24 Service under the NSA we will also get information if it is
25 forwarded, so we can use that. As an example I was saying

1 we get the forwarding information, we would use that as
2 well. But we will use information that the mail piece was
3 "returned" and is a factor in future mail decisions, yes,
4 under the NSA.

5 Q Okay. My question went only to the returns.

6 A Okay.

7 Q And it relates to the additional information that
8 the Postal Service will provide you under the NSA, and my
9 question is won't you have to make some sort of change?

10 A Well, if we have to make a change we will have
11 to -- if you define a change as have additional inputs that
12 change the algorithm, I guess I am saying, yes, that would
13 be a change. If you define it as making use of additional
14 data and weighting, as an example, that would be a change.

15 Q And that's the changes that are not sure yet
16 whether you will have to make or want to make; is that
17 correct?

18 A Correct. It's the latter part there in terms of
19 what information you have and how do you evaluate. We're
20 not sure how to evaluate it yet, that's correct.

21 Q Okay, let's switch to fowards. Currently you
22 receive no information about forwards; is that correct?

23 A Yes.

24 Q And under the NSA you will receive notification
25 that a piece has been forwarded, and you will receive the

1 new address; is that correct?

2 A That's my understanding, yes.

3 Q Will that information be essentially consistent
4 with the return information that you are currently using
5 that you get from your vendor?

6 A Tell me more about your question.

7 Q Currently you get an electronic file from your
8 vendor concerning returns. Are you going to get essentially
9 the same kind of electronic file from the Postal Service
10 with respect to forwards?

11 A It's my understanding from a technology standpoint
12 that the format is consistent, generally consistent. The
13 difference here is that you get additional information.

14 So under the pre-NSA situation we get nothing, so
15 with the NSA we will get information about, hey, this piece
16 was forwarded and here is the new address. But keep in mind
17 that under the pre-NSA therefore the piece wasn't returned.
18 So under today's situation, that would be a good address, a
19 good prospect address, and what's different is that we
20 actually have a good prospect's address, but now it's
21 different. That's the difference.

22 Q When you currently use the electronic file from
23 the vendor concerning returns, all that you do is note the
24 fact of a return with respect to a specific prospect; is
25 that the way it works?

1 A We notate it on our database that -- that that
2 prospect at that address, the mail piece was return, that's
3 notated.

4 Q Now with respect to forwarding under the NSA, you
5 will be able to make an analogous notation in the data base,
6 namely, that the piece instead of being returned was
7 forwarded?

8 A What we actually plan to do is to use the new
9 information and suppress the previous address, which is what
10 we do today when you use NCOA information as an example.
11 You get new information from NCOA, you will suppress the
12 previous address, and now you use the new information as the
13 current address.

14 Q So when you use the information about forwarding
15 under the NSA, that will be similar to NCOA corrections?

16 A That's my understanding, that's how my folks
17 explained it to me.

18 Q Can you tell me in more detail what happens to a
19 record in your database when it runs against the NCOA
20 information currently?

21 A My guess is that I probably can't. But what do
22 you mean by more detail?

23 Q You speak of address suppression. Does that mean
24 that in your database that address is removed from the
25 database?

1 A Yes, okay, I can speak to that.

2 No. At Capital One information is acknowledged as
3 power. We don't throw away knowledge. So you retain the
4 information, but it becomes "previous" address, so you
5 actually have the new information which becomes the current
6 address. So similar to NCOA with the forwarding
7 information, the new address becomes the current address and
8 the previous address becomes the previous address in our
9 files.

10 Q So both the old and the new address remain in your
11 files?

12 A We retain the information, that's correct.

13 Q I would like to turn to a different subject. You
14 are currently updating your solicitation lists against the
15 NCOA every 60 days?

16 A That is correct.

17 Q Can you tell me how many campaigns might occur in
18 a 60-day period?

19 A I can't. I don't know. I don't have any
20 specifics in terms of how many campaigns.

21 Q Do you know how many times you might send a
22 solicitation to the same prospect during a 60-day period?

23 A I don't know. I would be speculating. I don't
24 know.

25 Q Can you tell us the total number of campaigns that

1 Capital One used in the last calendar year?

2 A I honestly don't know how many campaigns. I don't
3 think about it in those terms.

4 MR. COSTICH: Mr. Chairman, the OCA has filed some
5 interrogatories to this witness. I've attempted to cover
6 the same information orally, but I think I would like to see
7 written responses to the interrogatories that were filed and
8 haven't been answered yet. I just want to make sure that
9 will happen.

10 MR. MAY: Mr. Chairman, those interrogatories were
11 not seen by the witness until yesterday because they were
12 filed at the close of business on Thanksgiving eve.

13 CHAIRMAN OMAS: When do you think you can get
14 responses back?

15 MR. MAY: I expect that -- you know, the questions
16 are difficult. They are not easily understood, so I don't
17 know. I don't know that we can answer some of the
18 questions. But there are people who work for Mr. Jean who
19 are working on those questions.

20 CHAIRMAN OMAS: Well, can you give us a time table
21 of what -- by the end of the week?

22 MR. MAY: We will certainly endeavor to do that.

23 CHAIRMAN OMAS: I would appreciate it very much if
24 you could get them back to us by the end of the week.

25 THE WITNESS: We'll make or best efforts to do

1 that.

2 CHAIRMAN OMAS: Mr. Costich.

3 MR. COSTICH: I have no further questions, Mr.
4 Chairman.

5 CHAIRMAN OMAS: Thank you.

6 Ms. Catler?

7 MS. CATLER: Thank you, Mr. Chairman. I do have a
8 few questions.

9 CHAIRMAN OMAS: Fine.

10 CROSS-EXAMINATION

11 BY MS. CATLER:

12 Q Mr. Jean, in your response to APW-CLS-T1-2, you
13 list the affiliates of Capital One Services, Inc. and state
14 that they could change over time. You also state the
15 company's understanding is that the proposed negotiated
16 services agreement is limited to mailings by company
17 affiliates.

18 First, you list five affiliates, and I would like
19 to know just generally what these companies do. What is
20 Capital One Bank?

21 A I'll try to answer your question from probably a
22 general business standpoint as opposed to a legal entity
23 perspective, which I'm not the best person to do. I hope
24 this will meet your needs here.

25 Capital One Bank and the savings bank are entitles

1 that allow us to primarily be in the U.S. consumer lending
2 business of which the credit card business is the vast
3 majority of activities that we do. We also issue
4 certificates of deposit, so we do have a deposit business.
5 We also do installment loans, but the vast majority of our
6 business in credit cards.

7 Q Are the credit cards from Capital One Bank or
8 Capital One F.S.B.?

9 A I believe the bank is where the credit card loans
10 assets are housed.

11 Q Okay. And Capital One F.S.B. does those other
12 banking --

13 A That's the deposit business.

14 Q I'm sorry?

15 A I think that's where we have the deposit business.

16 Q Okay. Capital One Auto Finance, what is that?

17 A Auto lending, auto loans, and People First as well
18 is a company we acquired which was actually being integrated
19 with Capital Auto Finance, but both of those entities are
20 auto lending businesses.

21 Q And the fifth one is Amerifree LLC?

22 A Yes.

23 Q What is that?

24 A That is a small company acquired up in
25 Massachusetts. That is medical/dental lending. If you go

1 get a procedure in the United States, there are new ways to
2 borrow money and now you can actually put your dental work
3 on loan, and it's that business.

4 Q Okay. Could you please provide a definition of
5 affiliate of Capital One Services, Inc. as you understand
6 that term to be used in your testimony and in the proposed
7 negotiated service agreements?

8 A Again, I'm not the best person to provide legal
9 entity definitions. From a general business perspective, it
10 is affiliated -- a line of business that we have within our
11 general corporate structure.

12 Q Could you please identify and quantify the
13 ownership arrangement that identifies an affiliate of
14 Capital One Services, Inc.?

15 A Could you tell me more?

16 Q Are affiliates owned by Capital One Services, Inc.
17 or are they wholly owned subsidiaries of Capital One
18 Financial or are they partially owned by Capital One
19 Financial? What is the ownership arrangements that
20 identify, or is there an ownership arrangement that identify
21 an affiliate of Capital One Services, Inc.?

22 A There most certainly is, and I am not intimately
23 familiar with the legal structurings of Capital One
24 Services. It is an organization. It is a wholly owned
25 subsidiary of Capital One Financial. But how they all

1 intertwine together is not my field of expertise.

2 Q Are all the affiliates wholly owned subsidiaries
3 of Capital One Financial?

4 A It is my belief that all of these listed here are
5 wholly owned subsidiaries, yes.

6 Q Okay. For an entity to be an affiliate of Capital
7 One Services, Inc., must it be 100 percent owned by Capital
8 One Financial Corporation?

9 A I would be speculating. I don't know for sure if
10 that's the case.

11 Q Are there any affiliates that you know of that are
12 not 100 percent owned by Capital One Financial Corporation?

13 A These are the facilities that I know of, and they
14 are owned by Capital One, so my answer would be they are not
15 that I know of.

16 Q Are there any other identifying characteristics of
17 an affiliate of Capital One Services, Inc.? And if so, what
18 are they?

19 A I don't know of other characteristics.

20 Q Okay. Does Capital One Services, Inc. have any
21 subsidiary?

22 A Again, I'm not intimately familiar with the
23 structure. But to my knowledge, we don't have subsidiaries.

24 Q Okay. The reason I am asking is that the
25 negotiated services agreement is between Capital One

1 Services, Inc. and its subsidiaries and affiliates. And so
2 what you are telling me is you don't believe that there are
3 any subsidiaries; is that correct?

4 A Yes.

5 Q And that you are also telling me that other than
6 the five affiliates that you have identified in your
7 response to APW/COS-T1-2, you don't believe there are any
8 other affiliates?

9 A That's correct.

10 Q You did say in that response that the affiliates
11 could change over time. How could they change over time?

12 A As an example, Capital One Auto Finance and People
13 First were companies, and Amerifee were companies that were
14 acquired in an acquisition. So we could add affiliates by
15 buying a company.

16 Q You also referred to them as relevant affiliates.
17 Are there affiliates that are not relevant?

18 A I don't have any awareness of a non-relevant
19 affiliates.

20 Q Okay. In your response to APW/COS-T1-3, you
21 identify mail relating to accounts serviced by Capital One
22 Services, Inc. as being covered under the proposed service
23 agreement.

24 Q What does Capital One Services, Inc. do for
25 accounts its services?

1 A In general, this is -- the primary mailing is --
2 could you repeat the question again?

3 Q What does Capital One Services, Inc. do for
4 accounts it services?

5 A How do we service accounts.

6 This is generally customer relationship. This is
7 customer inquiries. This could be management of delinquent
8 debt. Just making sure that their product and their
9 services work; the ongoing maintenance and servicing of that
10 relationship.

11 Certainly an example of a credit card, making sure
12 that your credit card product works. If you have any
13 problems, let us know, and I'm sure that you receive
14 statements, any customer correspondence that's appropriate;
15 just making sure that your products are working
16 appropriately.

17 Q And Capital One Services, Inc., that piece of
18 Capital One Financial, does that for all five affiliates?

19 A That is my belief, yes.

20 Q Because at the outset of your testimony you
21 indicate that your team is responsible for the procurement
22 of goods and services, including mailing services that
23 support Capital One, and I presume there you mean Capital
24 One Financial's businesses.

25 So that in addition to purchasing -- arranging for

1 the mailings, you are also arranging all the printing of the
2 statements, and what other things do you do for these
3 accounts?

4 A You want to know what I -- my team does for
5 specifically or Capital One?

6 Q No, Capital One Services.

7 A Generally speaking, it is the providing of
8 relevant information. Again, I'll go back to the example of
9 the credit card. So we provide you with customer
10 statements, information, new plastics when your plastic
11 expires, we answer your inquiries whether they are on the
12 phone or written. If you are interested in a credit line
13 increase, for example, we will handle an inquiry and process
14 that.

15 But again, these are things that you are familiar
16 with in terms of our products, credit cards and the loans,
17 the general maintainancing and servicing of those products.

18 Q Does Capital One Services, Inc. service accounts
19 for entitles other than affiliates of Capital One Financial?

20 A A clarifying question. So if an account is not --
21 if a customer relationship is not owned by Capital One
22 affiliates, is that your question?

23 Q Yes.

24 A It is my understanding today that Capital One has
25 no significant -- going back to that word significant --

1 relationship that I am aware of that do servicing for
2 organizations that are not part of Capital One.

3 Q Do you have some insignificant relationships?

4 A Not that I know of. My point is if there are
5 some, I'm not aware of them, and I think I would be aware of
6 those that are quote/unquote significant.

7 Q Okay. So you're --

8 A I'm not aware of any is the point.

9 Q So that in other words you're not -- you don't
10 provide any mailing services to any entities other than the
11 five affiliates that you have previous identified?

12 A I think the best way to describe this. Capital
13 One Services is not in the business as a P&L on its own. It
14 provides services to these affiliates that is stated here.

15 Q Section 1(f) of the proposed agreement states
16 that, "Capital One's mail relates to its products and
17 services, including but not limited to sales and other
18 promotions run in conjunction with Capital One's strategic
19 partners or as part of strategic alliances with other
20 entities."

21 Could you please provide a definition of strategic
22 partner has you understand that term to be used in your
23 testimony and the proposed services agreement?

24 A These would be organizations that we would work
25 with to enhance the product and service offerings to either

1 our existing customers or prospect customers.

2 The point I want to emphasize here is that the NSA
3 is about First Class mail for Capital One customers or
4 Capital One potential customers. And so mail under those
5 circumstances are covered, and that's the scope of the NSA.

6 Q I appreciate that that's the scope of the NSA.
7 What I am trying to figure out is what is a strategic
8 partner as you understand that terms to be used in your
9 testimony and the proposed negotiated service agreement?

10 A Again, my answer is an organization that can help
11 enhance Capital One products and service offerings to its
12 customers or prospects.

13 Q Could you give me an example of a type of company?

14 A Sure.

15 Q I'm not asking for a specific company.

16 A No, that's okay.

17 We have recently formed an agreement with Lowe's
18 Hardware Stores to offer Capital One credit cards to Lowe's
19 customers and potential offers from customer benefits
20 through Lowe's.

21 Q Would this offer include, oh, I don't know, some
22 credit cards will go and try and offer people travel
23 insurance, or telephone services? Would those be strategic
24 partners?

25 A Do we cross products and services to our customer

1 base? Yes. And so that is a possibility.

2 Q Is that what you would consider a strategic
3 partner or as part of a strategic alliance with other
4 entities?

5 A Would I consider strategic partners from Lowe's to
6 sell products to Capital One Customers, yes.

7 Q Is there an ownership arrangement that identifies
8 a strategic partner of Capital One Services, Inc.?

9 A That I am aware of, no.

10 Q Are there identifying characteristics of a
11 strategic partner? And if so, what are they?

12 A Repeat your question, please?

13 Q Are there identifying characteristics of a
14 strategic partner? And if so, what are they?

15 A I'm afraid I don't have a specific definition that
16 is agreed upon within my organization of what a strategic
17 partner is. It's more in the qualitative sense of someone
18 you believe that you want to have an integrated business
19 relationship with in a qualitative sense, but we haven't
20 actually quantified that in specific terms.

21 Q In what ways does a strategic partner differ from
22 an affiliate?

23 A In this case, we're referring to strategic
24 partners as organizations that are not part of Capital One.
25 So an affiliate is someone that is owned by Capital One. A

1 strategic partners is a standalone company that we work with
2 on an integrated basis.

3 Q Could you please define a, quote, "strategic
4 alliance with other entities," unquote, as you understand
5 that term in the context of your testimony and the proposed
6 negotiated service agreement?

7 A It's my belief that strategic alliance would be an
8 arrangement by which two -- Capital One and that
9 organization agree to go into a business endeavor together
10 for the purpose of creating -- creating -- generating --
11 generating revenues.

12 Q In what way does a strategic alliance with other
13 entities differ from an affiliate?

14 A We own the affiliate. We don't own the other
15 company.

16 Q Okay. In what ways does a strategic alliance with
17 other entities differ from a strategic partner?

18 A For me personally, I think it's semantics. I
19 don't think there is -- I don't believe there is a formal,
20 definitive difference. I think it's possible that strategic
21 alliance might have more formal terms and conditions as part
22 of the business arrangement. For the purposes of my
23 testimony, I wasn't referring to the explicit level of some
24 more formal, structured arrangement.

25 Q Could you give me an example of a strategic

1 alliance with another entity that Capital One services or
2 Capital One Financial currently has in place or currently
3 has in place?

4 A The Lowe's relationship I mentioned, I consider
5 that to be an alliance in that it's a structured, formalized
6 partnership where we do work sharing. In many ways, I would
7 say that the NSA is a terrific example of a strategic
8 alliance that is also a partnership with the Postal Service.
9 Those are both examples of strategic alliances.

10 Q On page 5 of your testimony, you provide before
11 rates projection of Capital One's mail volume for Fiscal
12 Year 2003. How did you estimate this mail volume for Fiscal
13 Year 2003?

14 A These projections are based primarily on looking
15 at historical mail patterns and making assumptions of
16 therefore using that as the basis for making future
17 projections.

18 Q And could you tell me how you took the historical
19 data and projected it into the future?

20 A I'm not able to speak to that in a detailed level,
21 but generally speaking -- and again, I think Mr. Elliott's
22 testimony will give some enlightenment here. But looking at
23 over periods of time what were the mail volumes we were on
24 average delivering for quarterly periods of time and
25 estimating some modest account and asset growth, as we

1 discussed in our SEC filings, and also factoring in things
2 like our goal to leverage electronic return mails.

3 So these are some of the factors we use to make
4 the calculation or the forecast.

5 Q Were you involved in making that forecast?

6 A Not directly, no.

7 Q On page 6 of your testimony, you indicate that 6
8 to 12 percent of Capital One's first class solicitation mail
9 is returned as undeliverable. The data you provided was for
10 2001. Do you have any data yet for return rates for 2002?

11 A I believe we actually listed here the 2002 data,
12 line 7, approximately 9.6 percent, 2002.

13 Q Do you have any updated data for that -- from the
14 time your testimony was filed?

15 A I don't, other than talking to my folks, who say
16 that basically it is still consistent rates.

17 Q On page 4 of your testimony, you state that
18 Capital One expects account growth to slow somewhat, which
19 will moderate growth in first class statement and letter
20 volume. Does this refer to the growth of Capital One Bank?

21 A I prefer again to speak in terms of businesses as
22 opposed to legal entities. This refers to primarily our
23 credit card business.

24 Q All right. So in other words, it does not refer
25 to your auto finance business or your medical loan business?

1 A No. It reflects our entire corporation, all of
2 it. But my point is that it is driven by our largest
3 business, which is our credit card business. But it refers
4 to all of our business at an ingrade level, including
5 international businesses.

6 Q How does your international -- how is your
7 international business relevant to this negotiated service
8 agreement?

9 A I'm sorry. Are you referring -- you were
10 referring to public statements by a company. I was just
11 clarify for you.

12 Q No. I was referring to on page 4 of your
13 testimony you expect that -- you state that Capital One
14 expects account growth to slow somewhat, which will moderate
15 growth in first class statement and letter volume.

16 A Okay. I'm just --

17 Q I was asking you how your -- any slowdown in your
18 international business would have an effect on the growth in
19 first class statement and letter volume.

20 A My apologies. I thought you were referring to
21 Capital One public SEC filing documents. And what I want to
22 just clarify there is that information, when it refers to
23 Capital One, refers to all Capital One businesses. For the
24 purpose of my testimony, you're correct. What we're
25 referring to in terms of NSA is that we're referring to

1 Capital One business that is impacted by -- in the U.S. So
2 I'm sorry. Now ask your question again, please.

3 Q I think you have answered it. Thank you.

4 A Okay.

5 Q When you rent mailing lists, do you rent them for
6 specific number of times you're allowed to use them?

7 A We have various arrangements that we form with
8 third party list providers. Our goal is to do whatever we
9 think is in the best interest of us and them, looking for
10 ways to optimize mutual value creation. So it varies.

11 Q Do you sometimes rent mailing lists for one-time
12 use of that mailing list?

13 A It's certainly possible, yes.

14 Q Now if you get information back from the Postal
15 Service based on a mail piece in one of those mailings, a
16 mailing that is done with a one-time use list, under this
17 negotiated service agreement, you're apparently going to add
18 the information back into your own database. Does that
19 violate one-time rental agreements?

20 A Ask the question again, please.

21 Q If you get information back from the Postal
22 Service as a result of this negotiated service agreement
23 based on a piece of mail that was part of a mailing based on
24 the one-time use of a rented mailing list, and under the
25 negotiated service agreement, you're supposed to add that

1 information back to your own database, my question was would
2 adding that address into your own database violate the terms
3 of a one-time rental agreement?

4 A I think it's an excellent question. The last
5 answer is that someone would have to evaluate further.
6 While I don't believe we make significant use of one-time
7 rentals, it's a good question. I'm not prepared to give you
8 an answer. I know we -- I haven't personally discussed that
9 question with my folks.

10 Q But you have no way at this point of going and
11 segregating out information you get back that is based on
12 mail pieces in a one-time rental mailing list so that it
13 doesn't get added back to your database in violation of any
14 rental agreements, do you?

15 A We -- I have not with my folks thought through the
16 question you're asking. I think it's an excellent question.
17 So I don't believe we have made preparations to deal with
18 that situation.

19 Q Is it your understanding about the negotiated
20 service agreement that there is any guarantee in that
21 document that Capital One Financial or Capital One Services
22 will keep any particular volume of solicitation mail in
23 first class mail?

24 A Again, I don't -- if you'd repeat the question
25 with your wording. I want to make sure I understand your

1 wording.

2 Q Is it your understanding of the negotiated service
3 agreement that there is in that document any guarantee that
4 Capital One Services or Capital One Financial will keep any
5 amount of solicitation mail in first class mail?

6 A Yeah. But what I wanted to make sure was
7 guarantee. The agreement with the Postal Service indicates
8 that if mail volumes are under thresholds, different things
9 will happen. I don't believe there is any, quote unquote,
10 "guarantees." There are stipulations for what will happen
11 if mail volume don't reach certain thresholds. But I don't
12 believe there is any specific guarantees.

13 Q Are there any promises that Capital One Services
14 or Capital One Financial has made to the Postal Service that
15 it will keep any particular volume of solicitation mail
16 being sent by first class mail as a result of the negotiated
17 services agreement?

18 A For solicitation mail?

19 Q Solicitation mail, yes.

20 A Actually, the discussions that we have had with
21 the Postal Service have focused on would we dramatically
22 increase. And what we have told them is that we do not
23 believe this will dramatically increase or decrease first
24 class solicitation volume.

25 Q Is it your understanding of the negotiated service

1 agreement or of any other promises or understandings that
2 you have with the Postal Service as a result of the
3 negotiated service agreement that Capital One Services has
4 made any promises or guarantees about moving some of the
5 solicitation mail that you send by standard mail to first
6 class mail?

7 A We have made no guarantees.

8 Q Do you do more solicitations in standard mail than
9 in first class mail?

10 A Again, in the testimony, we refer to the mail
11 forecasts for next year indicated there are standard mail
12 and first class volumes. You can see that the number for
13 standard mail was, I believe, just under -- was it 965
14 million pieces -- whereas the first class was 768. So you
15 can use those numbers.

16 Q When you're trying to decide whether to send
17 solicitation mail by standard mail or first class mail, what
18 are some of the factors that go into the decision-making
19 process?

20 MR. MAY: Mr. Chairman, I have to object to that
21 question because the answer may be proprietary information.

22 CHAIRMAN OMAS: Would you rephrase your question,
23 please?

24 BY MS. CATLER:

25 Q When you're trying to decide whether mail will be

1 mailed under the negotiated services agreement, what are
2 some of the factors that will determine whether you're going
3 to mail it under the negotiated service agreement or by
4 standard mail?

5 MR. MAY: I renew my objection.

6 CHAIRMAN OMAS: I think if the witness could
7 answer that, we'll allow it.

8 THE WITNESS: I think I could speak to the general
9 -- at the general level, in that there are different
10 features of the first class product versus standard product.
11 You have the forwarding feature. You have the timeliness of
12 delivery feature. You have the return mail feature. And
13 while I can't speak to the specific algorithms and the
14 weightings that we use, those are factors that are
15 considered in deciding between first class, standard, as
16 well as other marketing channels, like the Internet or
17 telemarketing.

18 BY MS. CATLER:

19 Q Now Capital One doesn't do telemarketing. Is that
20 correct?

21 A That's not correct.

22 Q Okay. Do some parts of Capital One not do
23 telemarketing? Am I -- I thought I saw those ads on the
24 television that says Capital One does not do telemarketing.

25 A You've seen the advertisements that we talk about

1 for certain products.

2 Q Ah, okay. Which products do you not do
3 telemarketing for?

4 A I'm afraid I'm not in a position to give you a
5 detailed answer, but we do make use of telemarketing in the
6 U.S. credit card business and the auto loan business, which
7 are two primary businesses in the United States.

8 Q Okay. Is one of the products and services that
9 Capital One Services provides for Capital One Financial and
10 its affiliates telemarketing services?

11 A I believe the answer is yes. We do provide -- we
12 do manage telemarketing service providers for our different
13 business lines.

14 Q Which business lines then do you not do
15 telemarketing for?

16 A I'm afraid I can't answer that question at that
17 specific level. I can tell you that we do at the general
18 level make use of telemarketing. The commercial you're
19 referring to, the Capital One No Hassle Card on TV, that
20 particular product we don't use telemarketing. Other
21 products we do use telemarketing.

22 Q So you're saying -- for example, if you had like
23 the Lowe's Capital One card, which is not the Capital One No
24 Hassles Card, you might get telemarketing calls trying to
25 pitch you additional products or services?

1 A Yeah, it's possible.

2 Q Okay. But only the No Hassle Card has no
3 telemarketing.

4 A I'm not sure if that's the only one, but that is
5 actually honestly the only one I'm aware of where we're
6 looking at that explicit commitment to no telemarketing.

7 Q Okay. For that one product, or for any other
8 products for which you do not do telemarketing, are the
9 pitches for additional services that in other situations
10 would be done by telemarketing -- those pitches are still
11 made to current customers, but by other means. Isn't that
12 right?

13 A We offer products and services to existing Capital
14 One customers through a variety of channels. Statements is
15 an example. It's a terrific channel for providing other
16 offers, offers to our customers. But, yeah, we do use
17 multiple channels.

18 Q All right. And certainly, if you're sending a
19 statement, that needs to go by first class mail.

20 A That's correct. We also make offers through if
21 customers call in customer service, doing cross sales
22 through even our VRU system or --

23 Q Excuse me. What is a VRU system?

24 A Voice response. You'd say push the buttons on the
25 telephone, those wonderful things.

1 Q Yes.

2 A Those are channels for cross sales, or live
3 service reps are other channels for cross sale products.

4 Q When you send standalone mail to current
5 customers, not as part of a statement, but to try to cross
6 sell them various services, is that counted as customer mail
7 or solicitation mail?

8 A The way we have defined it is that would be
9 customer mail. It is mailing to a customer. You may be
10 soliciting for a product or service, but that's to a
11 customer as opposed to a prospect.

12 Q Is it possible that that mail will go either first
13 class or standard?

14 A Yeah, it's possible.

15 Q All right. On page 5 of your testimony, you
16 provide a before rates projection of Capital One's mail
17 volume at Fiscal Year 2003. In your testimony, you indicate
18 that these projections were based on estimates made by
19 business managers. You have identified five affiliates of
20 Capital One Services. Did you speak to business managers,
21 or did someone under your direction and control speak to
22 business managers, of all five of those businesses in order
23 to make the projections of Capital One's mail volume that
24 are on page 5 of your testimony?

25 A I didn't personally speak to any business manager

1 about these mail volume projections. Members of my team did
2 speak to members of our team. I don't know how many. I
3 don't know whom. I do know that they believe that we have
4 put together our best estimate for mail volumes for 2003.

5 Q Well, do you know if they spoke to anybody
6 connected to Capital One Bank or Capital One FSB?

7 A To anyone?

8 Q Yes, someone connected to them, a business
9 manager --

10 A Yes.

11 Q -- connected to those two entities.

12 A I don't know how many, but I know they spoke to
13 some of our business managers, yes.

14 Q Is it your understanding that a business manager
15 connected to Capital One Auto Finance was spoken to in order
16 to determine the mail volumes that were on page 5 of your
17 testimony?

18 A I didn't ask that question that way to my folks.
19 I asked it do we believe we have our best business forecast
20 for mail volumes for 2003 using available information, and
21 the answer was yes.

22 Q And so you really don't know how they got those
23 numbers.

24 A I don't know the specifics, no.

25 Q Is it part of your, you know, sort of standard

1 budgeting or planning process to inquire on a regular basis
2 about upcoming proposed amounts of mail that is going to be
3 sent?

4 A No. Actually, as I said in the testimony, we
5 actually don't do longer term projections of mail. We don't
6 actually deem it to be an activity that is particular
7 relevant, given that business conditions change so much. We
8 think about -- we make projections more in terms of six
9 months or less. And again, we think about it in a more
10 integrated, multichannel perspective.

11 Q So in other words, to ask people, these companies,
12 for a longer term projection was an unusual thing for your
13 company to be doing.

14 A We haven't done it before. That's correct.

15 Q Do you have any idea what -- how they were asked
16 to go and make these estimates for up to a year in advance
17 of mailing that they anticipated?

18 A I'm afraid I don't.

19 Q You don't know if there was any standard questions
20 that were asked of everybody or survey instrument or form
21 that was filled out or anything like that?

22 A No. And I'm not trying to be evasive here at all.
23 Basically, we believe we have very talented people who know
24 their businesses, and we give them some leeway in terms of
25 making their best business evaluations and give them some

1 time to do that.

2 Q All right. Does the content of solicitation sent
3 by first class mail vary from the content of those sent by
4 standard mail, such as including more individualized
5 information?

6 A No, not necessarily.

7 Q What factors determine if Capital One uses first
8 class or standard mail to send its solicitations?

9 MR. MAY: Mr. Chairman, that has been asked and
10 answered, to the extent that it doesn't invade proprietary
11 information. The witness has answered the question from
12 counsel already.

13 CHAIRMAN OMAS: All right. Maybe one more time,
14 and then we'll go on, Ms. Catler.

15 THE WITNESS: Okay. Again, we evaluate price
16 because, obviously, there is a different price for first or
17 standard. But with that incremental price for first class,
18 you have other features: deliverability, forwarding, and
19 returns in particular. So we evaluate that relative to
20 standard, and then we also evaluate other channels such as
21 telemarketing and the Internet.

22 MS. CATLER: Thank you. I have no further
23 questions at this time.

24 CHAIRMAN OMAS: Thank you. Does anyone else wish
25 to cross-examine this witness?

1 (No audible response)

2 CHAIRMAN OMAS: Is there any follow-up questions
3 or any questions from the bench? Commissioner Hammond.

4 COMMISSIONER HAMMOND: Well, I did have some
5 questions along the line of use of rental list. But I know
6 you have already responded basically to the earlier
7 questions that you really don't have an answer. Let me try
8 briefly to ask in just a little different manner to see if
9 it might work.

10 Can you tell me what would be the value to Capital
11 One getting a return back from a name on a rental list that
12 you did not plan to mail to again, whether it's electronic
13 or physical return?

14 THE WITNESS: Let me see if I can rephrase. Are
15 you saying what is the value of receiving a new forward
16 address information?

17 COMMISSIONER HAMMOND: No, not a new forward
18 address. When -- if you're using a rental list, and you get
19 the return back because it is a bad address, what value is
20 it to you if you're not -- it's a rental list. It's not
21 part of your house file with known customers. You have made
22 a prospect mailing, and you have done it from a rented list.
23 You're planning on one-time use of that rental list. So
24 what value is it to you if you get the return back
25 electronically, physically, or any way? What do you do with

1 that record that you get back?

2 THE WITNESS: Well, to answer your question, to
3 the extent that we have actually determined definitively
4 that we would not mail that prospect again, I would see very
5 little if any value to that information that we received
6 from the Postal Service.

7 COMMISSIONER HAMMOND: Okay. And just one other
8 quick question which came up during the answers. Capital
9 One does not plan on violating any rental list agreement as
10 a result of this potential NSA. Would that be a fair
11 statement?

12 THE WITNESS: Capital One has absolutely no
13 intention of violating any rental list agreement, you know,
14 now or in the future, NSA or no NSA.

15 COMMISSIONER HAMMOND: Okay. All right. Thank
16 you. All I was needing to know.

17 CHAIRMAN OMAS: Mr. Covington.

18 VICE CHAIRMAN COVINGTON: Good morning, Mr. Jean.
19 I had a few general questions, and I wanted to follow up
20 with a question that Ms. Catler poised to you a little bit
21 earlier in her cross-examination. I looked, and I noticed
22 where your Richmond production site is -- I guess was
23 certified under the mail preparation total quality
24 management program, and probably was one of the first in
25 your field. Specifically, what year was that when that

1 MPTQM designation was granted to your company?

2 THE WITNESS: I know it was recent. I don't know
3 if it was this year or last year, but it certainly was
4 recent.

5 VICE CHAIRMAN COVINGTON: Okay. So it's fairly
6 new.

7 THE WITNESS: Yes, sir.

8 VICE CHAIRMAN COVINGTON: Okay. And I noticed
9 that with your Seattle facility that you stated in your
10 testimony -- I think you responded to some questions that
11 were posed to you that you're looking at December 2003 as
12 to having the Seattle facility granted the same
13 certification. All right. And I want to know will you
14 still seek that certification regardless of the outcome of
15 this case?

16 THE WITNESS: That's my understanding, absolutely,
17 that we will pursue that.

18 VICE CHAIRMAN COVINGTON: Okay. Now in your
19 testimony, Mr. Jean, you did a good job of pointing out the
20 pluses and the upside to Capital One and to the Postal
21 Service if this mail classification is approved. And I
22 wanted to know, you specifically stated there were going to
23 be benefits to this proposal as far as other postal
24 stakeholders.

25 So I'd like to know who these other postal

1 stakeholders are. Are you talking about letter shops, which
2 would be a part of your business anyway? But specifically,
3 what benefit will other postal stakeholders get if this mail
4 classification is granted?

5 THE WITNESS: What I was referring to is the idea
6 that if Capital One can work with the Postal Service to help
7 make the Postal Service more efficient, any stakeholder of
8 the Postal Service in the end benefits from that result.
9 So, you know, everyone, including those of us in this room,
10 if we actually have a more efficient postal service, benefit
11 in some way from that arrangement.

12 VICE CHAIRMAN COVINGTON: Okay. So you're talking
13 about industry.

14 THE WITNESS: I'm speaking very broadly at key
15 stakeholders of the Postal Service. So I think as
16 taxpayers, if this agreement can help make the Postal
17 Service more efficient, then we as taxpayers benefit from
18 that, which is why also Capital One is incredibly supportive
19 of the Postal Service pursuing other NSA arrangements with
20 other providers that can bring unique arrangements to the
21 Postal Service.

22 VICE CHAIRMAN COVINGTON: Okay. Now you raised,
23 Mr. Jean, a very, very prominent factor that is an
24 underlying key to your success at Capital One, and that's --
25 do you remember mentioning mobility of the addressees?

1 THE WITNESS: In the testimony? Yes.

2 VICE CHAIRMAN COVINGTON: Okay. Now are you in a
3 position to answer this question for me? Why does Capital
4 One not forecast return mail rates?

5 THE WITNESS: I think I can answer that question.
6 It's not an activity that we have deemed to be particularly
7 useful, meaningful in our overall business process.

8 VICE CHAIRMAN COVINGTON: Okay. Well, then under
9 this proposal, this mail classification, do you see a need
10 to start? And if so, why, and if not, why not?

11 THE WITNESS: There are requirements in terms of
12 postal tracking, which I can't speak to at a detailed level.
13 But generally speaking, our level of tracking and rigor
14 around postal delivery will go up under the terms of the
15 NSA.

16 VICE CHAIRMAN COVINGTON: Okay. And so that means
17 will go up, you mean increase.

18 THE WITNESS: Increase, yes.

19 VICE CHAIRMAN COVINGTON: Okay. Now Ms. Catler
20 asked you an interesting question with regards to the test
21 year before rate volume as far as forecasting was concerned.
22 I think she asked you what supporting documentation did you
23 use, and you more or less responded SEC filings and et
24 cetera and so forth. And I think you also mentioned
25 historical trends, which I think that we may have to rely on

1 witness Elliott to expound on.

2 But lengthwise, do you know as far as historical
3 trends how far back did you go, period in time?

4 THE WITNESS: How far back did we go when creating
5 our forecast for 2003 mail volumes?

6 VICE CHAIRMAN COVINGTON: That's correct.

7 THE WITNESS: I don't know specifically. I
8 believe we went back several years. I know my -- and our
9 folks are familiar with Mr. Elliott's testimony and the data
10 that he used. So certainly as far back as that information
11 we used.

12 VICE CHAIRMAN COVINGTON: Okay. Now you know that
13 there are some broad policy issues just associated with this
14 classification question. Well, first of all, the negotiated
15 service agreement as a whole, what is going -- how address
16 correction is going to affect you and the way you are going
17 to deal with that arrangement as far as, you know, declining
18 block discounts and so forth.

19 Now in your professional opinion, Mr. Jean, do you
20 agree that it is appropriate that you look at the impact of
21 all of these policy issues over the duration of this
22 experiment, as opposed to only during the test year?

23 THE WITNESS: I believe that Capital One and the
24 Postal Service need to continually evaluate how the
25 agreement is performing over the three-year period. So I

1 believe the answer is absolutely yes.

2 VICE CHAIRMAN COVINGTON: Okay. So in other
3 words, you agree that you need to go beyond the test year as
4 far as looking at --

5 THE WITNESS: Yeah. The first year was given as a
6 threshold, but we certainly hope that we go past that
7 threshold for the full three years. But even if we do so,
8 we need to certainly evaluate all information available for
9 the full three years.

10 VICE CHAIRMAN COVINGTON: Okay. I like that
11 response. Now you have stated in your testimony that
12 Capital One and the United States Postal Service will
13 jointly develop -- let me see. I think your correct term
14 was an audit process, will jointly develop an audit process
15 to ensure, basically, that your records are updating
16 appropriately with the electronic address correction system
17 information.

18 Now as far as this audit process, explain to me
19 what that means. When will this actually be done, and where
20 in the process of the NSA can we expect it to be initiated?
21 First of all, tell me what the audit process is going to be.

22 THE WITNESS: It's my understanding at the general
23 level that we need to ensure that the information is indeed
24 updated into our database within two days, as specified, and
25 that it is systematically in an appropriate format agreed

1 upon by Capital One and the USPS. I'm not sure what that
2 specific format is, but it certainly needs to be agreed upon
3 by both parties.

4 I think that's the primary intention of the audit,
5 that it's done in a timely manner, and the quality of it is
6 acceptable to both parties.

7 VICE CHAIRMAN COVINGTON: Beginning immediately?

8 THE WITNESS: It's a condition for the NSA to
9 begin. We must be prepared to do so.

10 VICE CHAIRMAN COVINGTON: Okay. Have you looked
11 at who or what from an organizational standpoint of view
12 what -- I guess it would be what faction of the Postal
13 Service will be involved in doing this audit process with
14 you. I know it's going to be an operational issue.

15 THE WITNESS: Right. I personally have not, but
16 members of my team have certainly had detailed discussions
17 with members of the Postal Service to determine how the
18 process will work, who will do it, what is acceptable
19 conditions during the audit, that type of thing.

20 VICE CHAIRMAN COVINGTON: Okay. All right. Thank
21 you, witness Jean. I have no more questions, Mr. Chairman.

22 CHAIRMAN OMAS: Commissioner Goldway.

23 COMMISSIONER GOLDWAY: I believe in your last set
24 of questions that you were asked whether in the negotiations
25 with the USPS you had made any guarantees that you would

1 increase first class mail as a result of being offered these
2 declining block discounts, and you said no, you had not made
3 any guarantees.

4 THE WITNESS: That's correct.

5 COMMISSIONER GOLDWAY: And you also said that you
6 had not made any guarantees with regard to what you would do
7 or not do with regard to shifting standard mail usage.

8 THE WITNESS: That's correct.

9 COMMISSIONER GOLDWAY: If there are no guarantees
10 for the Postal Service to increase volume, what is the
11 efficiency that the Postal Service gets from this agreement
12 with you?

13 THE WITNESS: We have told the Postal Service that
14 it is our expectation that mail volumes going forward will
15 be consistent with historical patterns, with perhaps modest
16 growth. While I'm not willing to guarantee that, I am
17 confident that they will be consistent. But more
18 importantly, the Postal Service benefits from the fact that
19 any return mail which today is handled -- solicitation mail
20 is sent to us physically now may be sent electronically at a
21 substantial savings to the Postal Service.

22 COMMISSIONER GOLDWAY: So to the extent there is a
23 clear gain in efficiency for the Postal Service, it's with
24 regard to handling undeliverable-as-addressed mail or
25 forwarding address mail. That's where the real efficiencies

1 are in this agreement.

2 THE WITNESS: I believe the primary benefit is a
3 shift from having to handle the mail -- return the mail
4 physically to us to actually being able to do it
5 electronically. I do believe that the Postal Service has a
6 secondary benefit by providing us with this block discount
7 to stimulate mail growth because I actually believe that if
8 the Postal Service can encourage us to leverage first class
9 mail over other channels, that is actually more business for
10 them. If they are able to get more business, that's more
11 revenue, more contribution margin.

12 COMMISSIONER GOLDWAY: The declining block volumes
13 that you were negotiating, you said they were based on what
14 is your anticipation for growth anyway.

15 THE WITNESS: The declining block discounts were
16 negotiated -- this may sound very simple, but what we
17 negotiated, they are based on the agreement that we reached
18 with the Postal Service, based on multiple factors.

19 COMMISSIONER GOLDWAY: Okay. Thank you for your
20 answers.

21 CHAIRMAN OMAS: Mr. May.

22 (No audible response)

23 CHAIRMAN OMAS: Is there anyone else who wishes to
24 cross-examine? Mr. Costich.

25 BY MR. COSTICH:

1 Q If I could just follow up on some of Commissioner
2 Covington's questions. Mr. Jean, you have been asked some
3 questions about Capital One's use of rental lists. Do you
4 know if the volume estimate for solicitation mailings, this
5 768 million, includes volume that would have come from
6 rented lists?

7 A There is no reason for me to believe that we would
8 make any different assumptions going forward than in the
9 past, and we certainly have made some use. I'm not prepared
10 to give a specific percentage of what percent of our mail is
11 third-party list versus other sources. But there is no
12 reason for me to believe that we didn't anticipate making,
13 you know, continued use of third party lists.

14 Q When you do use rented lists, do you keep them
15 separate from your inhouse solicitation file?

16 A Keep them separate? I'm afraid I can't speak to
17 the actual mechanics of how it is. We certainly -- to
18 whatever terms and conditions we must follow in order to use
19 the list, we meet our list providers' requirements in terms
20 of tracking of usage of the list. In terms of how
21 technologically the data is captured inhouse, I can't speak
22 to that. But we do meet all requirements in terms of list
23 usage.

24 Q Do you run rental lists against the information
25 that you get from your vendor who processes your returns?

1 A As I discussed previously, as we are doing our
2 solicitation address hygiene, that information from the
3 third party service provider is used as part of that
4 process. So to the extent that we actually will use a third
5 party list for a campaign, that would be part of that
6 process as well.

7 Q I think you indicated that if you rented a list
8 for one-time use, you wouldn't make any corrections to that
9 list. Is that correct?

10 A We would -- it is not our responsibility to
11 provide information back to list providers about the --
12 about their list.

13 Q And you don't attempt to sell them that kind of
14 information?

15 A No. Capital One does not currently sell any of
16 its lists, its database information.

17 Q Would it also be the case that if you rented a
18 list for a fixed number of uses, that when you used it for
19 the last time there would be no benefit to Capital One from
20 any information that you got back from the Postal Service
21 concerning that list?

22 A To the extent we made a decision definitively that
23 we wouldn't use that list again, I wouldn't see value from
24 that -- any information that would come in from that last --
25 after that last mailing.

1 Q Do you rent lists on that basis, a fixed number of
2 uses?

3 A We have a wide variety of arrangements that we
4 have. As one of the largest mailers in the United States,
5 we're a key business partner with list providers, so we
6 negotiate a variety of arrangements with them.

7 Q That one is possible then?

8 A Absolutely.

9 Q Negotiating a use of a list for a fixed amount of
10 time, is that a possibility?

11 A Everything from one time to all you can eat, if
12 you want to use that very colloquial term.

13 Q Well, if you rented a list on that basis, wouldn't
14 you just integrate it into your inhouse database?

15 A Again, from a technological, mechanic standpoint,
16 I'm not sure how it would work. We would -- sorry. Perhaps
17 -- if I could answer your question further, but
18 mechanically, I'm not sure how it would work. Are you
19 trying to get -- to add something else?

20 Q Just that if you rented a list on that basis,
21 there really wouldn't be any difference between that list
22 and your inhouse database in terms of how you could use it.

23 A That would be correct. There might be some time
24 duration, so for the purpose of that time duration, that
25 information we have access to in using, and we have rights

1 to it. So yes, it's in some ways -- I can say that it's
2 similar to being our own information for that period of
3 time.

4 Q But if we can sum up, if you do rent a list, and
5 then decide that this is the last time that you're going to
6 use it, then any information that you got back from the
7 Postal Service concerning that last use would be of no value
8 to Capital One.

9 A At this particular time, I can't see how it would
10 be valuable. But the point I'd like to make here is that we
11 are talking about pretty new, groundbreaking stuff. There
12 is no mailer that I'm aware of that actually receives
13 forwarding information at this level from the Postal
14 Service, so this is new stuff. So these issues are new
15 issues to grapple with. So I certainly welcome the
16 opportunity to think about this more and evaluate it more
17 internally. But at this particular time, no, I'm not sure
18 that at this particular time I'd see the value if we
19 definitively decided not to do a future mailing.

20 Q And you can't estimate how much volume that might
21 represent?

22 A What would represent?

23 Q Any decision not to use a list in the future.

24 A I'm not sure what percentage that would represent
25 of our prospect mailings, no.

1 MR. COSTICH: Thank you. I have no further
2 questions.

3 CHAIRMAN OMAS: Thank you, Mr. Costich. Mr. Jean,
4 I have one question. Will this NSA, if it is granted, give
5 Capital One an advantage over other banks?

6 THE WITNESS: We have discussed that question at
7 some length within my team. I don't believe it gives us a,
8 quote unquote, "advantage." I believe this creates a win
9 for the Postal Service and a win for us in that we have a
10 better situation than we did before. There are many, many
11 factors in business, and the direct marketing business, and
12 there are others that have other competitive advantages that
13 we don't.

14 This does give us a pricing structure that can be
15 competitive. Yet we welcome any other mailer who match the
16 conditions of our NSA to receive the same benefits. If they
17 choose to mail the solicitations volumes we're talking
18 about, we welcome them to be part of the same terms,
19 conditions, and benefits.

20 CHAIRMAN OMAS: Thank you. Mr. May, would you
21 like some time with your witness?

22 MR. MAY: Yes. Thanks, Mr. Chairman.

23 CHAIRMAN OMAS: Well, with that, we'll take our
24 midmorning break.

25 MR. MAY: Thank you.

1 CHAIRMAN OMAS: Or late morning break, whichever.

2 MR. MAY: Thank you.

3 CHAIRMAN OMAS: Let's say we come back in about 10
4 minutes.

5 MR. MAY: Fine. Thank you.

6 CHAIRMAN OMAS: Is that enough time?

7 MR. MAY: That's fine.

8 CHAIRMAN OMAS: Thank you.

9 (Recess)

10 CHAIRMAN OMAS: Mr. May.

11 MR. MAY: Thank you, Mr. Chairman. Just a few
12 questions on redirect.

13 REDIRECT EXAMINATION

14 BY MR. MAY:

15 Q Mr. Jean, Commissioner Hammond and others asked
16 you about what will happen in the instance of the rental
17 lists that you have used, so when corrections come back, and
18 with the particular example of a deal where you would have a
19 one-time use under your rental agreement, and the suggestion
20 that that might violate the agreement with the rental
21 agreement if you were to record that information.

22 You have now had the chance to talk to your staff.
23 Do you wish to correct the record on what your previous
24 testimony was?

25 A I do. It's good to have a smart staff. They have

1 clarified for me that today, under the -- you know, no NSA
2 -- when we receive returned mail information, that
3 information is ours. We have rights to that. So with or
4 without the NSA, we have rights to that updated information
5 and make use of it as we see fit. That does not violate the
6 terms of the agreement with our list providers.

7 Q Well, and you were asked about whether it would
8 have any value to you if you were only having a one-time
9 usage of that. Would it have value to you even if it were
10 only a one-time usage of that rent?

11 A To the extent that we would potentially evaluate
12 that mail to that prospect again, yes. What I was referring
13 to is we actually made a decision never to mail to that
14 prospect, it would not have value. To the extent that we
15 would actually potentially consider mailing that prospect at
16 a different address, that is valuable because if we still
17 would consider that prospect, but get new list information,
18 the fact that we would know that the address was, quote
19 unquote, "undeliverable," is certainly valuable.

20 Q Does that mean that you would -- that you rented
21 another list at some time, and that name were on it, that
22 your information base would be able to correct that new
23 list?

24 A We would have that information. Again, we would
25 use that as part of our evaluation process for future

1 solicitations. But there would be value in our algorithm of
2 having that information, that it was either -- it was
3 returned as undeliverable in that evaluation process. There
4 would be value in that.

5 Q Thank you. And you were asked about the value of
6 this deal to stakeholders, and you were asked about, well,
7 who are these stakeholders, and I believe you talked about
8 the mailers in general would be value. Were you just --
9 were you talking about large mailers, or --

10 A No. I just spoke very broadly. To the extent
11 that this agreement does in fact generate additional mail
12 volume from Capital One, I think the Postal Service benefits
13 top to bottom, not only from management, but also the postal
14 workers themselves because more business, more volume, more
15 jobs. So I see a broad base of constituents that would
16 benefit here.

17 Q Now Commissioner Covington asked you about the
18 value and necessity of monitoring the various performances
19 in this agreement over a three-year period. And I believe
20 you said that, yes, you thought it was important that
21 Capital One and the Postal Service would monitor the
22 developments, not just in the first year, the test year, but
23 in the out years.

24 You did not testify, did you, that you thought
25 that the Commission needed now estimates of three years of

1 performance in order to approve this agreement?

2 A Oh, absolutely not. What I was saying is that we
3 have negotiated a three-year arrangement, and I believe that
4 the Postal Service and Capital One should look at the
5 performance of the arrangement over the three-year period
6 and evaluate that for future arrangements. I was speaking
7 only to future arrangements, not to the approval of this
8 arrangement.

9 Q Now also, Commissioner Goldway was asking you
10 about the -- just what are the values or efficiencies to the
11 Postal Service from giving you declining block rates for
12 volumes perhaps that you already expect to mail, at least in
13 the first year. And your response, I believe, was that,
14 well, this was -- indeed, the principal value was the fact
15 that the Postal Service no longer had to return physically
16 these nixies.

17 But isn't it the case that you also are facing a
18 million dollar penalty if you fail to mail 750 million
19 pieces of first class mail?

20 A Yeah. I wasn't explicit about that, but my point
21 was that there are terms, there are provisions within the
22 agreement that if Capital One doesn't deliver certain mail
23 volumes, that the Postal Service will receive the greater of
24 -- you know, the million dollars or whatever the cost of
25 ACS, as an example. So, yeah, there are a number of

1 provisions to protect the Postal Service.

2 Q And you also, I believe, agree to list cleansing
3 requirements that will assist not only you, but the Postal
4 Service.

5 A Yes, that's correct.

6 Q I mean, is it also your testimony that this was a
7 package deal that you negotiated with the Postal Service?

8 A Could you elaborate a bit?

9 Q Well, that there is a whole variety of terms in
10 this agreement.

11 A Yeah. This is one integrated negotiated agreement
12 with the Postal Service. This is not, you know, decompress
13 one element versus the other. This is all together, one
14 integrated agreement.

15 Q So would you be able to take any one part of this
16 agreement and say, yeah, that's the agreement?

17 A No. That's not what we negotiated. So to do that
18 would actually take us back virtually to the beginning.

19 MR. MAY: That's all, Mr. Chairman.

20 CHAIRMAN OMAS: All right. Are there any follow-
21 up questions as a result of redirect?

22 (No audible response)

23 CHAIRMAN OMAS: There being none, Mr. Jean, that
24 completes your testimony here today. And we appreciate your
25 appearance and your contributions to our records.

1 THE WITNESS: Thank you very much.

2 CHAIRMAN OMAS: Thank you, and you are now
3 excused.

4 (Witness excused)

5 CHAIRMAN OMAS: Mr. May.

6 MR. MAY: Dr. Stuart Elliott, please.

7 Whereupon,

8 STUART ELLIOTT

9 having been duly sworn, was called as a witness
10 and was examined and testified as follows:

11 CHAIRMAN OMAS: Please be seated.

12 DIRECT EXAMINATION

13 MR. MAY: Dr. Elliott, I'm going to hand you two
14 copies of a document captioned, "Direct Testimony of Stuart
15 Elliott on Behalf of Capital One Services, Inc., COF-T-2."
16 I ask you to examine these documents and see whether that is
17 the testimony that you prepared for this proceeding.

18 (The document referred to was
19 marked for identification as
20 Exhibit COF-T-2.)_

21 THE WITNESS: It is.

22 BY MR. MAY:

23 Q And if you were to testify fully today, this would
24 be your testimony?

25 A Yes, it would.

1 Q And just for the record, this testimony does
2 include revisions that were made to your testimony. So this
3 is the revised version, is it not?

4 A That is correct.

5 MR. MAY: Chairman, I am going to hand two copies
6 of the document to the reporter. I ask that it be
7 transcribed in the record and admitted into evidence.

8 CHAIRMAN OMAS: Is there any objection?

9 (No audible response)

10 CHAIRMAN OMAS: Hearing none, I will direct
11 counsel to provide the reporter with two copies of corrected
12 direct testimony of Stuart Elliott. The testimony is
13 received, and is to be transcribed into evidence.

14 (The document referred to,
15 previously marked for
16 identification as Exhibit COF-
17 T-2, was received in
18 evidence.)

19 //

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**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001**

**EXPERIMENTAL CHANGES TO
IMPLEMENT CAPITAL ONE NSA**

DOCKET No. MC2002-2

**DIRECT TESTIMONY
OF
STUART ELLIOTT
ON BEHALF OF
CAPITAL ONE SERVICES, INC**

**TIMOTHY J. MAY
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Counsel for Capital One Services, Inc.

September 19, 2002

Volume Testimony1
2
3**4 Autobiographical Sketch**

5

6 My name is Stuart W. Elliott. I am a Vice President at SLS Consulting, a
7 consulting firm located in Washington, DC. SLS specializes in economic,
8 operational and environmental analyses on behalf of the mailing community. I
9 have a B.A. in Economics from Columbia University and a Ph.D. in Economics
10 from the Massachusetts Institute of Technology. After my formal education, I
11 was a Research Fellow at Carnegie Mellon University, a Senior Analyst at
12 Project Performance Corporation (PPC), and a Senior Associate at
13 PricewaterhouseCoopers. While at PPC, I presented testimony in Docket No.
14 R2000-1 on behalf of the National Newspaper Association, the Recording
15 Industry Association of America, and Magazine Publishers of America.

16

17 1. Purpose and Scope of Testimony

18

19 The purpose of this testimony is twofold. First, the testimony briefly
20 reviews Capital One's projections of before-rates mail volumes and places those
21 projections in context for the Company. Second, the testimony derives after-
22 rates mail volume projections.

23

1 **2. Capital One's mail volume forecast represents a continuation of historical**
2 **levels of solicitation, with a reduced growth rate for customer mail. For**
3 **First-Class Mail solicitations, the continuation of historical levels of mail**
4 **volume contrasts with an eight-month period of unusually high mail**
5 **volume, from October 2001 to May 2002.**

6
7 Capital One has provided mail volume projections for FY 2003 in its testimony for
8 the types of mail covered by the terms of the Negotiated Service Agreement (NSA).

9 These projections are reproduced in Exhibit 1 for reference. Exhibit 2 shows the
10 Company's mail volumes for the same types of mail from October 1999 to September
11 2002.

12 For Standard Mail solicitations, the data in Exhibit 2 show a high level of month-
13 to-month variation. For these solicitations, the graph in Exhibit 3 shows that the
14 average level of solicitations increased during FY 2000, but has been roughly constant
15 at 79 million pieces per month for the past two years.

16 For First-Class Mail solicitations, the data in Exhibit 2 also show a high level of
17 month-to-month variation. The graph of this mail volume in Exhibit 4 makes it clear that
18 First-Class Mail solicitation volume has averaged about 63 million per month from
19 October 1999 to July 2002, except for the period from October 2001 to May 2002, when
20 it averaged about 112 million.

21 For FY 2003, Capital One's projection of 768 million pieces of First-Class Mail
22 solicitation implies an average of 64 million pieces monthly. This represents a
23 continuation of the Company's historical rate of First-Class Mail solicitation that

1 has been in force for the past three years with the exception of the anomalous eight-
2 month period from October 2001 to May 2002.

3 For customer mail, the data in Exhibit 2 show a steady growth in mail volumes
4 since October 1999. This growth is shown graphically in Exhibit 5. Over this period, the
5 Company's customer mail grew at an annual rate of 32 percent.

6 The projected continuation of historical levels of solicitation with a higher account
7 base implies that annual account growth will be slower during FY 2003 than it has been
8 in recent years. Slower account growth implies in turn slower growth in customer mail
9 volume. For FY 2003, Capital One projects that there will be approximately 640 million
10 pieces of customer mail. This represents an annual increase of 9.8 percent over the
11 estimated 583 million pieces of customer mail that the Company will send in FY 2002.¹

12

13 **3. The increase in First-Class Mail solicitations during the eight-month period**
14 **from October 2001 to May 2002 was due to the unique, anomalous post-**
15 **9/11 environment. This increase was reversed by June 2002.**

16

17 The historical volume data show a large increase in First-Class Mail solicitations
18 in October 2001, followed by an equally large decrease starting in June 2002.

19 The eight-month increase in First-Class Mail solicitation pieces that took place
20 from October 2001 until May 2002 was a temporary deviation from the

21

22

¹ This estimate of FY2002 customer mail volume omits a one-time mailing of 41,588,388 pieces of customer mail in October and November 2001 related to a new arbitration provision in the contract between Capital One and its customers.

1 Company's historical level of First-Class Mail solicitation. The Company's
2 testimony explains this temporary increase in First-Class Mail solicitation
3 mailings as a result of "the unique market and environmental conditions in the
4 post-9/11 period, including the anthrax attacks."

5

6 **4. Capital One's mail forecast for FY 2003 clearly follows the outlines of**
7 **the Company's corporate strategy.**

8

9 In July 2002, Capital One announced its strategy involving a reduced level
10 of asset and account growth relative to the growth of the last two years.

11 The reduced level of asset growth involves a target annual growth rate of
12 20-25 percent during the second half of 2002 and during 2003 (8-K, July 16,
13 2002, p. 5-6). The Company expects account growth to be lower than projected
14 asset growth: "Account growth is expected to be modest in the second half of
15 2002, and somewhat higher in 2003" (8-K, July 16, 2002, p.6). Since it is
16 reasonable to expect that the level of customer mail volume is closely related to
17 the number of accounts, the projected customer mail growth of 9.8 percent in FY
18 2003 indicates that the projection is consistent with the strategy's announced
19 slowdown in account growth.

20 Since the levels of solicitation and customer mail projected by Capital One
21 for FY 2003 follow the Company's announced strategy, those projections are a
22 reasonable estimate of the Company's mail volumes.

23

1 **5. Capital One's price response can be estimated by using price**
2 **elasticities measured by the Postal Service.**
3

4 The Postal Service measures price elasticities of -0.071 for workshared
5 First-Class letters and -0.388 for Standard Mail (R2001-1, USPST-7 at 51 and 99).

6 Exhibits 6 and 7 use the Postal Service price elasticities to project a range
7 of mail volume responses to the NSA price discounts. The range is obtained by
8 calculating the price response in two different ways. Exhibit 6 shows the results
9 of the first method, which applies the Postal Service's price elasticity for work-
10 shared First-Class Mail letters to Capital One's forecasts of First-Class Mail.

11 Exhibit 7 shows the results of the second method, which decomposes the
12 Company's First-Class Mail into its solicitation and customer mail portions,
13 applies the Postal Service's Standard Mail elasticity to the solicitation mail, and
14 then estimates new customer mail volume from the increase in accounts that will
15 result from these new solicitations. These two estimates imply a range of 15-53
16 million for the after-rates increase in First-Class Mail.

**Exhibit 1: Capital One's Projection of FY 2003 Before-Rates
First-Class Mail Volume**

Type	First-Class Mail Volume
Solicitations	768,000,000
Customer Mail	640,000,000
Total	1,408,000,000

Source: Capital One testimony.

Exhibit 2: Capital One Volume of Customer Mail and Solicitations: October 1999 to September 2002

Month	Customer Mail	First-Class Mail Solicitations	Standard Mail Solicitations
Oct-99	23,753,037	78,771,652	30,248,391
Nov-99	24,924,804	99,036,307	15,345,511
Dec-99	28,323,271	56,759,404	7,921,155
Jan-00	25,733,873	90,404,633	56,792,786
Feb-00	24,438,019	35,453,537	34,437,081
Mar-00	27,320,181	53,057,033	39,614,873
Apr-00	29,480,138	38,846,756	28,331,357
May-00	30,351,077	53,642,857	50,397,191
Jun-00	30,470,815	82,813,549	55,393,585
Jul-00	30,068,221	63,641,402	47,904,323
Aug-00	32,449,688	48,333,024	66,828,624
Sep-00	31,289,392	52,860,401	105,033,143
Oct-00	35,458,669	36,680,749	119,564,729
Nov-00	36,222,564	69,978,222	82,909,126
Dec-00	38,333,630	69,555,071	32,121,903
Jan-01	37,538,604	71,609,132	94,006,455
Feb-01	37,228,200	67,678,601	73,448,261
Mar-01	40,595,396	79,707,394	85,245,080
Apr-01	39,584,216	53,734,153	93,752,823
May-01	39,613,572	68,816,452	94,422,524
Jun-01	40,094,283	50,499,839	63,251,136
Jul-01	43,936,373	77,390,674	70,807,874
Aug-01	41,780,602	61,920,684	101,295,653
Sep-01	40,206,176	81,359,208	69,564,731
Oct-01	46,379,476	109,959,062	88,010,149
Nov-01	42,756,595	123,429,831	88,765,050
Dec-01	49,050,084	114,868,000	25,136,785
Jan-02	49,347,570	111,473,290	105,436,265
Feb-02	46,416,492	97,894,068	83,400,395
Mar-02	50,472,716	118,835,045	86,376,653
Apr-02	50,248,542	98,176,516	97,144,193
May-02	51,306,612	121,404,738	76,604,133
Jun-02	48,162,673	56,909,685	54,916,252
Jul-02	48,732,181	36,351,765	41,894,720
Aug-02	50,000,000	43,000,000	
Sep-02	50,000,000	64,000,000	

Note: August and September 2002 are estimates

Note: Customer Mail figures for October and November 2001 omit mail volume for a one-time mailing related to a new arbitration provision in the contract between Capital One and its customers; the omitted mail volume is 7,297,059 for October 2001 and 34,291,329 for November 2001

Source: Capital One.

Exhibit 3: Standard Mail Solicitation Volume, October 1999 to July 2002

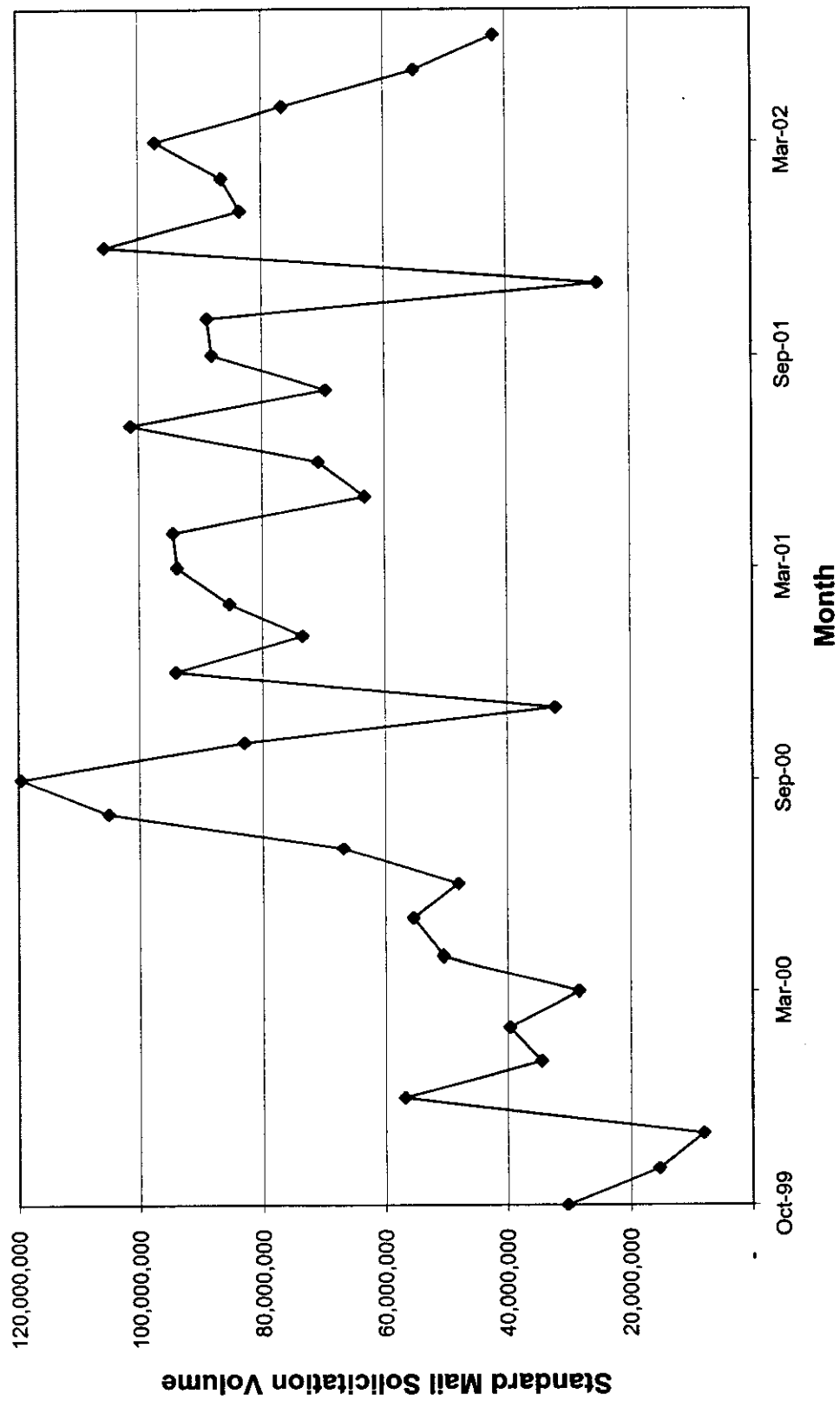
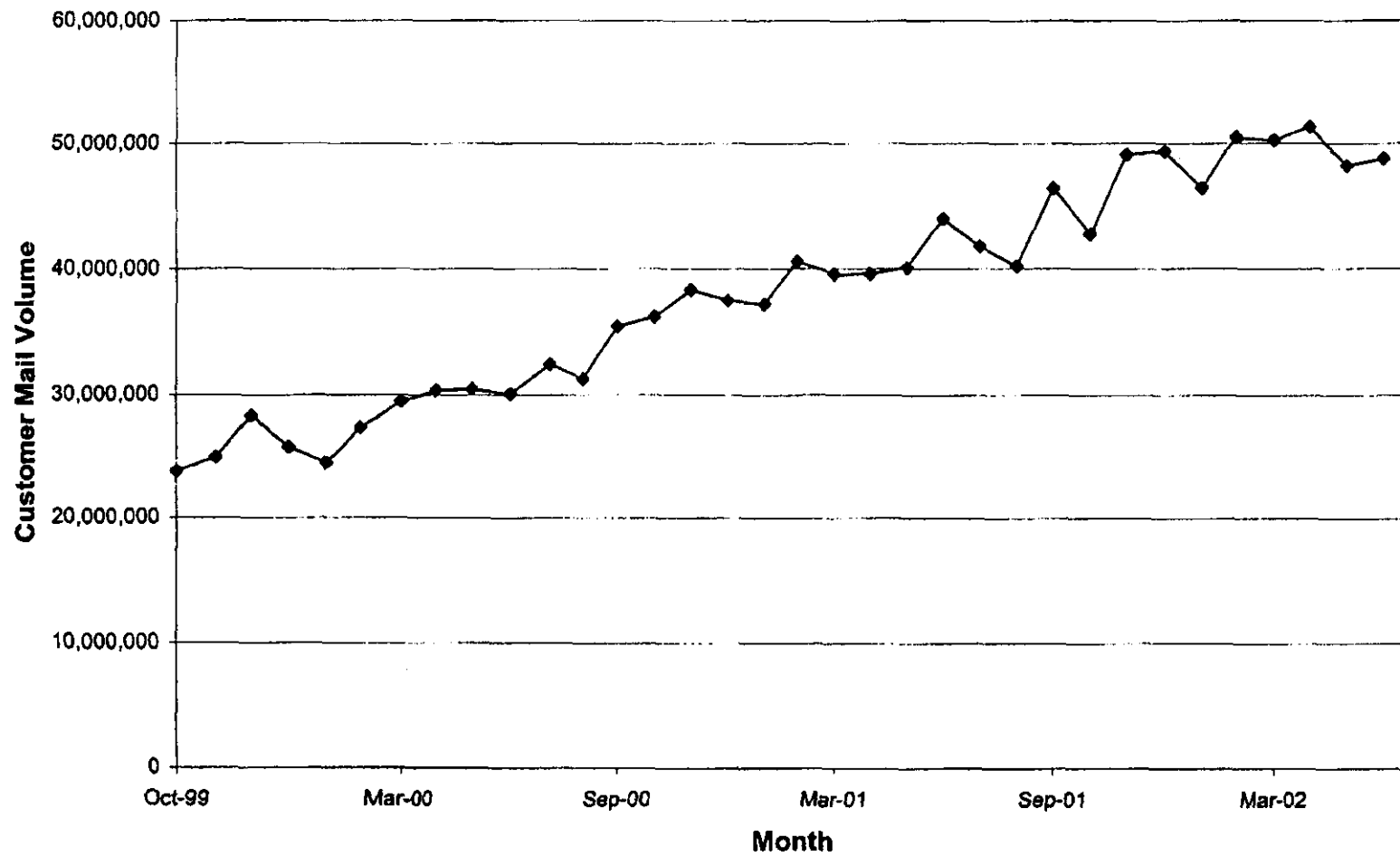




Exhibit 5: Customer Mail Volume, October 1999 to July 2002



**Exhibit 6: SLS Consulting Projection of Capital One After-Rates
First-Class Mail Volume - Method 1**

FY 2003 Capital One Before-Rates Projection

First-Class Mail Solicitation Volume	768,000,000	[1]
First-Class Mail Customer Mail Volume	640,000,000	[2]
Total First-Class Mail	1,408,000,000	[3]

SLS After-Rates Projection Using USPS Price Elasticities - Method 1

Price Elasticity - Workshared First-Class Letters	-0.071	[4]
Marginal Price Discount from NSA (Percent)	-15.5%	[5]
First-Class Mail Volume Increase (Percent)	1.1%	[6]
First-Class Mail Solicitation Volume Increase (Pieces)	8,432,165	[7]
First-Class Mail Customer Mail Volume Increase (Pieces)	7,026,804	[8]
Total First-Class Mail Volume Increase (Pieces)	15,458,969	[9]
After-Rates First-Class Mail Solicitation Volume (Pieces)	776,432,165	[10]
After-Rates First-Class Mail Customer Mail Volume (Pieces)	647,026,804	[11]
Total After-Rates First-Class Mail Volume (Pieces)	1,423,458,969	[12]

[1] Capital One testimony

[2] Capital One testimony

[3] = [1] + [2]

[4] R2001-1 USPS-T-7 at 51

[5] = - \$0.045 / \$0.291, where \$0.045 is the discount for 1.375 to 1.45 billion piece block and \$0.291 is the Capital One per-piece average First-Class Mail postage

[6] = [4] * [5]

[7] = [1] * [6]

[8] = [2] * [6]

[9] = [7] + [8]

[10] = [1] + [7]

[11] = [2] + [8]

[12] = [10] + [11]

**Exhibit 7: SLS Consulting Projection of Capital One After-Rates
First-Class Mail Volume - Method 2**

FY 2003 Capital One Before-Rates Projection

First-Class Mail Solicitation Volume	768,000,000	[1]
First-Class Mail Customer Mail Volume	640,000,000	[2]
Total First-Class Mail	1,408,000,000	[3]

SLS After-Rates Projection Using USPS Price Elasticities - Method 2

Price Elasticity - Standard Mail	-0.388	[4]
Marginal Price Discount from NSA (Percent)	-17.2%	[5]
First-Class Mail Solicitation Volume Increase (Percent)	6.7%	[6]
First-Class Mail Solicitation Volume Increase (Pieces)	51,200,000	[7]
New Account Yield from Solicitations (Percent)	0.6%	[8]
New Account Yield from Solicitation Increase (Pieces)	307,200	[9]
Annual Pieces of Customer Mail Per Account	12.5	[10]
Portion of Year Average New Accounts are Active	50%	[11]
First-Class Mail Customer Mail Volume Increase (Pieces)	1,920,000	[12]
Total First-Class Mail Volume Increase (Pieces)	53,120,000	[13]
After-Rates First-Class Mail Solicitation Volume (Pieces)	819,200,000	[14]
After-Rates First-Class Mail Customer Mail Volume (Pieces)	641,920,000	[15]
Total After-Rates First-Class Mail Volume (Pieces)	1,461,120,000	[16]

[1] Capital One testimony

[2] Capital One testimony

[3] = [1] + [2]

[4] R2001-1 USPS-T-7 at 99

[5] = - \$0.050 / \$0.291, where \$0.050 is the discount for 1.45 to 1.525 billion piece block and \$0.291 is the Capital One per-piece average First-Class Mail postage

[6] = [4] * [5]

[7] = [1] * [6]

[8] Industry average solicitation response rate in 2001 from BAIGlobal

[9] = [7] * [8]

[10] Assumption

[11] Assumption

[12] = [9] * [10] * [11]

[13] = [7] + [12]

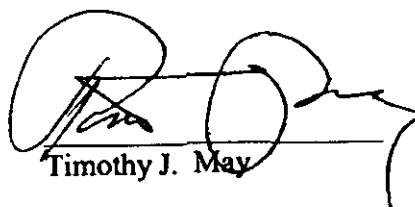
[14] = [1] + [7]

[15] = [2] + [12]

[16] = [14] + [15]

CERTIFICATE OF SERVICE

I hereby certify that I have this date served six (6) copies of the foregoing document upon the United States Postal Service by hand in accordance with Section 12 of the Rules of Practice.



Timothy J. May

Dated: September 19, 2002

1 CHAIRMAN OMAS: Mr. Elliott, have you had an
2 opportunity to examine the packet of designated written
3 cross-examination that was made available to you in the
4 hearing room this morning?

5 THE WITNESS: I don't believe so. Perhaps I'll do
6 that now.

7 (Witness examined document)

8 THE WITNESS: Okay.

9 CHAIRMAN OMAS: If the questions contained in that
10 packet were posed to you orally today, would your answers be
11 the same as those you previously provided in writing?

12 THE WITNESS: Yes, they would.

13 CHAIRMAN OMAS: Are there any corrections or
14 additions you would like to make to those answers?

15 THE WITNESS: No, not at this time.

16 CHAIRMAN OMAS: Counsel, would you please provide
17 two copies of the corrected, designated written cross-
18 examination of witness Elliott to the reporter? That
19 material is received into evidence and is to be transcribed
20 into the record.

21 (The document referred to was
22 marked for identification as
23 COS-T-2 and received in
24 evidence.)

25 //

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

Experimental Rate and Service Changes to
Implement Negotiated Service Agreement With
Capital One Services, Inc.

Docket No. MC2002-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF CAPITAL ONE SERVICES, INC.
WITNESS STUART ELLIOTT
(COS-T-2)

Party

American Postal Workers Union,
AFL-CIO

Interrogatories

APWU/COS-T2-5-6

NAA/COS-T2-1, 5

OCA/COS-T2-1, 5-6

Newspaper Association of America

APWU/COS-T2-1-2, 4-5

NAA/COS-T2-1-3, 5

OCA/COS-T2-5-6

Office of the Consumer Advocate

APWU/COS-T2-1-7

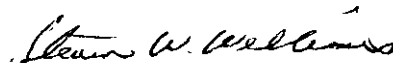
NAA/COS-T2-1, 3-4

OCA/COS-T2-1-6

POIR No. 1, Question 1

POIR No. 2, Questions 1-3

Respectfully submitted,



Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
CAPITAL ONE SERVICES, INC.
WITNESS STUART ELLIOTT (T-2)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

216

<u>Interrogator</u>	<u>Designating</u>
APWU/COS-T2-1	NAA, OCA
APWU/COS-T2-2	NAA, OCA
APWU/COS-T2-3	OCA
APWU/COS-T2-4	NAA, OCA
APWU/COS-T2-5	APWU, NAA, OCA
APWU/COS-T2-6	APWU, OCA
APWU/COS-T2-7	OCA
NAA/COS-T2-1	APWU, NAA, OCA
NAA/COS-T2-2	NAA
NAA/COS-T2-3	NAA, OCA
NAA/COS-T2-4	OCA
NAA/COS-T2-5	APWU, NAA
OCA/COS-T2-1	APWU, OCA
OCA/COS-T2-2	OCA
OCA/COS-T2-3	OCA
OCA/COS-T2-4	OCA
OCA/COS-T2-5	APWU, NAA, OCA
OCA/COS-T2-6	APWU, NAA, OCA
POIR No. 1, Question 1	OCA
POIR No. 2, Questions 1-3	OCA

**RESPONSE OF CAPITAL ONE SERVICES, INC. WITNESS STUART ELLIOTT TO²¹⁷
INTERROGATORIES OF AMERICAN POSTAL WORKERS UNION, AFL-CIO**

APWU/COS-T2-1. Is it your understanding that the quarterly customer and solicitation mail figures that you present in Exhibit 2 covered all the types and sources of mail that will be covered under the proposed Negotiated Service Agreement between Capital One and the USPS? Does the customer mail include all customer mailings associated with the credit card business, auto loan business and other consumer loan business of Capital One Financial Corporation, its subsidiaries or affiliates or Capital One Services, Inc. or its subsidiaries or affiliates? Does customer mail include any customer mailings associated with the international credit card businesses of Capital One Financial Corporation, its subsidiaries or affiliates or Capital One Services, Inc. or its subsidiaries or affiliates? Does the customer mail include customer mailings for auto loans owned by other entities but serviced by Capital One Financial Corporation, its subsidiaries or affiliates or Capital One Services, Inc. or its subsidiaries or affiliates? If it does include any or all of these business segments, do you know what percent of the mail volume by FY and type is generated by each segment? If so, please provide this information.

ANSWER

APWU/COS-T2-1. It is my understanding that the figures for Customer Mail and First-Class Mail Solicitations presented in Exhibit 2 cover all the types and sources of mail that will be covered under the proposed Negotiated Service Agreement. I do not have a breakdown of the mail covered by the proposed Agreement that separates credit card, auto loan, and other consumer loan products, or that separates domestic and international products, or that separates mail under servicing arrangements and mail not under servicing arrangements.

Please note that in the Exhibit 2 originally filed with my testimony, the volume from a one-time customer mailing in October and November 2001 is erroneously included in the First-Class Mail Solicitations figures rather than the Customer Mail figures. In the errata filed for my testimony on November 1, 2002, the volume from this one-time mailing is removed from First-Class Mail Solicitations and noted instead as a footnote to the table.

In addition, please note that the figures in Exhibit 2 are monthly, not quarterly as stated in the interrogatory.

APWU/COS-T2-2. On page 3 of your testimony, you indicate that the 640 million pieces of customer mail in the Capital One projections represents growth of 9.8 percent from the estimated 583 million pieces (now revised to 581 million based on your response to OCA/COS-T2-5) of customer mail that was generated in FY2002. Mr. Jean, on page 4, of his testimony indicates that his forecast of 640 million pieces will represent virtually no growth in customer mail between FY2002 and FY2003. Please confirm that customer mail in your Exhibit 2 is defined the same way customer mail is defined by Mr. Jean on page 4 of his testimony. If you cannot confirm, please explain the difference in definitions. Please explain the difference in your numbers and Mr. Jean's for customer mail.

ANSWER

APWU/COS-T2-2. The Customer Mail figures in my testimony omit a one-time mailing in October and November 2001 related to a change in the contract between Capital One and its customers. In my testimony, the volume from this one-time mailing is erroneously included with the volume for First-Class Mail solicitations. This error is corrected in the errata filed for my testimony on November 1, 2002. The comparison between FY 2002 and FY 2003 Customer Mail figures made by Witness Jean in his testimony on page 4, lines 14-15, uses figures for FY 2002 that include the one-time mailing in October and November 2001.

APWU/COS-T2-3. On page 4 of your testimony, you indicate that the growth rates of the projected mail are supported by Capital One Financial Corporation's July 16th 2002 8-K filing with the SEC. In analyzing the Capital One mail volume did you consider different growth rates for different segments of the business of Capital One Financial Corporation, its subsidiaries or affiliates or Capital One Services, Inc. or its subsidiaries or affiliates in doing this analysis? On the same page of the 8-K quoted in your report, Capital One Financial Corporation makes the statement that "The somewhat lower loan growth in the second half of 2002 will also be accompanied by somewhat lower marketing expenditures." Did you estimate the relationship between the marketing activities of Capital One Financial Corporation, its subsidiaries or affiliates or Capital One Services, Inc. or its subsidiaries or affiliates and their subsequent new accounts? If you did what were the results?

ANSWER

APWU/COS-T2-3. Yes, I considered the impact of different growth rates for different segments of Capital One's business. In particular, I noted that the Business Outlook section of Capital One's July 16, 2002, 8-K filing explains that loan growth will be higher than account growth because of a shift towards higher-end accounts.

My Exhibit 7 includes a simple analysis of the relationship between Capital One's marketing activities and its subsequent new accounts, using the industry average solicitation response rate of 0.6 percent. As a background check for consistency when preparing my testimony, I also made some rough estimates of the net new accounts that will result during FY 2003 from Capital One's solicitations during FY 2003. These estimates suggest a level of net new account growth consistent with the 9.8 percent growth in Customer Mail from FY 2002 to FY 2003 reported in my testimony. (The 9.8 percent growth figure excludes the one-time mailing in October and November 2001, which is appropriate when comparing Customer Mail growth and account growth to judge their consistency.)

APWU/COS-T2-4. On page 4 of your testimony at 20-22, you state that since the levels of solicitation and customer mail projected by Capital One for FY2003 follow the Company's announced strategy, those projections are a reasonable estimate of the Company's mail volume. Since your testimony was filed, Capital One Financial Corporation has filed another 8-K with the SEC (on October 15, 2002). In the press release that accompanied that release, Nigel W. Morris, Capital One Financial Corporation's President and Chief Operating Officer states "We expect marketing to increase in 2003 as we take advantage of the attractive opportunities that we see in all major areas of our business including US card, installment and auto loans, and our international activities." Does this stated strategy still make you anticipate lower volumes of First Class solicitation mail in FY2003 than Capital One Financial Corporation, its subsidiaries or affiliates or Capital One Services, Inc. or its subsidiaries or affiliates mailed in FY2001? Please explain your assessment.

ANSWER

APWU/COS-T2-4. The quoted statement from the October 15, 2002, press release is consistent with the statement from the July 16, 2002, 8-K that I quote in my testimony on page 4, lines 14-15. As a result, the more recent quote does not suggest any need to update the volume projections for FY 2003 contained in my testimony.

APWU/COS-T2-5. You seem to be familiar with the work of USPS witnesses Tolley and Thress from the R2001-1 rate case. Their analysis discusses some potential tradeoffs between First Class solicitation mail and Standard solicitation mail. Did you consider such a tradeoff when doing your analysis of the change in First Class volume due to a change in the discount structure for First Class mail? Would you anticipate that Capital One would switch volume from Standard mail to First Class mail as a result of this agreement? If so, what would be the expected magnitude of such a switch?

ANSWER

APWU/COS-T2-5. I considered the possibility that Capital One would switch volume from Standard Mail to First-Class Mail as a result of the proposed agreement. However, as Witness Jean states in his testimony on page 3, lines 18-20, the Company does not believe that the size of this switch will be significant. I have not estimated the size of such a switch independently.

APWU/COS-T2-6. In your calculations, you have used the marginal price discount change in conjunction with the own price elasticities. Would you agree that the price elasticities have been calculated on data that show the price change for the entire volume rather than the price change for only a small part of the volume? Please provide your reasoning for using the price elasticities in this way.

ANSWER

APWU/COS-T2-6. I agree that the price elasticities have been calculated on data that show the price change for the entire volume. However, it is essential to understand that the resulting price elasticities are estimates about *marginal* changes in behavior. The importance of examining the behavior of economic decision makers at the margin is one of the basic insights of modern microeconomics.

If the marginal price of mail goes down for Capital One, then the Company will be able to make an adequate profit on lower-value solicitations that wouldn't generate an adequate profit at current postage rates. The price elasticity indicates how much of this *marginal lower-value mail will be worth mailing when the marginal postage rate goes down.*

On the other hand, for the higher-value mail that is already being sent at current postage rates, a reduction in postage won't have any effect on volume. In a simple single-price market, the only way for the Postal Service to obtain the lower-value mail from Capital One would be to offer a lower price on both higher-value and lower-value mail. However, with declining block rates, the Postal Service is using a more complex pricing system that effectively charges a higher rate for the higher-value mail and a lower rate for the lower-value mail. This more complex pricing mechanism allows the

Postal Service to provide the same marginal incentive for volume growth as with a ²²⁴ single-price discount on all mail, while requiring that the discount be paid on only part of that mail.

APWU/COS-T2-7. You use a new account yield on solicitations of 0.6 percent in your calculations in Exhibit 7. Is that yield for First Class solicitations, Standard solicitations or a mix of both?

ANSWER

APWU/COS-T2-7. As indicated by footnote 8 of Exhibit 7, I am using the industry average solicitation response rate as a proxy for the New Account Yield from solicitations. It is my presumption that the BAIGlobal estimate of the response rate averages over all credit card solicitations by mail, including both First-Class Mail and Standard Mail. However, I do not have any details about the methods used by BAIGlobal to estimate this figure.

NAA/COS-T2-1.

Please refer to Exhibit 2 of your testimony. Please provide the data for Standard Mail solicitations in September and October of 2002.

ANSWER**NAA/COS-T2-1 Response.**

The volume of Capital One's Standard Mail solicitations was 38,793,713 in August 2002 and 51,073,143 in September 2002. The volume for October 2002 is not yet available.

NAA/COS-T2-2.

Please confirm that, in calculating the range of Capital One's volume responses to the NSA that you present in your testimony, the price elasticity of -0.388 for Standard Mail that you use is the Postal Service's estimated own-price elasticity of demand for Standard Regular mail. If you cannot confirm, please explain why not.

ANSWER**NAA/COS-T2-2 Response.**

Confirmed that I use the Postal Service's own-price elasticity for Standard Regular mail in my Method 2 projection of After-Rates First-Class Mail Volume.

NAA/COS-T2-3.

Have you prepared any estimate of Capital One's volumes of customer and solicitation mail for Fiscal Years 2004 and/or 2005? If so, please provide those estimated volumes. If not, please explain why not.

ANSWER**NAA/COS-T2-3 Response.**

In the period after "Capital One's recent announcements regarding its strategic emphases in the coming months" (Witness Jean, COF-T-1, page 3 at lines 14-15), I have not prepared estimates of the Company's volumes of customer and solicitation mail for Fiscal Years 2004 or 2005 because they are not necessary for my testimony. In the period before these announcements in July, 2002, I had prepared some preliminary estimates for calendar years 2004 and 2005, but I have not retained those estimates because the Company's announcements rendered them irrelevant.

NAA/COS-T2-4.

Please confirm that the estimated volumes of Capital One's First-Class mail that you calculate and present in your testimony are unaffected by the NSA's proposed rate discounts below the 1.45 billion piece level. If you cannot confirm, please explain why not.

ANSWER**NAA/COS-T2-4 Response.**

Not confirmed. My Method 1 projection of After-Rates First-Class Mail Volume uses the NSA's proposed rate discount in the 1.375 to 1.45 billion piece block.

NAA/COS-T2-5.

Please refer to page 2, lines 15 through 20, of your testimony, where you state that the average volume of Standard Mail solicitations for the past two years has been about 79 million pieces per month, and for First-Class mail about 63 million pieces per month from October 1999 to July 2002 (except for October 2001 through May 2002). Do you expect that Capital One's average monthly volume of Standard Mail solicitations will exceed its First-Class mail solicitations in:

- a. FY2003?
- b. FY2004?
- c. FY2005?

ANSWER**NAA/COS-T2-5 Response.**

See also my response to NAA/COS-T2-3.

- a. Since I have not prepared estimates of Standard Mail solicitations for FY2003, I have no basis for answering the question.
- b. Since I have not prepared mail volume estimates for FY2004, I have no basis for answering the question.
- c. Since I have not prepared mail volume estimates for FY2005, I have no basis for answering the question.

OCA/COS-T2-1. Please turn to Exhibit 6 of your testimony.

- (a) At line 7, does any of the increase in the "First-Class Mail Solicitation Volume Increase" consist of mail that would be sent via Standard Mail absent the proposed NSA? If your answer is "Yes," please provide the increase in volume that is Standard Mail.
- (b) At line 8, does any of the "First-Class Customer Mail Volume Increase" consist of mail pieces that would have been sent absent the proposed NSA? If your answer is "Yes," please provide the increase in volume that would have been sent in the absence of the proposed NSA.
- (c) At line 8, does any of the "First-Class Customer Mail Volume Increase" consist of pieces migrating from other billing mediums as a result of the NSA? If your answer is "Yes," please provide the increase in volume that is migrating from other billing mediums as a result of the NSA.
- (d) At line 10, you project "After-Rates First-Class Mail Solicitation Volume" at 776,432,165 pieces. Under what circumstances would the annual increase to this volume, 8,432,165 (at line 7), be larger in future years? Please explain why there would be an increase, and please quantify the projected increase.
- (e) At line 10, you project "After-Rates First-Class Mail Solicitation Volume" at 776,432,165 pieces. Under what circumstances would the annual increase to this volume, 8,432,165 (at line 7), be smaller in future years? Please explain why there would be a decrease, and please quantify the projected decrease.
- (f) At line 11, you project "After Rates First-Class Customer Mail Volume" at 647,026,804 pieces. Under what circumstances would the annual increase to

this volume, 7,026,804 (at line 8), be larger in future years? Please explain why there would be an increase, and please quantify the projected increase.

- (g) At line 11, you project "After Rates First-Class Customer Mail Volume" at 647,026,804 pieces. Under what circumstances would the annual increase to this volume, 7,026,804 (at line 8), be smaller in future years? Please explain why there would be a decrease, and please quantify the projected decrease.

ANSWER

OCA/COS-T2-1 Response.

- (a) No.
 - (b) No.
 - (c) No.
 - (d) Aside from any hypothetical future change to the underlying price elasticity, the projected annual increase would be larger in "future years" if the projected First-Class Mail Solicitation Volume in future years were larger than is projected for FY 2003.
 - (e) Aside from any hypothetical future change to the underlying price elasticity, the projected annual increase would be smaller in "future years" if the projected First-Class Mail Solicitation Volume in future years were smaller than is projected for FY 2003.
 - (f) Aside from any hypothetical future change to the underlying price elasticity, the projected annual increase would be larger in "future years" if the projected First-Class Customer Mail Volume in future years were larger than is projected for FY 2003.
-

- (g) Aside from any hypothetical future change to the underlying price elasticity, the projected annual increase would be smaller in "future years" if the projected First-Class Customer Mail Volume in future years were smaller than is projected for FY 2003.

OCA/COS-T2-2. Please refer to Exhibit 6.

- (a) At line 5, please confirm that the "Marginal Price Discount from NSA" of -15.5 percent is estimated on the basis of achieving a certain level of mail volume, specifically 1.375 to 1.45 billion pieces. If you do not confirm, please explain and provide a detailed explanation of your conclusion(s).
- (b) Please confirm that the "Marginal Price Discount from NSA" of -15.5 percent at line 5 and the "Price Elasticity-Workshared First-Class Letters" of -0.071 at line 4 are then used in an elasticity analysis to estimate the increase in solicitation mail volume. If you do not confirm, please explain and provide a detailed explanation of your conclusion(s).
- (c) Please confirm that the increase in mail plus the original, assumed volume of mail yield after-rates volume of 776, 432,165, which coupled with the increase in after-rates First-Class customer mail volume, results in total volume of 1,423,458,969 pieces. If you do not confirm, please explain and provide a detailed explanation of your conclusion(s).

ANSWER**OCA/COS-T2-2 Response.**

- (a) Confirmed.
- (b) Confirmed.
- (c) Confirmed.

OCA/COS-T2-3. Please refer to Exhibit 6, footnote 5.

Please confirm that you have estimated the amount of the discount based on an assumed volume projection, and this assumed volume projection is then used with an elasticity estimate to arrive at the final volume projection. If you do not confirm, please explain. If you do confirm, please explain why your reasoning is not circular.

ANSWER

OCA/COS-T2-3 Response.

Confirmed. The analysis in Exhibit 6 involves simultaneity, not circularity. Essentially it is the solution of a problem of two equations with two unknowns. The two unknowns are the marginal price discount and the after-rates volume. One equation is provided by the price elasticity, which specifies that the quotient of the marginal percentage volume change and the marginal percentage price change must be -0.071 . (The marginal percentage volume change implies, in turn, the after-rates volume.) The second equation is provided by the terms of the NSA, which relate the marginal price discount to the after-rates volume. Because the second equation is a step function, it is possible to solve the two equations by using an "assumed volume projection" to derive the marginal price discount and then to confirm that the final volume projection is consistent with the assumed volume projection.

OCA/COS-T2-4. Please turn to your testimony at page 5, lines 11-16.

- (a) Please confirm that you apply the Postal Service's Standard Mail elasticity to estimate the upper bound of the increase in the after-rates volume of First-Class solicitation mail. If you do not confirm, please explain.
- (b) Please provide an economic rationale that supports the use of the Standard Mail elasticity rather than an elasticity for First-Class Mail to estimate the upper bound of the increase in the after-rates volume of First-Class solicitation mail.

ANSWER

OCA/COS-T2-4 Response.

- (a) Confirmed in part. My testimony applies the Postal Service's Standard Regular Mail elasticity in its second method for estimating the increase in the after-rates volume of First-Class solicitation mail. However, my testimony does not calculate an "upper bound" for the increase in the after-rates volume of First-Class solicitation mail.
- (b) On economic grounds, it is reasonable to think that different types of mail within a subclass may have different price elasticities, depending on the economic calculations that underlie the decisions about how much volume to mail. Since advertisements make up 90.8 percent of Standard Mail mailpieces received by households (USPS-LR-J-104/R2001-1, Table A3-1), the Postal Service's estimate of the price elasticity of Standard Regular Mail is likely to be a good proxy for the price elasticity of solicitation mail in general. The second method uses this Postal Service estimate as a proxy for the price elasticity of Capital One's First-Class Mail solicitations. Note, however, that my testimony does not

calculate an "upper bound" for the increase in the after-rates volume of First-Class Mail solicitations.

OCA/COS-T2-5.

Please refer to Exhibit 2 of your testimony. Please provide the actual volume of "Customer Mail" and "First-Class Mail Solicitations" mailed by Capital One in August and September 2002.

ANSWER**OCA/COS-T2-5 Response.**

The actual volume of Capital One's Customer Mail was 55,626,423 in August 2002 and 42,886,892 in September 2002. The actual volume of Capital One's First-Class Mail Solicitations was 45,227,925 in August 2002 and 50,391,193 in September 2002.

OCA/COS-T2-6.

Please refer to your response to Presiding Officer's Information Request (POIR) No. 1, Question 1, which requested mail volume data for Fiscal Years 1996 through 1999.

Please provide the monthly volumes for Capital One's First-Class Marketing Mail, First-Class Customer Mail and Standard Class Marketing Mail during fiscal year 1999.

- (a) If monthly volumes are not available for all of fiscal year 1999, please list the months (by type of mail, as requested above) for which data are available.
Provide any available monthly data.
- (b) The response to the POIR (at 3) indicated that it is difficult, time-consuming, and burdensome to reconstruct volume numbers prior to 1999. Please describe Capital One's record-keeping practices for the fiscal year period 1999-2002 and contrast those practices with the fiscal year period 1996-1998.
- (c) Does Capital One dispose of its mail volume and other business records on a regular basis or after a set period of time? If so, on what regular basis or set period of time? Is the basis or period of time determined, at least in part, by tax- or financial reporting requirements? Please explain.

ANSWER

- (a) Available monthly data are provided below in Table 1.
- (b) It is my understanding that Capital One's active databases do not contain the requested volume figures prior to 1999. Even if such data could be reconstructed from other sources, that data would not necessarily have volume

data in a form that could readily be summarized by the requested mail

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categories.

- (c) Capital One does not dispose of its mail volume records pursuant to a record retention policy.

**Table 1: Capital One Volume of Customer Mail and Solicitations:
October 1998 to September 1999**

Month	Customer Mail	First-Class Mail Solicitations	Standard Mail Solicitations
Oct-98	20,000,000*	64,312,211	2,279,673
Nov-98	20,000,000*	84,513,668	1,248,749
Dec-98	20,000,000*	70,330,103	698,236
Jan-99	20,093,585	48,713,996	4,704,266
Feb-99	18,936,302	51,911,135	6,815,494
Mar-99	21,429,647	101,113,831	5,442,520
Apr-99	20,237,967	53,185,873	21,569,499
May-99	21,493,755	42,784,936	21,335,863
Jun-99	21,315,898	51,911,418	15,785,065
Jul-99	22,366,963	82,763,889	27,986,822
Aug-99	22,218,406	45,709,167	66,617,101
Sep-99	22,283,276	47,420,011	42,448,557

• Estimate

1. In Exhibit 2 of his testimony (COS-T-2), witness Elliott presents monthly Capital One volumes of customer mail and First-class and Standard mail solicitations for Fiscal Years 2000, 2001 and 2002. For the months of August and September 2002, the Standard mail solicitations volumes are missing. Additionally, on pages 3 and 4 of his testimony, witness Elliot points out that the increase in First-class Mail solicitations during an eight-month period (October 2001 to May 2002) in FY 2002 was a "temporary deviation" from Capital One's historical volume levels "due to the unique, anomalous post-9/11 environment". This leaves the Commission with useful historical volume information for only two fiscal years (2000 and 2001). To assist the Commission and interested parties in evaluating Capital One's volume trends, please provide annual volumes of customer mail and First-class and Standard mail solicitations for Fiscal Years 1996 through 1999, and the Standard mail volumes for August and September 2002. 241

Response of Capital One witness Stuart Elliot to Presiding Officer's Information Request No. 1, Question 1

1. The estimated Capital One mail volumes for government fiscal year 1999 are as follows:

First-Class Marketing Mail – 744, 670,000

Standard Class Marketing – 216,932,000

Customer Mail (First-Class Mail) – 250,376,000 (the Company reports that reliable customer mail data for 10/98 – 12/98 does not exist so an average of 20 million per month has been used to derive this number).

Data prior to 1999 are not readily available. The Company reports that it²⁴² would be very difficult, time-consuming, and burdensome to attempt to reconstruct those volume numbers. Moreover, any such estimates that were derived would be considerably less accurate than the ones that are provided for 1999.

The Standard Class marketing volumes for August and September of 2002 are as follows:

August	—	38,793,713
September	—	51,073,143

1. Witness Jean refers to "Capital One's recent announcements regarding its strategic emphases." COS-T-1, page 3, lines 14-15. Please provide a copy of the announcements to which the witness is referring.

Response of Capital One witness Stuart Elliot to Presiding Officer's Information Request No. 2, Question 1

The "recent announcements" were included in the company's July, 2002 earnings release. Its strategic emphases are also reflected in the July, 2002 8-K and 10-K filings with the S.E.C. A copy of the release is being filed as Library Reference, COS/LR-1-3.

2. On November 1, 2002, witness Elliott (COS-T-2) revised his Exhibit 2, 244
"Capital One Volume of Customer Mail and Solicitations: October 1999 to September 2002." Although the revised volume figures are described as customer mail for October and November 2001 in the second note of the revised Exhibit 2, he has actually revised the First-Class solicitations volumes for the above months, listed in the second column of Exhibit 2. Please reconcile the discrepancy between the description of the revision in the second note of revised Exhibit 2 and the revision actually made.

Response of Capital One witness Stuart Elliot to Presiding Officer's Information Request No. 2, Question 2

In the Exhibit 2 originally filed with my testimony, the volume from the one-time customer mailing in October and November 2001 was erroneously included in the First-Class Mail Solicitations figures rather than the Customer Mail figures. In the errata filed for my testimony on November 1, 2002, the volume from this one-time mailing was removed from First-Class Mail Solicitations and included instead as a second note to the table. This second note explains the omission of the one-time Customer Mail figures from the Customer Mail column.

3. The second note of revised Exhibit 2 in witness Elliott's Testimony (COS- 245 T-2) states: "Customer Mail figures for October and November 2001 omit mail volume for a one-time mailing related to a new arbitration provision in the contract between Capital One and its Customers." Please explain why the volume of this one-time mailing should be omitted from Exhibit 2. Would volumes of this nature be ineligible for the NSA discounts? If so, why? Please provide Capital One's definition of a one-time mailing. Is the volume of any other one-time mailing included in the customer mail figures presented in Exhibit 2?

Response of Capital One witness Stuart Elliot to Presiding Officer's Information Request No. 2, Question 3

The volume for the one-time mailing in October and November 2001 is omitted from the Customer Mail column in Exhibit 2 in order to provide a clearer picture of the trend in Customer Mail volume that should be used to compare with Capital One's projection of Customer Mail volume for FY 2003.

My understanding is that if such a mailing were to occur again during the period covered by the NSA, it would be eligible for the NSA discounts. However, this particular mailing is omitted from the time series precisely because the Company believes that such an additional mailing to its entire customer base was a one-time event that will not occur again. This belief is supported by the historical volume data in Exhibit 2, which show that this additional mailing to the entire customer base was, in fact, a one-time event over this historical period.

The Company explained the nature of the additional mailing to me as follows:

"Last fall, Capital One implemented a new arbitration provision, which altered the contract between Capital One and its customer base. In order to most effectively

communicate this change, Capital One sent a mailing to all customers announcing the change and allowing the customers the opportunity to opt out. This was a one time change, and thus a one time mailing.”

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I do not know of any other one-time mailings included in the Customer Mail figures presented in Exhibit 2. However, it is clear from Exhibit 5 that any such one-time customer mailings that might be included in the data are not large enough to materially affect the historical trend in Customer Mail volume.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for witness Elliott?

3 (No audible response)

4 CHAIRMAN OMAS: This brings us to oral cross-
5 examination. One party has requested oral cross-
6 examination, the American Postal Workers Union, AFL-CIO.
7 Ms. Catler, it is sort of the bewitching hour. It is 12:00
8 noon. Do you know about how long you might take with this
9 witness?

10 MS. CATLER: Mr. Chairman, I have further reviewed
11 the questions that I was anticipating asking witness
12 Elliott, and I do not have any questions to ask him at this
13 time.

14 CHAIRMAN OMAS: Thank you. Is there anyone else
15 who may have any questions, any questions from the bench for
16 Mr. Elliott? Commissioner Goldway.

17 COMMISSIONER GOLDWAY: Dr. Elliott, as I
18 understand your testimony, you propose two alternative
19 methods for forecasting Capital One mail class volumes in
20 the test year 2003. The first method uses the price
21 elasticity of first class work shared letters minus 0.071,
22 and the second uses the price elasticity of standard regular
23 mail at 0.388.

24 Do you agree that Mr. Thress, who works with Dr.
25 Tolley, estimated these elasticities in R 2001-1?

1 THE WITNESS: Yes.

2 COMMISSIONER GOLDWAY: And do you agree that these
3 elasticities are a market or a subclass demand at
4 elasticities, and thus they measure the average demand
5 responsivenesses of all subclass mailers to a change in
6 price?

7 THE WITNESS: They are averaged over all of the
8 mailers in that class or subclass, yes.

9 COMMISSIONER GOLDWAY: Is there anything in
10 economic theory to support the assumption that an individual
11 user of the subclass, such as Capital One, will necessarily
12 have the same demand elasticity as the entire subclass?

13 THE WITNESS: No. One would suspect that one
14 could make an analogy, but it is an analogy.

15 COMMISSIONER GOLDWAY: So that it might be a very
16 different number than what the averages are.

17 THE WITNESS: They are members of the class, at
18 least in the case with the first model. We're talking about
19 first class work shared mail. So in that sense their
20 portion of the mail is part of that average that the Postal
21 Service has estimated.

22 COMMISSIONER GOLDWAY: But the average could be a
23 bell curve, for instance.

24 THE WITNESS: Yes. That is correct.

25 COMMISSIONER GOLDWAY: Okay. Thank you.

1 CHAIRMAN OMAS: Commissioner Covington.

2 VICE CHAIRMAN COVINGTON: Basically, I just had a
3 couple of questions for you, Dr. Elliott, that I hadn't been
4 able to quite find the answers to. First of all, I wanted
5 to know how long specifically have you tracked volume data
6 for Capital One?

7 THE WITNESS: I don't understand your question.

8 VICE CHAIRMAN COVINGTON: Okay. Let me begin over
9 again. Well, when did you get involved with working with
10 Capital One?

11 THE WITNESS: I believe our first conversations
12 were in May of this year.

13 VICE CHAIRMAN COVINGTON: Okay. So May of 2002.

14 THE WITNESS: That's correct.

15 VICE CHAIRMAN COVINGTON: Okay. And if I
16 understand correctly, or clarify me if I'm wrong, according
17 to witness Jean, you did have -- I mean, looked at those
18 historical trends and so forth that were used for the base
19 year volume rate volume projections, correct?

20 THE WITNESS: In my testimony, I compare the
21 projections made by the company to the historical record of
22 its mailings, yes.

23 VICE CHAIRMAN COVINGTON: Okay. Then do you have
24 any input or any responsibility for compilation of the
25 Security Exchange Commission filings, or do you see where

1 maybe your firm will in the future?

2 THE WITNESS: No.

3 VICE CHAIRMAN COVINGTON: As it relates to Capital
4 One?

5 THE WITNESS: No.

6 VICE CHAIRMAN COVINGTON: Okay. And can you
7 clearly state to me and to the Commission that evidence
8 suggests that Fiscal Year 2003 is representative or would be
9 representative during the course of this experiment, if we
10 were to allow or approve the negotiated service agreement,
11 which is the matter that's before us now? And the reason i
12 say that is because -- are you familiar with the PARS
13 implementation and discount leakage and so forth?

14 THE WITNESS: I have not reviewed those portions
15 of the case, no. I guess I'm not sure exactly what question
16 you're asking in relation to my testimony.

17 VICE CHAIRMAN COVINGTON: Okay. What I was
18 stating was that from the information that you submitted
19 within the testimony and the questions, you know, that
20 you're answering here now, do you think that -- and you were
21 looking specifically -- first of all, let me make sure you
22 were looking specifically or asked to look specifically only
23 at Fiscal Year 2003.

24 THE WITNESS: That is correct.

25 VICE CHAIRMAN COVINGTON: By Capital One.

1 THE WITNESS: Yes.

2 VICE CHAIRMAN COVINGTON: Okay. So in other
3 words, from a visionary standpoint of view, you're not
4 prepared to elaborate on anything beyond that time period.

5 THE WITNESS: That is correct.

6 VICE CHAIRMAN COVINGTON: Okay. Thank you, Dr.
7 Elliott. That's all I have.

8 CHAIRMAN OMAS: Mr. May, do you need any time with
9 your witness?

10 MR. MAY: No. Nothing further.

11 CHAIRMAN OMAS: Mr. Elliott, that brings us to
12 complete your testimony here today. We thank you for your
13 appearance, and you are now excused.

14 (Witness excused)

15 CHAIRMAN OMAS: I think what we'll do is we'll
16 take about an hour break for lunch. And we'll come back at
17 1 o'clock. Thank you.

18 (Whereupon, at 12:03 p.m., a luncheon recess was
19 taken.)

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A F T E R N O O N S E S S I O N

(1:02 p.m.)

CHAIRMAN OMAS: Ms. McKenzie, would you introduce the next witness, please?

MS. MCKENZIE: Thank you, Mr. Chairman. The Postal Service calls Charles Crum.

Whereupon,

CHARLES L. CRUM

having been previously duly sworn, was called as a witness herein and was examined and testified as follows:

CHAIRMAN OMAS: Please be seated.

DIRECT EXAMINATION

BY MS. MCKENZIE:

Q Mr. Crum, what is your current position?

A Yes, I'm an economist in the Pricing Strategy Group.

Q You have before you two copies of a document entitled, USPC-T-3, titled "Direct Testimony on Charles L. Crum on behalf of the United States Postal Service." Did you have a chance to examine them?

A Yes, I did.

Q Was this testimony prepared by you?

A Yes, it was.

Q Are there any revisions to your testimony, as it was filed with the original case?

1 A Yes. I had marked some very minor revisions on
2 Attachment A, page 1, and they're in the document here.

3 Q And how did these revisions come to your
4 attention?

5 A When we filed a response to APWU listing numbers
6 for fiscal year 2002, we noticed that there was a very small
7 numerical error in the items originally filed, and we
8 corrected that for fiscal year 2001.

9 MS. MCKENZIE: I'd like to note, I have additional
10 copies of these revisions on the table behind me. And, in
11 fact, we'll bring up some of the copies for the
12 Commissioners.

13 CHAIRMAN OMAS: Okay, thank you.

14 BY MS. MCKENZIE:

15 Q If you were to testify orally today, would your
16 testimony be the same as in the documents before you?

17 A Yes.

18 Q Mr. Crum, is it your intention to sponsor library
19 reference USPS-LR-1, category 2, library reference?

20 A Yes.

21 MS. MCKENZIE: Mr. Chairman, I ask that the direct
22 testimony of Charles L. Crum, on behalf of the Postal
23 Service, be marked as USPS-T-3, and the library reference
24 associated with this testimony be received into evidence, at
25 this time.

1 CHAIRMAN OMAS: Thank you. I will direct counsel
2 to provide the reporter with two copies of the corrected
3 direct testimony on Charles L. Crum. That testimony is
4 received into evidence. And as is our practice, direct
5 testimony of the Postal Service will not be transcribed.

6 (The document referred to was
7 marked for identification as
8 Exhibit No. USPS-T-3 and
9 received in evidence.)

10 CHAIRMAN OMAS: Mr. Crum, have you had an
11 opportunity to examine the packet of designated written
12 cross-examination that was made available to you in the
13 hearing room today?

14 THE WITNESS: Yes, I have.

15 CHAIRMAN OMAS: If the questions contained in that
16 packet were posed to you orally today, would your answers be
17 the same as those you provided in writing?

18 THE WITNESS: Yes.

19 CHAIRMAN OMAS: Are there any additional
20 corrections or additions you'd like to make to your answers?

21 THE WITNESS: No.

22 CHAIRMAN OMAS: Counsel, would you, please,
23 provide two copies of the corrected designated written
24 examination of witness Crum to the reporter? That material
25 is received into evidence and it is to be transcribed into

1 the record.

2 (The document referred to was
3 marked for identification as
4 Exhibit No. USPS-T-3 and
5 received in evidence.)

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BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, DC 20268-0001

256

Experimental Rate and Service Changes to
Implement Negotiated Service Agreement With
Capital One Services, Inc.

Docket No. MC 2009-2

DESIGNATION OF WRITTEN CROSS-EXAMINATION
OF UNITED STATES POSTAL SERVICE
WITNESS CHARLES L. CRUM
(USPS-T-3)

RECEIVED
Dec 4 11 38 AM '02
POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Party

Interrogatories

American Bankers Association

ABA/USPS-T3-1

American Postal Workers Union,
AFL-CIO

APWU/USPS-T3-2-4, 6

APWU/USPS-T4-17 redirected to T3
NAA/USPS-T3-16-17
NAA/USPS-T1-2a-c redirected to T3

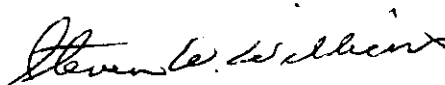
Newspaper Association of America

ABA/USPS-T3-1
APWU/USPS-T3-1, 4, 6, 8
NAA/USPS-T3-1-11
NAA/USPS-T1-2a-c redirected to T3
NAA/USPS-T2-2, 4 redirected to T3
OCA/USPS-T3-2-4, 6-13, 16, 18-21
OCA/USPS-T1-2-3 redirected to T3
OCA/USPS-T4-3 redirected to T3
POIR No. 1, Question 2
POIR No. 2, Question 7
POIR No. 2, Question 8

Office of the Consumer Advocate

APWU/USPS-T3-3
OCA/USPS-T3-5
OCA/USPS-T4-22-23 redirected to T3
POIR No. 1, Question 3

Respectfully
submitted,

A handwritten signature in cursive script, appearing to read "Steven W. Williams".

Steven W. Williams
Secretary

INTERROGATORY RESPONSES OF
UNITED STATES POSTAL SERVICE
WITNESS CHARLES L. CRUM (T-3)
DESIGNATED AS WRITTEN CROSS-EXAMINATION

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<u>Interrogatory</u>	<u>Designating Parties</u>
ABA/USPS-T3-1	ABA, NAA
APWU/USPS-T3-1	NAA
APWU/USPS-T3-2	APWU
APWU/USPS-T3-3	APWU, OCA
APWU/USPS-T3-4	APWU, NAA
APWU/USPS-T3-6	APWU, NAA
APWU/USPS-T3-8	NAA
APWU/USPS-T4-17 redirected to T3	APWU
NAA/USPS-T3-1	NAA
NAA/USPS-T3-2	NAA
NAA/USPS-T3-3	NAA
NAA/USPS-T3-4	NAA
NAA/USPS-T3-5	NAA
NAA/USPS-T3-6	NAA
NAA/USPS-T3-7	NAA
NAA/USPS-T3-8	NAA
NAA/USPS-T3-9	NAA
NAA/USPS-T3-10	NAA
NAA/USPS-T3-11	NAA
NAA/USPS-T3-16	APWU
NAA/USPS-T3-17	APWU
NAA/USPS-T1-2a redirected to T3	APWU, NAA
NAA/USPS-T1-2b redirected to T3	APWU, NAA
NAA/USPS-T1-2c redirected to T3	APWU, NAA
NAA/USPS-T2-2 redirected to T3	NAA
NAA/USPS-T2-4 redirected to T3	NAA
OCA/USPS-T3-2	NAA
OCA/USPS-T3-3	NAA
OCA/USPS-T3-4	NAA
OCA/USPS-T3-5	OCA
OCA/USPS-T3-6	NAA
OCA/USPS-T3-7	NAA
OCA/USPS-T3-8	NAA

OCA/USPS-T3-9	NAA
OCA/USPS-T3-10	NAA
OCA/USPS-T3-11	NAA
OCA/USPS-T3-12	NAA
OCA/USPS-T3-13	NAA
OCA/USPS-T3-16	NAA
OCA/USPS-T3-18	NAA
OCA/USPS-T3-19	NAA
OCA/USPS-T3-20	NAA
OCA/USPS-T3-21	NAA
OCA/USPS-T1-2 redirected to T3	NAA
OCA/USPS-T1-3 redirected to T3	NAA
OCA/USPS-T4-3 redirected to T3	NAA
OCA/USPS-T4-22 redirected to T3	OCA
OCA/USPS-T4-23 redirected to T3	OCA
POIR No. 1, Question 2	NAA
POIR No. 1, Question 3	OCA
POIR No. 2, Question 7	NAA
POIR No. 2, Question 8	NAA

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ABA/USPS-T3-1. In your response to interrogatory OCA/USPS-T3-7, you confirm that the weighted cost per piece for physical returns is \$0.5347.

- (a) What is the corresponding cost per piece for mail that is forwarded?
- (b) Identify and to the extent possible quantify all mail piece characteristics, e.g., weight, presortation, prebarcoding, shape, etc., which affect the cost per piece of (a) forwarding or (b) physically returning mail.
- (c) How are these costs affected by these characteristics, e.g., how much more does it cost to both (a) forward or (b) return a two-ounce letter compared to a one-ounce letter.

RESPONSE:

- (a) The USPS average forwarding costs of \$0.307 are presented in Table 5.1.1 of USPS/LR-J-69.
- (b)–(c) The impact on forwarding and return costs of various mail piece characteristics has not been studied.

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APWU/USPS-T3-1: Please confirm that the basic methodology for determining the cost of returned mail pieces is based on a study conducted for the USPS and published in September 1999 entitled "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail". If you do not confirm this, please detail your methodology for determining the cost of returned mail pieces and the source or sources for that methodology, and provide or identify the data used.

- (a) Did you analyze differences in the processes the USPS now uses to physically return mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail"? If so, what changes in the processes did you determine had taken place and how were your cost estimates adjusted to reflect those changes? If you did not analyze the differences in the processes the USPS now uses to physically return mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail", why not? Have there been changes in how the Postal Service physically returns mail pieces since 1998? If so, please detail all such changes.
- (b) Did you analyze the differences in the processes the USPS now uses to forward mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail"? If so, what changes in the processes did you determine had taken place? Did you make cost estimates for forwarding mail? If so, please provide your cost estimates and explain how your cost estimates were adjusted to reflect changes in the processes the USPS uses to forward mail pieces. If you did not analyze the differences in the processes the USPS now uses to forward mail pieces compared to the processes that are described in "Volumes, Characteristics, and Costs of Processing Undeliverable-As-Addressed Mail", why not? Have there been changes in how the Postal Service forwards mail pieces since 1998? If so, please detail all such changes.

RESPONSE:

Yes, that is my understanding. More specifically, I reference USPS-LR-J-69.

- (a) I am aware of no major differences in Postal Service processing of returned or forwarded mail pieces between when this study was conducted and now. Please also refer to witness Wilson's response to APWU/USPS-T4-1.

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- (b) Please see my response to (a). Based on USPS-LR-J-69, Table 5.1.1, the costs of forwarding UAA mail is just over 30 cents per piece. I do not include any savings from avoided forwarding costs in my testimony.

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APWU/USPS-T3-2: (a) What changes in the processes for handling of Undeliverable As Addressed (UAA) mail is the USPS currently testing or studying? (b) Are there changes in how the Postal Service will physically return pieces that are currently under consideration or in the process of being implemented? If so, please detail all such changes. (c) Are there changes in how the Postal Service will forward pieces that are currently under consideration or in the process of being implemented? If so, please detail all such changes. (d) What adjustments did you make to your cost estimates to account for these changes? (e) Will PARS affect the processing method and/or cost of returning UAA mail? If so, please describe PARS, provide as much detail on the implementation schedule as is now available and explain how PARS will affect the processing method and/or cost of returning UAA mail. (f) Will PARS affect the processing method and/or cost of forwarding UAA mail? If so, please describe PARS, provide as much detail on the implementation schedule as is now available and explain how PARS will affect the processing method and/or cost of forwarding UAA mail.

RESPONSE:

(a) – (c) Redirected to witness Wilson.

(d) I made no adjustments to my cost estimates.

(e) I expect PARS will have no impact on the cost of returning UAA mail in the test year.

(f) I expect PARS will have no impact on the cost of forwarding UAA mail in the test year.

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APWU/USPS-T3-3: (a) Does the PERMIT system that provides the distribution of Capital One's FY 2001 volume for Attachment A, pages 1 and 2 of your testimony, provide the information necessary to determine the number of additional ounces, nonmachinable pieces, pieces eligible for the heavy piece deduction for Capital One mail or were these determined based on more general Postal Service data? (b) Please describe the PERMIT system, including how, when and in what detail it collects data. (c) Is the comparable data for Capital One's FY 2002 volume now available? If so, please provide the FY 2002 information at the same level of detail. If not, when will it be available? Please provide it when it is available.

RESPONSE:

- (a) Yes, with the following exception. For Capital One, the number of additional ounces, pieces eligible for the heavy piece discount, and nonstandard pieces can be determined from FY 2001 PERMIT system data. However, the nonmachinable surcharge implemented on June 30, 2002 is an extension of the nonstandard surcharge applicable in FY 2001. See Docket No. R2001-1, PRC Op. and Rec. Dec. at 80, para. [3087-3089]. As a result, the number of "nonmachinable pieces" in Attachment A, page 1 was derived from the number of nonstandard pieces for Capital One from the PERMIT system data and the assumption that none of Capital One's presorted First-Class Mail would be nonmachinable under the criteria of DMM 57 C050.2.2 Please also see Attachment A, page 1 note a.
- (b) It is my understanding that the PERMIT system collects data from postage statements. In the case of First-Class Mail, this is from Form 3600. The mailer submits the postage statement to the postal clerk. The postal clerk verifies that the statement is consistent with the associated physical mail and then enters the information from the postage statement

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into the PERMIT system. The PERMIT system collects data based on the information provided in the postage statement. This includes all information related to rate paid as well as other information such as shape and weight that may or may not impact the rate paid depending on the class or subclass of mail. For more information, please refer to the PERMIT system user guide presented in Docket No. R2001-1 as USPS-LR-USPS-J-24.

- (c) The 2002 information is being prepared and will be provided when it is available.

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APWU/USPS-T3-3:

(c) Is the comparable data for Capital One's FY 2002 volume now available? If so, please provide the FY 2002 information at the same level of detail. If not, when will it be available? Please provide it when it is available.

RESPONSE:

The 2002 information is attached.

Capital One First-Class Mail
By Rate Category
FY 2002 Presorted Letter Volumes at Current Rates (Eff. 6/30/2002)

	(1) FY 2002 Volume	(2) Current Rates	(3) = (1) * (2) Revenue
Nonautomated Presorted Letters			
First Ounce	69,506,498	\$ 0.352	\$ 24,466,287
Additional Ounces	393,126	\$ 0.225	\$ 88,453
Nonmachinable Pieces (a)	249,132	\$ 0.055	\$ 13,702
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Total Nonautomated Presorted Letters	69,506,498		\$ 24,568,443
Revenue Adjustment Factor (1)			0.985164
Total Nonautomated Presorted Letters Revenue			\$ 24,203,951
Automation Presort Letters and Flats			
Letters			
	1,441,937,382		
Mixed AADC Letters (b)	50,149,046	\$ 0.309	\$ 15,496,055
AADC Letters (b)	56,093,807	\$ 0.301	\$ 16,884,236
3-Digit Letters	774,641,440	\$ 0.292	\$ 226,195,300
5-Digit Letters	561,053,089	\$ 0.278	\$ 155,972,759
Additional Ounces	7,132,515	\$ 0.225	\$ 1,604,816
Heavy Piece Deduction	10,044	\$ (0.041)	\$ (412)
Flats			
	8,916,320		
Mixed ADC Flats (b)	185,833	\$ 0.341	\$ 63,369
ADC Flats (b)	307,076	\$ 0.333	\$ 102,256
3-Digit Flats	4,724,071	\$ 0.322	\$ 1,521,151
5-Digit Flats	3,699,340	\$ 0.302	\$ 1,117,201
Additional Ounces	4,622,069	\$ 0.225	\$ 1,039,966
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Nonmachinable Pieces (a)	4,294,251	\$ 0.055	\$ 236,184
Total Automation Presort Letters and Flats	1,450,853,702		\$ 420,232,881
Revenue Adjustment Factor			1.000542
Total Automation Presort Letters and Flats Revenue			\$ 420,460,670
Automation Carrier Route Letters			
First Ounce	97,692,049	\$ 0.275	\$ 26,865,313
Additional Ounces	199,217	\$ 0.225	\$ 44,824
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Automation Carrier Route Letters	97,692,049		\$ 26,910,137
Revenue Adjustment Factor			1.000972
Automation Carrier Route Letters Revenue			\$ 26,936,289
Total Capital One First-Class Presort Letters	1,618,052,249		\$ 471,600,910
Revenue per Piece			\$ 0.2915

(1) Revenue adjustment factors increase (or decrease) revenue calculated by multiplying rate category volume times rates to match booked revenues.

Notes:

Capital One volume based on postage statement data from the PERMIT system

a. Following the implementation of Docket No. R2001-1, the nonstandard surcharge was expanded and renamed to include nonmachinable mail. No additional Capital One volume is assumed to be subject to the nonmachinable surcharge.

b. Following the implementation of Docket No. R2001-1, the basic automation letters and flat rate categories were split into Mixed AADC and AADC rate categories (ADC for flats). For Capital One, the 1997 Mail Characteristics Data shown below was used to allocate the basic automation volumes.

	Volume prior to 6/30/2002 Pieces	Share of Basic Automation *	Pieces Allocated to Rate Categories
COF Basic Automation Letter Volume	96,197,917		
Mixed AADC		48.3%	46,463,594
AADC		51.7%	49,734,323
*Docket No. R97-1, USPS-LR-H-185, Table 3, p.8		100.0%	96,197,917
COF Basic Automation Flat Volume	265,513		
Mixed ADC		65.1%	172,902
ADC		34.9%	92,611
*Docket No. R97-1, USPS-LR-H-185, Table 10, p.17		100.0%	265,513

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APWU/USPS-T3-4: (a) Please confirm that the purpose of the "returns adjustment unit cost" (columns 20 and 22) of Attachment A page 2, is to add in the cost differences associated with any difference in return rates between Capital One mail and the overall mix of First Class presort mail letters. (b) In which column are the unit costs associated with the average amount of returned mail tabulated? (c) Is any adjustment to unit costs made for differences in the rate of mail forwarded for Capital One compared to the average? (d) If you are assuming that Capital One's mail is not forwarded at a rate other than the average, please explain the basis for your assumption. (e) What is the average rate of mail forwarded for First Class mailers? (f) What is the average rate of mail forwarded for single-piece First Class mailers? (g) What is the average rate of mail forwarded for First Class mailers paying discounted rates? (h) What is the average rate of mail forwarded for Capital One?

RESPONSE:

- (a) Confirmed.
- (b) Column 17.
- (c) No.
- (d) I am assuming that Capital One's First-Class Mail is forwarded at or below the average rate, but I include no savings from avoided forwarding costs in my testimony. Please refer to Witness Wilson's response to APWU/USPS-T2-8.
- (e) Based on Docket No. R2001-1, USPS-LR-J-69, the average forwarding rate for all First-Class Mail is 1.96 percent. This can be found by taking the First-Class Mail UAA percentage from Table 4.2 and allocating that by the proportion of First-Class forwarded mail in Table 4.3.3.
- (f) I do not believe there is information available that breaks out single-piece.
- (g) I do not believe this information is available.

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- (h) I do not know this information, but at least the portion processed through CFS sites will become available with the implementation of CSR, Option 2 and the NSA.

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APWU/USPS-T3-6: (a) In your calculation of increased contribution from Capital One's "new" mail volume, please confirm that "new" mail volume does not include any mail volume that shifted from Standard solicitation mail to First Class solicitation mail and that you are assuming that no shift of mail volume from Standard solicitation mail to First Class solicitation mail takes place. If you cannot confirm both statements, please identify how much mail volume would be expected to shift from Standard mail to First Class mail. Would that mail be part of the "new" mail volume or in addition to it? (b) If the assumption made here is that there will be no impact on Capital One's Standard mail volume when there is a change in the workshared First Class rate paid by Capital One, consistent with the assumptions that the Postal Service normally makes in rate cases about these two types of mail? (c) If there was a shift of current Capital One Standard mail to First Class mail, how would that impact your calculations?

RESPONSE:

- (a) Confirmed.
- (b) In recent omnibus rate cases, the Postal Service's demand analysis witnesses have estimated a small volume response by Standard mailers to changes in First-Class workshare rates. In other words, some Standard mailers may shift some volume from Standard mail to First-Class Mail in response to a decrease in First-Class Mail workshare rates, but the effect is not large. The Postal Service's demand research, however, makes no attempt to identify which Standard mailers have historically contributed to

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the observed price response, and which have not. Consequently, in preparing this case, we relied on information obtained directly from Capital One regarding its specific mailing behavior.

- (c) If unrelated to the estimate of new First-Class Mail volume predicted by Capital One, some of their Standard mail moved to First-Class, on average, there would be a net benefit in contribution to the Postal Service. Please also see my response to OCA/USPS-T3-12(b).

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APWU/USPS-T3-8: Have you done any revenue and cost analyses related to Section III, F of the proposed Negotiated Services Agreement between Capital One and the USPS? If you have, what assumptions did you use and what were the results of those analyses?

RESPONSE:

No.

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APWU/USPS-T4-17. Please clarify your response to APWU/USPS-T4-10.

- (a) Is the 1.23 percent figure in your answer to APWU/USPS-T4-10 an average presort letter return percentage? If not please identify what mail is included in that percentage.
- (b) Please identify the sources of the 1.23 percent figure in your answer to APWU/USPS-T4-10.
 - (1) Please confirm that the 1.23 percent figure in your answer to APWU/USPS-T4-10 includes the mail returned to sender from the CFS units (the count of which you provided in your response to OCA/USPS-T4-6), and return to sender mail worked directly by the mail processing facilities (approximately two-thirds of the total return to sender volume).
 - (2) In addition to those two sources, does the 1.23 percent figure also include mail returned to sender by the carrier as a result of a death?
 - (3) Are there any other sources or types of mail included in the 1.23 percent figure?

RESPONSE:

- (a) The 1.23 percent figure is the average First-Class Mail return rate.
- (b) Please refer to Attachment A, page 2, note 3 of my testimony. The source of the 1.23 percent figure is listed as USPS/LR-J-69.
 - (1) Please refer to my response to (a).
 - (2) Yes, the 1.23 percent figure includes all reasons for First-Class Mail returns.
 - (3) Yes. Please also refer to my response to OCA/USPS-T3-24(c).

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NAA/USPS-T3-1: Please confirm that your testimony does not attempt to account for the costs incurred by Postal Service executives and other personnel in planning and negotiating the NSA with Capital One. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed.

NAA/USPS-T3-2: Please provide an estimate of the costs incurred by Postal Service executives and other personnel in planning and negotiating the NSA with Capital One. If you cannot confirm, please explain why not.

RESPONSE:

No such estimate exists, and it does not appear feasible to attempt to develop any such estimate for several reasons. First, in accord with practice applicable to similar tasks undertaken on a continuing basis, there was no comprehensive measure taken of the time spent planning and negotiating the NSA. Second, the broad nature of the functions performed by postal executives suggests that, in general, the costs associated with them are fundamentally common fixed costs and institutional in nature. See, for example, the Postal Service's response in Docket No. R2001-1 to UPS/USPS-13 (Tr. 10C/3622) and UPS/USPS-T30-8 (Tr. 10C/3668-71). Lastly, in addition to these broader considerations, as the first NSA presented to the Commission for consideration, there would be additional problems in developing such an estimate because much of the time spent planning and discussing was more focused on the new concept of NSAs in general, as opposed to the Capital One filing in particular.

Note, however, that the lack of any such estimate in this case does not cause treatment of the costs in question that is any different from the treatment of functionally similar preparation costs that exist with respect to every Commission filing by the Postal Service be it small or large.

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NAA/USPS-T3-3: Did you perform any calculations of net institutional cost contributions taking into account the alternative discount structure in which discounts would begin at 1.025 billion pieces? If so, please provide the calculations. If not, please explain why not.

RESPONSE:

No. I was not asked to evaluate the alternative discount structure.

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NAA/USPS-T3-4: Postal Service witness Wilson estimates that 85% of ACS mail will receive electronic notification. What would happen to the 15% of Capital One mail that does not receive electronic notification? How are the associated costs calculated and how do they affect the \$8.2 million institutional contribution?

RESPONSE:

The remaining 15 percent of the pieces will be handled exactly as they are now.

Since there is no change in operations for those 15 percent, there are no cost savings included from those pieces in the \$8.2 million dollar contribution increase.

NAA/USPS-T3-5: Have you included the costs to the Postal Service of litigating this case in your estimated costs of the NSA?

RESPONSE:

No. Even in a historical context, these costs would be of the same nature as the costs discussed in response to NAA/USPS-T3-2, and no estimates of such costs would be available for the reasons discussed in that response. Moreover, in the instance of litigation costs, it would have been necessary to move beyond history and into projections of the future. Such projections would have been influenced by factors such as whether the case would settle, or the extent of hearings that might be required, and the Postal Service would have had no reliable basis on which to anticipate such factors at the time of filing. These considerations further precluded the possibility of attempting to incorporate litigation costs into the filing.

Note once again, however, that the inability to incorporate litigation costs into this filing results in no different treatment than that afforded litigation costs in all other Postal Service filings with the Commission.

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NAA/USPS-T3-6: Are the costs to the Postal Service of litigating this case attributable to First Class Mail generally?

RESPONSE:

Not to my knowledge. Please see the responses to NAA/USPS-T3-2 and 5.

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NAA/USPS-T3-7: Please confirm that your calculations of the net contribution effect of the NSA does not include any possible loss of contribution from a reduction by Capital One in the amount of Standard mail solicitations sent during the term of the NSA. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed. Please also refer to witness Jean's response to OCA/COS-T1-6

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NAA/USPS-T3-8: Please refer to page 4, lines 11 to 14 of your testimony. Are

you assuming that the "new" mail volume does not, in the absence of the volume discounts due to the NSA, consist of mail that otherwise would have been mailed at Standard mail rates? If your response is negative, please explain why not.

RESPONSE:

I am assuming that the "new" volume is new and not redirected from another class of mail.

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NAA/USPS-T3-9: Please confirm that you estimate the net contribution from "new volume" under the NSA to be \$1.8 million in the first year. If you cannot confirm, please explain why not.

RESPONSE:

The calculation in my testimony uses the bottom of the volume response to discount range provided by Capital One. That calculation does provide a new volume contribution estimate of \$1.8 million.

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NAA/USPS-T3-10: Please confirm that you estimate the discount leakage from mail volume that Capital One would mail even in the absence of the rate discounts as \$6.7 million. If you cannot confirm, please explain why not.

RESPONSE:

Confirmed - though this element should not be viewed in isolation.

NAA/USPS-T3-11: What will be the cost to the Postal Service of providing electronic address notification service for pieces of First-Class Mail that are physically forwarded under CSR Option2? Please provide any calculations used to develop your answer.

RESPONSE:

The cost of providing electronic address notification can be measured as the cost of additional keystrokes for handling pieces for which there is ACS notification and forwarding versus pieces for which there is only forwarding. It is my understanding that there are anywhere from 7 to 23 additional keystrokes required of the CFS operators when there is ACS notification and forwarding versus forwarding alone. Table 5.2.2 of USPS-LR-J-69/R2001-1 provides a cost estimate for these additional keystrokes of 6.6 cents per piece. However, any costs would likely be more than offset by the cost savings accruing to the Postal Service from the reduction of forwarded Capital One mail.

NAA/USPS-T3-16. The following questions refer to page 1 of USPS-LR-1/MC2002-2 (referenced in your testimony at page 5, line 5), where you show a "Mailstream Processing" cost of 29.95 cents for "Capital One Physical Mailpieces Returned" citing "Table 5.2.4.1, Row 2, Column F" of USPS-LR-J-69 (Docket No. R2001-1). If you do have not quantitative information for which the following sub-parts ask, please provide your best judgment, estimate, opinion, educated guess, and/or a qualitative answer (such as higher than or lower than) based on your understanding of the mail at issue and the facilities involved.

- a. With respect to the 29.95 cent cost noted in footnote 5 of Table 5.2.4.1, please explain the extent to which this 29.95 cent cost is an average cost for all returned First-Class Mail, including "First-Class Mailpieces of the following shapes: letters, postcards, flats, parcels, and IPPs."
- b. In this average mix, what are the proportions of First-Class Mail in the following categories:
 - (i) letters,
 - (ii) postcards,
 - (iii) flats,
 - (iv) parcels, and
 - (v) IPPs?
- c. Please provide your estimate of the average unit cost of returning letters only, and provide a reference to the available data from which such a unit cost could be calculated.
- d. To what extent does the particular mix of First-Class Mail returned to Capital One (in terms of the proportions of letters, postcards, flats, parcels, and IPPs) compare to the average mix of returned First-Class Mail underlying the 29.95 cent cost figure?

RESPONSE:

- a) Confirmed that the \$0.2995 is an average of First-Class Mail returns and include the shapes referenced in the interrogatory
- b) The data to answer this question can be found in Table 4.7.1 of USPS/LR-J-69.
 - a. Letters/postcards = 94.6 percent
 - b. Flats = 4.9 percent
 - c. Parcels/IPPs = 0.5 percent
- c) This is not available.
- d) Assuming that Capital One's returns have the same mix as the First-Class Mail that it sends out, then the mix of its returns is similar to the mix of returns for all First-Class Mail.

NAA/USPS-T3-17. For an average First-Class Mail piece that is returned physically by the Postal Service, at the average mail processing cost of 29.95 cents, please state the proportion that have barcodes and receive automated processing, and the proportion that receive non-automated or manual processing, such as might be received by flats, or letters without barcodes, or parcels. If the CFS places a barcode on some or all returned pieces, please explain whether there are differences in the treatment of letters, flats, parcels or letters without barcodes.

RESPONSE:

The returned pieces that comprise the average mail processing cost of \$0.2995 include a mix of processing. The actual proportion of pieces receiving automated handling is unknown. I note that Table 4.7.1 of USPS/LR-J-69 estimates that 3.2 percent of First-Class Mail UAA pieces are non-machinable letters. I would assume, then, that at least 3.2 percent of return letter pieces are handled manually.

It is my understanding that barcodes, if any, are put by on the mail piece at the processing facility and not the CFS site. Yes, there will likely be different treatment for letters, flats, and parcels.

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NAA/USPS-TI-2: Please refer to Page 5, lines 19-21 of your testimony, where you state: "nonparticipating customers will see a reduction in their institutional cost burden as the total net contribution from Capital One increases."

a. Please confirm that witness Crum estimates that the total net contribution from this NSA is approximately \$8.2 million.

b. Please confirm that, according to the Commission's Opinion and Recommended Decision in Docket No. R2001-1, the total institutional costs to be recovered from all mail was more than \$28.041 billion.

c. Please confirm that \$8.2 million is approximately 0.029 percent of \$28.041 billion.

RESPONSE:

- a. Using the bottom estimate from Capital One's volume response to discount range produces the net new contribution figure of approximately \$8.2 million in the test year.
- b. Confirmed. However, I understand that Appendix G, Schedule 1 of the Commission's Opinion and Recommended Decision in Docket No. R2001-1 shows a TYAR institutional cost of \$28.742 billion.
- c. Confirmed, but \$8.2 million is also 2.45 percent of Capital One's Presorted First-Class Mail revenue of \$335 million as shown in Attachment A, page 1 of my testimony. \$8.2 million is an even higher proportion of Capital One's net contribution.

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NAA/USPS-T2-2: Please refer to page 5, lines 4-5 of your testimony, where you state that the total net contribution increase estimated by witness Crum would equal "approximately 2 percent of Capital One's First-class Mail revenue."

- a. Please confirm that Capital One's First-class Mail revenue is approximately \$ 410 million. If you cannot confirm, please provide the correct figure and the correct percentage that \$8.2 million is of Capital One's First-class mail revenue.
- b. Is it your testimony that Capital One will pay an additional \$8.2 million in contribution if the NSA were implemented?

Response:

- a. I am not able to confirm, in part, because no time period is stated. Please refer to Attachment A, page 1 of my (USPS-T-3) testimony. The Capital One Presorted First-Class Mail revenue shown there is about \$335 million.
 $8.2 / 335 = 2$ percent (rounded). Please note that based on the test year forecast of volume provided by Capital One, its Presorted First-Class Mail test year revenue will be higher than the FY 2001-based data presented in Attachment A. However, the ratio described by witness Plunkett would still be "approximately 2 percent".
- b. Confirmed that my testimony estimates an additional \$8.2 million in contribution in the test year.

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NAA/USPS-T2-4: Please refer to page 3, lines 20-22, of your testimony, where you state that because "the cost of returning mail pieces is much greater than the electronic address correction fee, the Postal Service reduces its overall cost of serving Capital One even if the fee is waived." Is the cost of physically returning mail pieces greater than the fee for electronic correction?

Response:

Yes. The cost of physically returning mail pieces as shown on page 1 of library reference USPS-LR-MC2002-2/1 is 53.47 cents. The electronic address correction fee is 20 cents as shown in Fee Schedule 911.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM
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OCA/USPS-T3-2. Please refer to your testimony at page 4, lines 14-15, and page 6, lines 14-15. Excluding cost savings associated with address correction service, please confirm that at the negotiated volume threshold of 1.225 billion pieces, the revenue contribution resulting from Capital One's access to the declining block discounts is a negative \$4.9 million, as shown in the table below. If you do not confirm, please explain.

NEGATIVE REVENUE CONTRIBUTION FROM CAPITAL ONE'S ACCESS
TO DECLINING BLOCK DISCOUNTS
(millions)

Increased Contribution from New Volume	\$1.8
Discount Leakage	<u>(\$6.7)</u>
NEGATIVE REVENUE CONTRIBUTION	(\$4.9)

RESPONSE:

Using the bottom of the estimated range of the Capital One volume response to discounts and including the discount leakage and increased contribution from new volume alone yields a test year estimated contribution of about -\$4.9 million.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM
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OCA/USPS-T3-3. Please refer to your testimony at page 6, lines 6-7. Please confirm that the cost savings of \$13.1 million for the electronic address correction service provided to Capital One excludes the negative revenue contribution associated with the declining block discounts. If you do not confirm, please explain.

RESPONSE:

The address change service return cost savings measured in isolation yield an estimated test year contribution of about \$13.1 million.

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TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE

OCA/USPS-T3-4. Please refer to your testimony at page 5, lines 22-23, and page 6, lines 1-4, where you cite the testimony of Capital One that 9.6 percent of its solicitation mail is returned, and use this percentage figure in your calculations. Do you expect this percentage figure to remain constant, increase or decrease during the three-year period of the experiment? Please explain and provide any available analysis or document to support your conclusions.

RESPONSE:

My analysis is solely based on Capital One's stated expectation regarding its return rate. Please also refer to witness Jean's responses to OCA/COS-T1-11 and 12. If the agreement results in a decline in the return rate (physical returns and electronic notifications combined) as is hoped, this would result in additional savings to USPS.

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OCA/USPS-T3-5. Please refer to USPS-LR-1/MC2002-2, page 1.

- (a) In line 1., please explain in detail the activities encompassed by the heading "Carrier Preparation." Also, identify the location where such activities take place.
- (b) In line 2., please explain in detail the activities encompassed by the heading "Clerk Handling." Also, identify the location where such activities take place.
- (c) In line 3., please explain in detail the activities encompassed by the heading "CFS Processing." Also, identify the location where such activities take place.
- (d) In line 4., please explain in detail the activities encompassed by the heading "Mailstream Processing." Also, identify the location where such activities take place.
- (e) In Column D, please explain in detail the meaning and purpose of the figures in the column, "Frequency."

RESPONSE:

- (a) My understanding is that "Carrier Preparation" activities take place at delivery units where the carriers are located. Carrier preparation involves activities such as separating UAA mail, bundling it for delivery to the CFS, verifying the name/address, and endorsing the piece with a reason for non-delivery.
- (b) My understanding is that "Clerk Handling" activities usually take place at delivery units. Clerk handling mostly involves retrieving and processing the carrier's UAA bundles. The specific activities will depend on the class of mail and endorsements, if any.
- (c) My understanding is that "CFS Processing" activities take place at CFS sites. The CFS sites receive UAA mail from the delivery units. The class of mail along with any ancillary endorsements and the age of any Change-of-Address (COA) order will determine the disposition of the mail piece. Pieces may be returned directly from the CFS site or sent back to the delivery unit for additional information and returned from there.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM
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(d) My understanding is that "Mailstream Processing" activities take place at any of various processing sites throughout the postal network (SCFs, ADCs, AMFs/AMCs, etc.). This item includes mail processing as well as transportation. More detail regarding mail processing steps can be found in the various processing models by shape and class of mail that are filed with each omnibus case. Returned mail is less easily sorted on automation equipment because of difficulties in processing to the return mail address.

(e) Frequency is the estimated proportion of time that the particular activity takes place.

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OCA/USPS-T3-6. Please refer to USPS-LR-1/MC2002-2, page 1.

- (a) In line 1., "Carrier Preparation," Column A, please confirm that the figure 1,370,471, consists of First-Class Mail, Periodicals Mail, Standard A Mail, and Standard B Mail. If you do not confirm, please explain.
- (b) In line 2., "Clerk Handling," Column A, please show all calculations used to derive the figure 670,618.
- (c) In line 2., "Clerk Handling," Column B, please confirm that the cost per piece figure of \$0.2711 is calculated as follows: $\$243139 / 896,877$. If you do not confirm, please explain.
- (d) In line 3., "CFS Processing," Column H, please show all calculations used to derive the percentage figure 0.35.

RESPONSE:

- (a) Confirmed.
- (b) Please refer to LR-J-69/R2001-1, Table 5.1.2.
 $(610,316 + 87,408 * 475,667 / (475,667 + 213,812)) = 670,618$
- (c) Confirmed.
- (d) Please refer to LR-J-69/R2001-1, Table 5.1.2. $(475,667 / 1,370,471 = .35)$

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OCA/USPS-T3-7. Please refer to USPS-LR-1/MC2002-2, page 1.

- (a) Please confirm that the weighted cost per piece of \$0.5347 for physical returns is the same weighted cost per piece that would be calculated for any First-Class mailer that receives physical returns in the same manner as Capital One. If you do not confirm, please explain and provide the weighted cost per piece for physical returns.
- (b) Please confirm that the weighted cost per piece of \$0.5347 for physical returns is the same weighted cost per piece that would be calculated for any First-Class mailer that receives the physical return of mailpieces endorsed "Forwarding Service Requested" (or no endorsement). If you do not confirm, please explain and provide the weighted cost per piece for physical returns.
- (c) Please confirm that the weighted cost per piece of \$0.5347 for physical returns is the same weighted cost per piece that would be calculated for any First-Class mailer that receives the physical return of mailpieces endorsed "Return Service Requested." If you do not confirm, please explain and provide the weighted cost per piece for physical returns.
- (d) Please confirm that the weighted cost per piece of \$0.5347 for physical returns is the same weighted cost per piece that would be calculated for any First-Class mailer that receives the physical return of mailpieces endorsed "Temp—Return Service Requested." If you do not confirm, please explain and provide the weighted cost per piece for physical returns.
- (e) Please confirm that the weighted cost per piece of \$0.5347 for physical returns is the same weighted cost per piece that would be calculated for any First-Class mailer that receives the physical return of mailpieces endorsed "Address Service Requested." If you do not confirm, please explain and provide the weighted cost per piece for physical returns.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed – assuming no accountable mail or postage due.
- (c) Confirmed – assuming no accountable mail or postage due.
- (d) Confirmed – assuming no accountable mail or postage due.
- (e) Confirmed – assuming no accountable mail or postage due.

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OCA/USPS-T3-8. Please refer to USPS-LR-1/MC2002-2, page 2.

- (a) Please confirm that the weighted cost per piece of \$0.3321 for electronic Address Change Service is the same weighted cost per piece that would be calculated for any First-Class mailer that receives electronic Address Change Service in the same manner as proposed for Capital One in the Negotiated Service Agreement (NSA). If you do not confirm, please explain and provide the weighted cost per piece for electronic Address Change Service.
- (b) Please confirm that the weighted cost per piece of \$0.3321 for electronic Address Change Service is the same weighted cost per piece that would be calculated for any First-Class mailer that receives the electronic "return" of mailpieces endorsed "Change Service Requested" (Option 2) at no charge. If you do not confirm, please explain and provide the weighted cost per piece for the electronic "return" of mailpieces endorsed "Change Service Requested" (Option 2) at no charge.

RESPONSE:

- (a) Confirmed.
- (b) Confirmed. However those participants in the ACS program who use Change Service Requested, Option 2, will incur the normal ACS fees. Please see response to OCA/USPS-T4-2.

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OCA/USPS-T3-9. Please refer to your testimony at page 5, lines 6-9, where it states that you are adjusting your estimate "to remove the costs associated with collection of postage due which is not applicable to Capital One[s] First-Class Mail pieces." Also, please refer to USPS-LR-1/MC2002-2, page 1.

- (a) With respect to the Physical Return Costs of USPS-LR-1, please explain and show all calculations used to adjust your estimate to remove the costs associated with the collection of postage due.
- (b) With respect to the physical return of undeliverable-as-addressed (UAA) First-Class Mail, please explain in detail under what circumstances the Postal Service will collect postage due.
- (c) With respect to the physical return of UAA First-Class Mail, please explain in detail under what circumstances the Postal Service will not collect postage due.

RESPONSE:

(a) Please refer to LR-J-69/R2001-1, Table 5.1.2. The Postage Due and Accountable Mail lines are removed from this to develop page 1 of USPS-LR-1/MC2002-2.

(b) It is my understanding that postage due is collected if pieces are found to have insufficient postage.

(c) It is my understanding that postage due is not collected if pieces have paid the appropriate postage. Since Capital One pays its postage based on Permit accounts, there will generally not be a need to collect postage due as presented in Table 5.1.2 of LR-J-69/R2001-1.

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OCA/USPS-T3-10. Please refer to Attachment A, page 1, of your testimony.

- (a) Please confirm that Capital One's total First-Class Mail volume in Fiscal Year 2001 was 1,259,522,464 (see the testimony of Witness Elliot, COS-T-2, Exhibit 2). If you do not confirm, please explain.
- (b) Please reconcile the "Total Capital One First-Class Presort Letters" volume figure of 1,151,030,366 in Column (1) of Attachment A, page 1, with the volume figure in part (a) of this interrogatory.

RESPONSE:

- (a) Confirmed that this is Capital One's measure of its volume from October 1, 2000 through September 30, 2001.
- (b) The volume figure in my testimony, 1,151,030,386, is based on the Postal Fiscal Year which is several days different than the Government Fiscal Year volumes you cite for Capital One. Capital One does not have their First-Class Mail volume by Postal Fiscal Year and the Postal Service does not have Capital One's First-Class Mail volume by Government Fiscal Year (calendar month). For purposes of the NSA, volumes will be counted via the Postal Service Fiscal Year until such time as monthly reporting becomes available (October 1, 2003).

There is one other issue that accounts for the discrepancy. The figure in my testimony is based solely on defined unique Permit numbers for Capital One. Capital One's figures include its total volume of which approximately 10 million pieces per month are were sent via mailing shops for which the Capital One volume is not identified under a unique Permit number. Instead, the vendor commingled Capital One mail with one or more other mailer's volume.

Under the NSA, the only volumes that will be counted will be those mailed through identified Capital One permit accounts. . Please see Article III, Section J on pages 6-7 of the agreement.

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OCA/USPS-T3-11. Please refer to pages 2-4, "Increased Contribution from New Mail Volume," of your prefiled testimony. Please provide any analysis of Capital One's mail volume and/or of other mail volumes, which were relied upon by the USPS in its negotiation of the proposed Negotiated Service Agreement (NSA).

RESPONSE:

I analyzed Capital One's volume data and provided its First-Class Mail volume to the negotiators based on unique, identified Permit numbers for FY 2001. As quarterly FY 2002 data became available, I provided that as well.

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OCA/USPS-T3-12. Please refer to pages 1-2, "Background," of your prefiled testimony. Please provide any and all analyses of revenues, volumes, costs, or cost savings relied upon by the USPS in the negotiation of the proposed NSA which analyses address[:]

(a) the cost savings being made available by the proposed NSA to Capital One and/or to the USPS;

(b) the migration of mail to First Class anticipated from the effects of the NSA; and,

(c) the costs that the USPS anticipates will be occasioned to it in order to carry out and monitor performance of the proposed NSA.

RESPONSE:

(a) – While we broadly discussed the potential value to Capital One internally, I did not prepare any specific analyses. Regarding the value to the Postal Service, I prepared various preliminary cost analyses that were *finalized and presented in my testimony.*

(b) – As stated in my responses to NAA/USPS-T3-7 and 8, I do not project any contribution impact from migration that may result from the NSA. However, I did look at the contribution of Capital One's Standard Mail on average relative to Capital One's First-Class Mail on average. I doubt this provided any information to the negotiators beyond knowing that, all else equal, if any of Capital One's Standard Mail moved to First-Class (even with a discount), on average, this would result in an improvement in unit contribution.

(c) – I have not estimated costs of implementation or monitoring beyond that presented in my testimony.

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OCA/USPS-T3-13. Please refer to pages 1-2, "Background," of your prefiled testimony.

- (a) Please provide your understanding, if any, of the amount of time devoted by postal management personnel to the negotiation and formation of the NSA. If your understanding rests on any documentation, please provide such documentation.
- (b) Please provide your understanding, if any, of the amount of time expected to be devoted by postal management personnel to the administration and enforcement of the NSA over the life of the agreement. If your understanding rests on any documentation, please provide such documentation.

RESPONSE:

Please refer to my responses to NAA/USPS-T3-2, 5-6..

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OCA/USPS-T3-16. Please refer to your response to NAA/USPS-T3-11.

- (a) Based upon a cost of 6.6 cents per piece for electronic Address Change Service (ACS) notification for First-Class mailpieces that are forwarded, please provide the total cost to the Postal Service of offering electronic ACS notification for Capital One's First-Class solicitation mailpieces that are forwarded. Please show all calculations.
- (b) Please set forth the full set of calculations and analysis to support your statement that the 6.6 cents per piece "would likely be more than offset by the cost savings accruing to the Postal Service from the reduction of forwarded Capital One mail." Include in your answer the number of Capital One pieces that will be correctly addressed as a result of participation in the Negotiated Service Agreement (NSA). Include all documentation to support this figure as well as all others involved in the calculations and analysis.
- (c) Please cite those portions of your testimony and workpapers where this analysis and supporting calculations were included in the initial filing on September 19, 2002.
- (d) If the analysis and supporting calculations were not included in the initial filing on September 19, 2002, please state the reasons for the omission.
- (e) Please cite those portions of your testimony and workpapers (filed on September 19, 2002) where the 6.6-cent per piece figure has been developed and/or utilized.
- (f) If the 6.6 cent per piece figure was not included in the September 19, 2002, filing, please state the reasons for the omission.

RESPONSE:

- (a) Please refer to my response to POIR #2, question 7.
- (b) Please refer to my response to POIR #2, question 7.
- (c) N/A
- (d) While I was aware of these potential savings, it was decided not to include them because there were simply too many unknowns to develop a solid, supportable cost or cost savings point estimate. These unknowns include the forwarding ratio of Capital One and the average number of solicitations per address that Capital One mails to in a given year. As my response to POIR #2, question 7, indicates it is highly likely that the electronic address correction notices for forwarded mail will yield additional savings for the Postal Service. In a qualitative sense, this should make parties more comfortable

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regarding the value of this NSA to the Postal Service. But since the savings cannot be readily quantified, I felt that the conservative approach should be taken.

(e) N/A

(f) Please refer to my response to POIR #2, question 7 and (d) above.

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OCA/USPS-T3-18. Please refer to your response to NAA/USPS-T3-11, and Columns F and G in Table 5.2.2 in USPS-LR-J-69 from Docket No. R2001-1.

- (a) Please confirm that the "Frequency" of Address Change Service (ACS) mail processed on mechanized terminals is 83 percent. If you do not confirm, please explain.
- (b) Please confirm that the "Weighted Total Cost/Piece" for ACS mail processed on a mechanized terminal is \$0.0550. If you do not confirm, please explain.
- (c) Please confirm that the "Frequency" of ACS mail processed on non-mechanized terminals is 17 percent. If you do not confirm, please explain.
- (d) Please confirm that the "Weighted Total Cost/Piece" for ACS mail processed on a non-mechanized terminal is \$0.0447. If you do not confirm, please explain.
- (e) Please confirm that the "Weighted Total Cost/Piece" for "ACS Keying" is \$0.0997 (\$0.0550 + \$0.0447). If you do not confirm, please explain.
- (f) Please confirm that \$0.0997 should be used for the unit cost when there is electronic ACS notification and forwarding, instead of the unit cost of \$0.0660. If you do not confirm, please explain.

RESPONSE:

- (a) Confirmed that the estimated "Frequency" of ACS mail being processed on mechanized terminals as presented in USPS-LR-J-69 is 83 percent.
- (b) Confirmed that the "weighted total cost/piece" for ACS keying on a mechanized terminal as presented in USPS-LR-J-69 is \$.0550.
- (c) Confirmed that the estimated "Frequency" of ACS mail being processed on non-mechanized terminals as presented in USPS-LR-J-69 is 17 percent.
- (d) Confirmed that the "weighted total cost/piece" for ACS keying on a non-mechanized terminal as presented in USPS-LR-J-69 is \$.0447.
- (e) Confirmed that the "ACS Keying Subtotal" as presented in Table 5.2.2 of USPS/LR-J-69 is \$0.0997.
- (f) Partially confirmed. Please refer to my response to NAA/USPS-T3-11. The \$0.0660 figure mentioned there references an estimate of the additional costs of ACS notification above the costs of standard forwarding and not "the unit cost ... (of) electronic ACS notification and forwarding" you reference in the interrogatory.

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OCA/USPS-T3-19. Please refer to your testimony, Attachment A, page 2, lines (1), (2) and (3).

- (a) Please provide the "Capital One Solicitation Forward Percentage."
- (b) Please provide the "Capital One Statement Forward Percentage."
- (c) Please provide the "Average Presort Letters Forward Percentage."

RESPONSE:

- (a) This information is not available. Please also refer to my response to POIR #2, question 7.
- (b) This information is not available. Please also refer to my response to POIR #2, question 7.
- (c) Please refer to my response to APWU/USPS-T3-4(e).

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OCA/USPS-T3-20. Please refer to your testimony, Attachment B, page 2. Please confirm that the "Address Change Service (ACS) Return Cost Savings" equals $\$13,075,599 = ((0.135922773017165 - 0.126636126131282) * 1,408,000,000)$. If you do not confirm, please explain.

RESPONSE:

Confirmed. In my analysis I rounded to four-digits to lessen potential confusion in my presentation.

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OCA/USPS-T3-21. Please refer to the table below, entitled Attachment A, Page 2 (Revised by OCA), which contains revisions to Attachment A, Page 2 of your testimony.

- (a) Refer to column (13). Please confirm that the average presort letters return unit cost is \$0.0066 $((1.23\% * \$0.535))$. If you do not confirm, please explain and show all calculations used to derive the average presort letters return unit cost.
- (b) Refer to column (14). Please confirm that Capital One's total unit cost in the TYBR adjusting for the unit cost of an average return is \$0.1010 $(\$0.108 - \$0.0066)$. If you do not confirm, please explain and show all calculations used to derive Capital One's total unit cost in the TYBR adjusting for the unit cost of an average return.
- (c) Refer to column (15). Please confirm that Capital One's unit cost adjustment for customer returns in the TYBR is \$0.0029 $[(1.20\% * \$0.535 * 640,000,000) / (640,000,000 + 768,000,000)]$. If you do not confirm, please explain and show all calculations used to derive Capital One's unit cost adjustment for customer returns.
- (d) Refer to column (16). Please confirm that Capital One's unit cost adjustment for solicitation returns in the TYBR is \$0.0280 $[(9.6\% * \$0.535 * 768,000,000) / (640,000,000 + 768,000,000)]$. If you do not confirm, please explain and show all calculations used to derive Capital One's unit cost adjustment for solicitation returns.
- (e) Refer to column (18). Please confirm that Capital One's unit cost adjustment for customer returns in the TYAR is \$0.0029 $[(1.20\% * \$0.535 * 640,000,000) / (640,000,000 + 768,000,000)]$. If you do not confirm, please explain and show all calculations used to derive Capital One's unit cost adjustment for customer returns.
- (f) Refer to column (19). Please confirm that Capital One's unit cost adjustment for solicitation returns in the TYAR is \$0.0190 $((9.6\% * (85\% * \$0.332 + ((1 - 85\%) * \$0.535))) * 768,000,000) / (640,000,000 + 768,000,000)$. If you do not confirm, please explain and show all calculations used to derive Capital One's unit cost adjustment for solicitation returns.

RESPONSE:

- (a) Confirmed that your calculation is correct.
- (b) Confirmed that \$0.1076 minus \$0.0066 equals \$0.1010.
- (c) Confirmed that your calculation is correct.
- (d) Confirmed that your calculation is correct.
- (e) Confirmed that your calculation is correct.
- (f) Confirmed that your calculation is correct.

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OCA/USPS-T1-2. Please refer to your testimony at page 6, lines 5-8. Please confirm that the declining block discount feature of the NSA results in a negative contribution to institutional costs of \$4.9 million (-\$6.7 million + \$1.8 million). If you do not confirm, please explain.

RESPONSE:

The declining block rate discount feature in isolation does result in a negative estimated test year contribution of \$4.889 million.

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OCA/USPS-T1-3. Please refer to your testimony at page 5, lines 17-18. Please confirm that the electronic address change feature of the NSA results in cost savings of \$13.1 million. If you do not confirm, please explain.

RESPONSE

The electronic address change feature in isolation does result in estimated test year cost savings of \$13.094 million.

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REDIRECTED FROM WITNESS WILSON

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OCA/USPS-T4-3. Please refer to your testimony at page 2, line 16.

- (a) Please confirm that on a per piece basis, the fee for electronic address correction is less than the cost to physically return First-Class Mail that is UAA to the mailer at no charge. If you do not confirm, please explain.
- (b) Please confirm that on a per piece basis, the cost for electronic address correction is less than the cost to physically return First-Class Mail that is UAA to the mailer at no charge. If you do not confirm, please explain.
- (c) Please provide the net savings cost per piece to provide electronic address correction to the mailer instead of physically returning First-Class Mail that is UAA at no charge.

RESPONSE:

- (a) The fees charged for electronic Address Change Service are not part of my testimony, but it is my understanding that what you say is correct
- (b) Confirmed.
- (c) The estimated average net cost savings of providing electronic information versus providing physical return of a First-Class Mail piece is \$.2026. Please refer to page 5, line 17 of my testimony.

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OCA/USPS-T4-22. Please refer to your testimony at page 5, lines 1- 9.

- (a) What is the cost of loading ASR- and CSR-endorsed mail into a mechanized terminal desk? Provide the source for this answer.
- (b) What is the cost of manually keying information into the terminal so as to retrieve the recipient's new address? Provide the source for this answer.
- (c) What is the cost of inputting the reason for non-delivery (as noted by the carrier on the cover of the mailpiece) into the terminal? Provide the source for this answer.
- (d) What is the cost of inputting the ACS participant code and the keyline from the mailpiece into the terminal? Provide the source for this answer.

RESPONSE:

(a) – (d) The available information about the cost per piece for processing at CFS units is described in Table 5.2.2 of USPS/LR-J-69. That table does not break out the costs in the precise manner requested.

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OCA/USPS-T4-23. Please refer to your testimony at page 5, lines 10 – 12.

- (a) What is the cost to the CFS center to process mail with a valid forwarding order on file? Provide the source for this answer.
- (b) What is the cost to process mail without a valid forwarding order? Provide the source for this answer.
- (c) What is the cost to discard mail that is endorsed CSR, Option 2? Provide the source for this answer.

RESPONSE:

- (a) The estimate of CFS processing costs for UAA mail being forwarded of \$.1258 is presented in Table 5.1.1 of USPS/LR-J-69.
- (b) Although the question is unclear, I have interpreted it to be "what is the cost of to process and discard mail with a CSR, Option 2 endorsement." Based on Table 5.1.3 of USPS/LR-J-69, the cost of CFS processing for UAA mail treated as waste is \$0.0138. CSR, Option 2 will become a valid endorsement in January 2003. I have no reason to believe that the cost to process waste will differ on CSR, Option 2.
- (c) Please also refer to my response to (b) above.

RESPONSE OF UNITED STATES POSTAL SERVICE CHARLES L. CRUM
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 1, QUESTION 2

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POIR1, Q2. Please refer to USPS-T-3, Attachment A, page 1. Please provide the same breakdown of First-Class volumes by rate category sent by Capital One in FY 2001 separately for customer mail and for solicitations.

RESPONSE:

The requested sheets are attached to this response.

ATTACHMENT 1 TO POIR NO. 1, QUESTION 2, CUSTOMER MAIL

Capital One First-Class Mail
By Rate Category
FY 2001 Presorted Letter Volumes at Current Rates (Eff. 6/30/2002)

	(1) FY 2001 Volume	(2) Current Rates	(3) = (1) * (2) Revenue
Nonautomated Presorted Letters			
First Ounce	18,684,023	\$ 0.352	\$ 6,576,776
Additional Ounces	0	\$ 0.225	\$ -
Nonmachinable Pieces (a)	0	\$ 0.055	\$ -
Heavy Piece Deduction	0	(\$ 0.041)	\$ -
Total Nonautomated Presorted Letters	18,684,023		\$ 6,576,776
Revenue Adjustment Factor (1)			0.985164
Total Nonautomated Presorted Letters Revenue			\$ 6,479,205
Automation Presort Letters and Flats			
Letters			
Mixed AADC Letters (b)	15,241,279	\$ 0.309	\$ 4,709,555
AADC Letters (b)	16,314,164	\$ 0.301	\$ 4,910,563
3-Digit Letters	202,849,309	\$ 0.292	\$ 59,231,996
5-Digit Letters	152,631,767	\$ 0.278	\$ 42,431,631
Additional Ounces	12,178	\$ 0.225	\$ 2,740
Heavy Piece Deduction	0	(\$ 0.041)	\$ -
Flats			
Mixed ADC Flats (b)	0	\$ 0.341	\$ -
ADC Flats (b)	0	\$ 0.333	\$ -
3-Digit Flats (c)	0	\$ 0.322	\$ -
5-Digit Flats (c)	0	\$ 0.302	\$ 0
Additional Ounces	0	\$ 0.225	\$ -
Heavy Piece Deduction	0	(\$ 0.041)	\$ -
Nonmachinable Pieces (a)	0	\$ 0.055	\$ -
Total Automation Presort Letters and Flats	387,036,519		\$ 111,286,488
Revenue Adjustment Factor			1.000542
Total Automation Presort Letters and Flats Revenue			\$ 111,346,811
Automation Carrier Route Letters			
First Ounce	26,267	\$ 0.275	\$ 7,223
Additional Ounces	0	\$ 0.225	\$ -
Heavy Piece Deduction	0	(\$ 0.041)	\$ -
Automation Carrier Route Letters	26,267		\$ 7,223
Revenue Adjustment Factor			1.000972
Automation Carrier Route Letters Revenue			\$ 7,230
Total Capital One First-Class Presort Letters	405,746,809		\$ 117,833,247
Revenue per Piece			\$ 0.2904

(1) Revenue adjustment factors increase (or decrease) revenue calculated by multiplying rate category volumes times rates to match booked revenues.

Notes:

Capital One volume based on postage statement data from the PERMIT system.

a. Following the implementation of Docket No. R2001-1, the nonstandard surcharge was expended and renamed to include nonmachinable mail. No additional Capital One volume is assumed to be subject to the nonmachinable surcharge.

b. Following the implementation of Docket No. R2001-1, the basic automation letters and flats rate categories were split into Mixed AADC and AADC rate categories (ADC for flats). For Capital One, the 1997 Mail Characteristics Data shown below was used to allocate the basic automation volumes.

	Pieces	Share of Basic Automation *	Pieces Allocated to Rate Categories
COF Basic Automation Letter Volume			
Mixed AADC	31,555,443	48.3%	15,241,279
AADC		51.7%	16,314,164
*Docket No. R87-1, USPS-LR-H-185, Table 3, p.8		100.0%	31,555,443
COF Basic Automation Flat Volume			
Mixed ADC		65.1%	-
ADC		34.9%	-
*Docket No. R87-1, USPS-LR-H-185, Table 10, p.17		100.0%	-

c. Following the implementation of Docket No. R2000-1, the 3/5-Digit Flat rate category was split into 3-digit and 5-digit rate categories. For Capital One, the FY2001 volumes at the 3-digit and 5-digit level of sortation following the R2000-1 implementation was used to allocate the 3/5-digit volumes mailed prior to the Docket No. R2000-1 implementation.

	Pieces	3/5-digit Pieces Allocated to Rate Categories	Total Pieces
COF 3/5-digit flats (prior to rate change)	-	-	-
3-digit flats (after rate change)	-	-	-
5-digit flats (after rate change)	0	-	0

ATTACHMENT 2 TO POIR NO. 1, QUESTION 2, SOLICITATION MAIL

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Capital One First-Class Mail
By Rate Category
FY 2001 Presorted Letter Volumes at Current Rates (Eff. 6/30/2002)

	(1) FY 2001 Volume	(2) Current Rates	(3) = (1) * (2) Revenue
Nonautomated Presorted Letters			
First Ounce	38,980,145	\$ 0.352	\$ 13,721,011
Additional Ounces	27,107	\$ 0.225	\$ 6,099
Nonmachinable Pieces (a)	17,338	\$ 0.055	\$ 954
Heavy Piece Deduction	3,982	\$ (0.041)	\$ (164)
Total Nonautomated Presorted Letters	38,980,145		\$ 13,727,900
Revenue Adjustment Factor (1)			0.985164
Total Nonautomated Presorted Letters Revenue			\$ 13,524,236
Automation Presort Letters and Flats			
Letters			
Mixed AADC Letters (b)	43,513,648	\$ 0.308	\$ 13,445,718
AADC Letters (b)	46,576,722	\$ 0.301	\$ 14,019,593
3-Digit Letters	335,556,743	\$ 0.282	\$ 97,982,569
5-Digit Letters	216,798,569	\$ 0.278	\$ 60,270,002
Additional Ounces	563,613	\$ 0.225	\$ 126,813
Heavy Piece Deduction	16,200	\$ (0.041)	\$ (664)
Total Automation Presort Letters and Flats	642,445,683		\$ 186,005,916
Revenue Adjustment Factor			1.000542
Total Automation Presort Letters and Flats Revenue			\$ 186,106,741
Automation Carrier Route Letters			
First Ounce	63,485,706	\$ 0.278	\$ 17,458,568
Additional Ounces	2,293	\$ 0.225	\$ 516
Heavy Piece Deduction	0	\$ (0.041)	\$ -
Automation Carrier Route Letters	63,485,706		\$ 17,459,085
Revenue Adjustment Factor			1.000972
Automation Carrier Route Letters Revenue			\$ 17,476,052
Total Capital One First-Class Presort Letters	745,283,577		\$ 217,107,029
Revenue per Piece			\$ 0.2913

(1) Revenue adjustment factors increase (or decrease) revenue calculated by multiplying rate category volumes times rates to match booked revenues.

Notes:

Capital One volume based on postage statement data from the PERMIT system

a. Following the implementation of Docket No. R2001-1, the nonstandard surcharge was expanded and renamed to include nonmachinable mail. No additional Capital One volume is assumed to be subject to the nonmachinable surcharge

b. Following the implementation of Docket No. R2001-1, the basic automation letters and flats rate categories were split into Mixed AADC and AADC rate categories (ADC for flats). For Capital One, the 1997 Mail Characteristics Data shown below was used to allocate the basic automation volumes.

	Pieces	Share of Basic Automation *	Pieces Allocated to Rate Categories
COF Basic Automation Letter Volume	90,090,371		
Mixed AADC		48.3%	43,513,648
AADC		51.7%	46,576,722
*Docket No. R97-1, USPS-LR-H-185, Table 3, p.8		100.0%	90,090,371
COF Basic Automation Flat Volume	47,984		
Mixed ADC		65.1%	31,247
ADC		34.9%	16,737
*Docket No. R97-1, USPS-LR-H-185, Table 10, p.17		100.0%	47,984

c. Following the implementation of Docket No. R2000-1, the 3/5-Digit Flat rate category was split into 3-digit and 5-digit rate categories. For Capital One, the FY2001 volumes at the 3-digit and 5-digit level of sortation following the R2000-1 implementation was used to allocate the 3/5-digit volume mailed prior to the Docket No. R2000-1 implementation.

	Pieces	3/5-digit Pieces Allocated to Rate Categories	Total Pieces
COF 3/5-digit flats (prior to rate change)	60,814		
3-digit flats (after rate change)	258,878	59,806	318,683
5-digit flats (after rate change)	4,367	1,009	5,376

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
PRESIDING OFFICER'S INFORMATION REQUEST NUMBER 1, QUESTION 3

POIR1, Q3. Under the terms of the agreement, the Postal Service will no longer³¹⁷ return to Capital One First-Class mail pieces that cannot be delivered or forwarded. Please describe the means by which the Postal Service will dispose of this mail, and provide an estimate of any costs and/or revenues resulting from its disposal.

RESPONSE:

It is my understanding that this type of mail will be disposed of in the same way as all other disposed mail. Where available, the waste pieces will be picked up with the other waste mail of the facility and recycled. Where recycling is not available, it will be deposited in normal trash containers and taken away by trash haulers. On a national basis, I am aware of no data available to say whether there would be a net cost or a net revenue from such disposal.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 2, QUESTION 7

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POIR-2, Q7: Under the terms of the NSA, the Postal Service will provide electronic address correction information for Capital One's First-Class solicitations that are forwarded under CSR option 2. In the response to NAA/USPS-T3-11 witness Crum provides an estimate of 6.6 cents for the cost of providing electronic address correction information for one forwarded piece of First-Class [M]ail. Witness Crum goes on to assert that the costs of notification "would likely be more than offset by the cost savings accruing to the Postal Service from the reduction of forwarded Capital One mail."

- (a) Please provide the estimate of the Postal Service's *total* (as opposed to unit) TYAR cost of providing electronic address correction information to Capital One for forwarded First-Class solicitation mail upon which witness Crum's assertion is based. If no quantitative estimate is available, please develop one. Please show all calculations and explain any assumptions.
- (b) Please provide the estimate of *total* TYAR savings from the reduction of forwarded mail upon which witness Crum's assertion is based. If no quantitative estimate is available, please develop one. Please show all calculations and explain any assumptions.

RESPONSE:

Estimating the total costs of providing electronic address correction to Capital One and the total savings from avoided forwarding requires a number of simplifying assumptions. By choosing conservative assumptions, I can explain why I believe the savings will more than offset the costs. The starting point is an estimate of the volume of Capital One solicitation mail that would be forwarded without the Capital One NSA. Currently, no means for estimating Capital One's own forwarding ratio is known.

Development of a TYAR estimate accordingly begins with application of the First-Class Mail forwarding percentage of 1.96 percent (response to APWU/USPS-T3-4(e)) to the portion of Capital One's volume that would be forwarded through CFS units. This calculation embeds two assumptions, the first

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 2, QUESTION 7

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of which is conservative and the other of which has no alternatives. First, witness Wilson expects that Capital One's forwarding rate is equal to or less than the First-Class Mail average (see the response to APWU/USPS-T2-8), so the 1.96 percent is conservative. Second, the only available estimate for the percentage of UAA mail that is directed to CFS units, 85 percent, is witness Wilson's estimate of the proportion of ACS-endorsed mail sent to CFS units. USPS-T-4, at 7.

Thus the theoretical maximum number of pieces forwarded through CFS units for Capital One First-Class Mail solicitations would be: number of test year solicitations multiplied by both the average forwarding rate and the percentage handled by CFS units ($768,000,000 * 0.0196 * 0.85 = 12,794,880$ pieces).

This estimate is too high for the test year, after rates, because it fails to account for the fact that pursuant to the NSA, Capital One receives corrected address information frequently and must act on it almost immediately (within two days). Capital One's forwarding rate should accordingly decline substantially during the test year. Capital One now has a comparatively high rate of repeat forwards, so each electronic notice is likely to save multiple forwards from the same address, thus reducing the forwarding rate in the test year.

The next step is to develop a TYAR, or "after NSA", estimate that accounts for the impact of Capital One's incorporation into mailing lists of electronic address corrections. This can be accomplished by projecting Capital One's annual solicitation volume over the number of domestic delivery points and making a few more assumptions.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 2, QUESTION 7

320

Witness Elliot's estimate of 768 million solicitations in the test year (COST-2, Exhibit 1) projected to 137,682,000 domestic delivery points (Postal Service 2001 Annual Report) implies an average of 5.6 (or 5.578071208) pieces per delivery point. While Capital One does not actually mail to all domestic delivery points in a given year, use of this assumption constitutes a conservative approach because this number would be higher if Capital One mails only to, for example, two thirds of such delivery points.

Based on the 5.6 pieces per delivery point, the 12,794,880 Capital One mailpieces that would have been forwarded in the test year, would go to 2,293,782 delivery points ($12,794,880 / 5.578071208 = 2,293,782$). At a cost of \$0.066 per electronic notice, the TYAR cost of providing each of these delivery points one notice would be \$151,390 ($2,293,782 * 0.066 = 151,389.61$). If, for purposes of being conservative, one were to assume that two electronic notices were sent before the first was made effective in Capital One's address list, this number would double to \$302,779 ($2 * 151,389.61 = 302,779.22$). Or, for still greater conservatism, one could assume that all but one piece per address would generate an electronic notice, and only one electronic address correction would be avoided; the TYAR cost would be \$696,392 ($(5.6 - 1) * 151,389.61 = 696392.21$).

A similar set of assumptions can also be made to develop estimates of avoided forwarding costs. On average, forwarding a mailpiece costs the Postal Service \$0.307 per piece. Table 5.1.1 of USPS-LR-J-69/R2001-1. If the first electronic address correction notice is effective in precluding further forwarding,

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 2, QUESTION 7

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the avoided cost would equal $\$3,223,837$ $((12,794,880 - 2,293,782) * 0.307 = 3,223,837)$. Offset by the \$151,390 cost of providing the one address correction notice would yield a net cost avoidance of $\$3,072,447$ $(3,223,837 - 151,390 = 3,072,447)$.

If two electronic notices were required for each delivery point before forwarding costs were avoided, the TYAR avoided costs would equal $\$2,519,646$ $((12,794,880 - (2 * 2,293,782)) * 0.307 = 2,519,646)$. The cost of electronic address correction would be $\$302,780$ (from above). The net avoidance would then be $\$2,216,866$ $(2,519,646 - 302,780 = 2,216,866)$.

Finally, if one makes the exceptionally conservative assumption that the forwarding of only one mailpiece per delivery point with an active forwarding order is avoided, the avoided cost is $\$704,191$ $(2,293,782 * 0.307 = 704,191)$. The cost of electronic address correction notices would be $\$696,392$ (from above). Only by making a variety of conservative – even ridiculous – assumptions can one get the costs of providing electronic address corrections to Capital One to approximate the avoided costs. However, by its own terms, the Capital One NSA precludes this occurrence since the required address updating would be inconsistent with over four electronic notices to one delivery point.

The waiver of ACS fees is specifically conditioned on Capital One updating its address list(s) within two days. Agreement, section II(C). So if no forwarding savings were realized and 12,794,880 electronic address correction notices were provided to Capital One at an estimated cost of \$0.066 each, the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
PRESIDING OFFICER'S INFORMATION REQUEST No. 2, QUESTION 7

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\$844,462 in electronic address correction costs would be offset by \$2,588,976 in address correction fees ($12,794,880 * 0.20 = 2,588,976$).

This discussion explains why, in response to NAA/USPS-T3-11, I stated that the costs of notification would likely be more than offset by the cost savings from avoided forwarding. Finally, as I have added here, if the cost of notification approaches the cost savings from avoided forwarding, the terms of the Agreement require payment of address correction service fees which will preserve for the Postal Service a net positive outcome.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2

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Question 8.

Please confirm that the \$0.5347 estimated cost of a physical return presented in USPS-LR-1 does not include any costs for a carrier delivering returned mail to the sender. Please also confirm that Capital One's returned mail is not delivered to Capital One by a carrier.

RESPONSE:

Confirmed as to both questions.

1 CHAIRMAN OMAS: Is there any additional written
2 cross-examination for witness Crum? Mr. Baker?

3 MR. BAKER: Thank you, Mr. Chairman. I'm going to
4 hand the witness two copies of his answers to NAA's
5 interrogatories, NAA/USPS-T3, number 16 through 22, which
6 were filed, I believe, yesterday or the day before --
7 recently. And I ask him if the questions were asked today,
8 would his answers be the same.

9 THE WITNESS: Yes, these look like them.

10 MR. BAKER: And with that, Mr. Chairman, I move
11 their admission in the record as additional of any cross-
12 examination.

13 (The document referred to was
14 marked for identification as
15 Exhibit No. NAA/USPS-T3 and
16 received in evidence.)

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
INTERROGATORIES OF NEWSPAPER ASSOCIATION OF AMERICA

325

NAA/USPS-T3-16. The following questions refer to page 1 of USPS-LR-1/MC2002-2 (referenced in your testimony at page 5, line 5), where you show a "Mailstream Processing" cost of 29.95 cents for "Capital One Physical Mailpieces Returned" citing "Table 5.2.4.1, Row 2, Column F" of USPS-LR-J-69 (Docket No. R2001-1). If you do have not quantitative information for which the following sub-parts ask, please provide your best judgment, estimate, opinion, educated guess, and/or a qualitative answer (such as higher than or lower than) based on your understanding of the mail at issue and the facilities involved.

- a. With respect to the 29.95 cent cost noted in footnote 5 of Table 5.2.4.1, please explain the extent to which this 29.95 cent cost is an average cost for all returned First-Class Mail, including "First-Class Mailpieces of the following shapes: letters, postcards, flats, parcels, and IPPs."
- b. In this average mix, what are the proportions of First-Class Mail in the following categories:
 - (i) letters,
 - (ii) postcards,
 - (iii) flats,
 - (iv) parcels, and
 - (v) IPPs?
- c. Please provide your estimate of the average unit cost of returning letters only, and provide a reference to the available data from which such a unit cost could be calculated.
- d. To what extent does the particular mix of First-Class Mail returned to Capital One (in terms of the proportions of letters, postcards, flats, parcels, and IPPs) compare to the average mix of returned First-Class Mail underlying the 29.95 cent cost figure?

RESPONSE:

- a) Confirmed that the \$0.2995 is an average of First-Class Mail returns and include the shapes referenced in the interrogatory
- b) The data to answer this question can be found in Table 4.7.1 of USPS/LR-J-69.
 - a. Letters/postcards = 94.6 percent
 - b. Flats = 4.9 percent
 - c. Parcels/IPP's = 0.5 percent
- c) This is not available.
- d) Assuming that Capital One's returns have the same mix as the First-Class Mail that it sends out, then the mix of its returns is similar to the mix of returns for all First-Class Mail.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA 326

NAA/USPS-T3-17. For an average First-Class Mail piece that is returned physically by the Postal Service, at the average mail processing cost of 29.95 cents, please state the proportion that have barcodes and receive automated processing, and the proportion that receive non-automated or manual processing, such as might be received by flats, or letters without barcodes, or parcels. If the CFS places a barcode on some or all returned pieces, please explain whether there are differences in the treatment of letters, flats, parcels or letters without barcodes.

RESPONSE:

The returned pieces that comprise the average mail processing cost of \$0.2995 include a mix of processing. The actual proportion of pieces receiving automated handling is unknown. I note that Table 4.7.1 of USPS/LR-J-69 estimates that 3.2 percent of First-Class Mail UAA pieces are non-machinable letters. I would assume, then, that at least 3.2 percent of return letter pieces are handled manually.

It is my understanding that barcodes, if any, are put by on the mail piece at the processing facility and not the CFS site. Yes, there will likely be different treatment for letters, flats, and parcels.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA

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NAA /USPS-T3-18. If you have any separate estimate, rough or otherwise, of the specific unit cost of First-Class Mail that is physically returned to *Capital One*, for 2001 or any other year, please provide it.

RESPONSE:

This information is not available.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA 328

NAA/USPS-T3-19. Did you or anyone else at the Postal Service, to your knowledge, attempt to develop a specific estimate of the unit cost of returning Capital One's non-forwardable UAA mail beyond USPS-LR-1/MC2002-2? If so, please provide that estimate. If not, please explain why not.

RESPONSE:

The Postal Service does not have a specific unit cost of returning Capital One's non-forwardable UAA mail. I note that where a specific cost element would clearly differ from the system average, I have made the appropriate adjustment. For example, I removed "originating postage due unit", "destinating accountable mail unit", and "collection postage due – carrier" costs from the \$0.6384 Postal Service average unit cost of returns presented in Table 5.1.2 of USPS/LR-J-69 to get the \$0.5347 presented in USPS-LR-1/MC2002-2. Outside of those changes, given the vast predominance of letters in both the overall First-Class Mail mix and Capital One's mail mix, use of the system average is reasonable. Also, given Capital One's very high mail volume (see my response to POIR #2, question 7), assuming a national scope average number is reasonable. If, for example, all its mailings were mailed from, mailed to, and returned from the Washington, DC area, then assuming a national scope number without adjustment might be questionable. That is not the case here. Please also refer to witness Plunkett's response to VP/USPS-T2-7(c).

NAA/USPS-T3-20. Please describe all major problems or obstacles that inhibited or prevented the development and use of a specific unit cost estimate that is tailored to and reflects the particular circumstances of Capital One.

RESPONSE:

Please see my response to NAA/USPS-T3-19 and witness Bizzotto's response to

NAA/USPS-T1-7.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM TO
INTERROGATORIES OF THE NEWSPAPER ASSOCIATION OF AMERICA 330

NAA/USPS-T3-21. Please confirm that the costs presented in USPS-LR-1/MC2002-2 page 1, used to develop the total average physical return costs of Capital One mail of 53.47 cents per piece that you present, use the average cost of returning First-Class Mail as a proxy for the specific cost of returning Capital One's non-forwardable UAA mail? If you cannot confirm, please explain why not.

RESPONSE:

Partially confirmed. Please refer to my response to NAA/USPS-T3-19.

NAA/USPS-T3-22. In your opinion, how good (or how poor) is the proxy (the average unit cost of returning First-Class letters cards, flats, parcels, and IPPs) for the specific cost of returning Capital One's non-forwardable UAA First-Class Mail? Please explain.

RESPONSE:

Assuming that Capital One's returns have the same mix as the First-Class Mail that it sends out, then the proxy is valid. Both Capital One returns and the average FCM returns have a very high proportion of letters.

1 CHAIRMAN OMAS: Mr. Costich?

2 MR. COSTICH: Thank you, Mr. Chairman. Mr. Crum,
3 I'm going to show you copies of your responses to OCA
4 interrogatories, T3-22 through T3-25, and also T3-27. If I
5 were to pose these questions to you orally today, would your
6 answers be the same?

7 THE WITNESS: Yes.

8 MR. COSTICH: Mr. Chairman, I move the admission
9 of these interrogatory responses into the record.

10 CHAIRMAN OMAS: Without objection.

11 (The document referred to was
12 marked for identification as
13 Exhibit No. OCA/USPS-T3 and
14 received in evidence.)

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO
INTERROGATORY OF THE OFFICE OF THE CONSUMER ADVOCATE

333

OCA/USPS-T3-22. Please refer to Attachment A and Attachment B of your testimony. Attachment B, page 1 shows an increased contribution of \$1,846,000, based on additional mail volume of 15,458,969 pieces. Attachment A, page 2 shows a Before Rates Solicitation Mail Volume of 768,000,000 pieces.

- (a) Refer to Attachment A, page 2. Please confirm that after the implementation of the NSA, total First-Class solicitation mail volume will equal 776,432,165 (768,000,000 + 8,432,165). If you do not confirm, please explain.
- (b) Refer to Attachment A, page 2. Please confirm that after the implementation of the NSA, total First-Class customer mail volume will equal 647,026,804 (640,000,000 + 7,026,804). If you do not confirm, please explain.
- (c) Refer to Attachment B, page 2. Please confirm that the after rates Return Cost Savings should be calculated using 1,423,458,969 pieces of mail, rather than 1,408,000,000 pieces of mail. If you do not confirm, please explain.
- (d) Refer to Attachment B, page 2. Please confirm that the calculation of after rates Return Cost Savings does not identify any return cost savings for the additional 15,458,969 pieces. If you do not confirm, please explain in detail.
- (e) Please confirm that the total Return Cost Savings should be \$13,219,161 $[(0.13592277 - 0.12663613) * (1,408,000,000 + 15,458,969)]$. If you do not confirm, please explain in detail.

Response:

- a) Confirmed.
- b) Confirmed.
- c) Not confirmed. Attachment B, page 2 includes only the Address Change Service (ACS) Return Cost Savings. The savings from new volume (with ACS in place) are included in Attachment B, page 1 (increased contribution from new mail volume). Please note that I use the after rates unit cost per piece in my calculation in Attachment B, page 1, thus I have included the return savings on the new volume in that calculation in the appropriate relative proportion between solicitations and customer mail. If I were to include return savings on the new mail volume in Attachment B, page 2 as well, I would be double counting those savings.
- d) Confirmed.
- e) Not confirmed. Please see my response to (c) above.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CHARLES L. CRUM
TO INTERROGATORIES OF THE OFFICE OF THE CONSUMER ADVOCATE 334

OCA/USPS-T3-23. Please refer to Attachment A, page 2, lines (1) and (2), of your testimony.

- (a) In what manner have you (or anyone else at the Postal Service) analyzed the basis for Capital One's Solicitation Return Percentage of 9.6 percent? Please provide copies of all analysis.
- (b) In what manner have you (or anyone else at the Postal Service) analyzed the basis for Capital One's Statement Return Percentage of 1.2 percent? Please provide copies of all analysis.

RESPONSE:

a) Capital One's solicitation return rate was examined in several ways that became increasingly more analytical. First, very early in the discussions with Capital One, we asked two postal employees familiar with Capital One and domiciled near the return location about its solicitation return percentage. The first one said that 10 percent seemed reasonable. The second one answered "10 percent" when asked to estimate the return percentage. Later Capital One supplied us its data regarding solicitation volume and return volume. We calculated an average return rate of 9.9 percent based on this data. Later still, Capital One supplied us with a flat file from its contractor, which listed returns by month. We then did a simple analysis of the raw data and assumed a one-month lag. At this point, we discussed our analysis with Capital One. It explained, to our satisfaction, that the estimated return rate is 9.6 percent.

b) Since Capital One's customer mail return percentage was so close to the First-Class Mail average and statement-like mail tends to have more similar characteristics across companies, I did no additional analysis and was comfortable accepting those results as stated.

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OCA/USPS-T3-24. Please refer to your response to APWU/USPS-T3-4(d), where you state "I am assuming that Capital One's First-Class Mail is forwarded at or below the average rate."

- (a) In the statement quoted above, are you referring to Capital One's entire First-Class Mail volume? Please explain.
 - (i) Please explain whether you assume Capital One's First-Class solicitation mail volume is forwarded at or below the average rate.
 - (ii) Please explain whether you assume Capital One's First-Class customer account mail volume is forwarded at or below the average rate.
- (b) Please explain the basis for your assumption that Capital One's First-Class Mail is forwarded at or below the average rate, given that Capital One witness Jean has stated in response to OCA/COS-T1-18(a) and (b), by reference to OCA/COS-T1-9(c), that "Capital One has no way to estimate" the percentage of Capital One's First-Class solicitation and customer account mail that is forwarded.
- (c) Capital One processes its First-Class solicitation mail addresses through the National Change of Address (NCOA) database approximately 60 days prior to mailing. This results in a solicitation return percentage for Capital One of 9.6 percent, nearly 8 times the average presort letters return percentage of 1.23 percent. However, you assume that Capital One's First-Class Mail is forwarded at or below the average rate of 1.96 percent. What explains the large percentage difference as compared to the average for pieces returned to Capital One and the "at or below the average rate" assumption for pieces forwarded on behalf of Capital One?
- (d) With respect to your response to APWU/USPS-T3-4(e), what is the analogous average forwarding rate for 1) letter-shaped Standard Mail, and 2) all standard Mail that is endorsed "Address Service Requested" or "Forwarding Service Requested"?

RESPONSE:

- a) Yes, I meant no differentiation between solicitations and customer mail in my response.
- b) As explained in my response to APWU/USPS-T3-4(d), I am basing my comments on witness Wilson's response to APWU/USPS-T2-8. Please also refer to my responses to OCA/USPS-T3-16(d) and POIR #2, Q7.
- c) Your question appears to be based on a misunderstanding of the relationship between NCOA and forwarded and returned pieces. The National Change of Address database includes information when recipients change their address

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by moving and notify the Postal Service. Thus, Capital One can keep their forwarding "at or below" national averages by running NCOA more frequently. Most returns are not related to the fact that a mail recipient moves. Reasons for returns include attempted not known/unknown, not deliverable, insufficient address, no such number, no such street, no mail receptacle, refused, vacant, unclaimed, moved left no address, and deceased.

d) I do not know.

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OCA/USPS-T3-25. Please refer to the Domestic Mail Classification Schedule (DMCS), section 353, "Forwarding and Return." Please provide the "factor equal to the number of Standard Mail pieces nationwide that are successfully forwarded for every one piece that cannot be forwarded and must be returned."

RESPONSE:

The factor is 2.472. See DMM section F010.5.3(g).

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OCA/USPS-T3-27. Please refer to your response to OCA/USPS-T3-18(f). Please explain what you meant by "Partially confirm." Please explain why \$0.0997 should not be used as "an estimate of the additional costs of ACS notification above the costs of standard forwarding."

RESPONSE:

Table 5.2.2 of USPS/LR-J-69 presents a cost estimate of \$0.0997 for a combination of keying on mechanized and non-mechanized terminals. Capital One returns are comprised mostly of letters. Letters are processed on mechanized terminals. The cost estimate of keying on mechanized terminals is \$0.0660.

1 CHAIRMAN OMAS: This brings us to oral cross-
2 examination.

3 MR. MAY: Mr. Chairman?

4 CHAIRMAN OMAS: Yes, Mr. May.

5 MR. MAY: These are late designations and so we
6 all discussed them late. But as I understand Mr. Baker did
7 not designate the response to OCA 27 -- I mean, excuse me,
8 that Mr. Costich did not?

9 MR. COSTICH: Twenty-six was the one I did.

10 MR. MAY: But not 27?

11 MR. COSTICH: Twenty-seven is, yes.

12 MR. MAY: Well, I'd like to designate the response
13 to 27. I do not have two copies; I have one copy.

14 MR. COSTICH: Twenty-seven was in the packet that
15 I handed to the reporter.

16 MR. MAY: Okay, thank you.

17 CHAIRMAN OMAS: Okay.

18 MR. COSTICH: Twenty-six is the one that was
19 omitted.

20 MR. MAY: Oh, I'm sorry, 26 is. I thought it was
21 27.

22 CHAIRMAN OMAS: Okay. This, then, brings us to
23 oral cross-examination. Three parties have requested to
24 orally cross-examination the witness: the American Postal
25 Workers Union, AFL-CIO, the National Newspaper Association

1 of America, and the Office of Consumer Advocate. Ms.
2 Catler?

3 MS. CATLER: Thank you, Mr. Chairman.

4 CROSS-EXAMINATION

5 BY MS. CATLER:

6 Q Good afternoon, Mr. Crum.

7 A Good afternoon.

8 Q The American Banker's Association, in their
9 question ABA/USPS-T3-1, asked you to confirm that the
10 weighted cost per piece for physical return is 53 cents per
11 piece, and then asked you what the forwarding cost per piece
12 were and you responded that it was 31 cents per piece.
13 Could you explain to me why it cost 53 cents to return a
14 piece to the center and 31 cents to forward it to an updated
15 address?

16 A Well, I guess those numbers, the 53.47 comes out
17 of my library reference 1, which is again based on the
18 historical library reference J-69, and the 30.7 is based on
19 library reference J-69. I haven't actually compared those,
20 because forwarding costs aren't in my testimony. If you
21 would like me to go through the numbers and try to do that
22 now, I have not done that according to my filing.

23 Q It just seems to me, I can't figure out why there
24 would be a 23 cent difference between forwarding it, which
25 is a piece here and a piece there going to all different

1 places, versus -- how many tons of returned mail does
2 Capital One get everyday? I mean, there must be some
3 economies of scale on returning mail. And I'm just looking
4 for an explanation of why those two numbers are so
5 different, when it would seem to me that, off the top of my
6 head, I would think returning mail would be easier. It goes
7 back to a business.

8 A I don't really feel comfortable going through
9 that. I'm certainly not the operational expert on returned
10 mail. Through conversations with the operational expert on
11 return and forwarded mail, between talking to him, I could
12 certainly explain the cost. But, being able to -- I'm not
13 going to be able to explain exactly why operationally
14 forwarding costs less than returns.

15 I can go through the two spreadsheets and explain
16 to you the CFS processing and prior and forwarding and
17 carrier preparation. You've got 29.95 cents of mail stream
18 processing for returned addresses, and you have 12 cents in
19 mail stream processing for forwarding. That accounts for 17
20 cents of that difference. That would account for -- we're
21 talking between 30 and 53. That would account for 17 of the
22 23 cents that's just in mail stream processing.

23 Q But do you have any idea why the mail stream
24 processing costs would be so different for these two?

25 A I mean, I don't want to guess. I probably have a

1 number of theories, but that's not my area of expertise.

2 Q These are both numbers that you have presented in
3 your testimony and I would -- I'm just concerned, because
4 they -- I understand these are the numbers that the Postal
5 Service has generated, but they just don't make logical
6 sense to me that they should be that different.

7 A I did not present the 30.7 cents in my testimony.
8 That's an interrogatory response.

9 Q Well, I think it's now your testimony, but I'm not
10 100 percent sure, because I believe it was designated.

11 A I probably don't understand the technical legal
12 definition, but that was not intended to be part of my
13 description of the value of this NFA to the Postal Service.

14 Q I understand that you're not prepared to answer
15 this now. Is there a way that we can get this answered in
16 the future?

17 CHAIRMAN OMAS: Ms. McKenzie?

18 MS. MCKENZIE: Mr. Chairman, we will attempt to
19 provide an institutional response that compares the two
20 costs. And then, we can get a spreadsheet, I suppose,
21 showing the two elements in the breakdown, and then describe
22 the processes, okay, as well as what underlies mail
23 processing costs for the forwarded versus the return.

24 CHAIRMAN OMAS: Can you have that to us by Friday?

25 MS. MCKENZIE: We'll try to do it by Friday. It

1 does involve talking to, I think, other people than we have
2 normally been talking to, to get some of the detail. But,
3 we'll do the best we can by Friday.

4 CHAIRMAN OMAS: All right, thank you.

5 MS. CATLER: Thank you, Mr. Chairman.

6 BY MS. CATLER:

7 Q In your response to APW/USPS-T3-1, subpart B, you
8 indicate that you do not include any saving for avoiding
9 forwarding costs in your testimony; is that correct?

10 A That's correct.

11 Q What about the additional cost of forwarding for
12 those mailers, who are currently using I guess what in the
13 future would be called option one, who switch from option
14 one to the new option two, that they will now get
15 forwarding? Did you include the additional costs of
16 forwarding for those folks that you anticipate shifting from
17 option one to option two, if option two is added to the
18 domestic mail classification schedule, as a result of this
19 case?

20 A Well, first of all, CSR option two has nothing to
21 do with the Capital One case. That was decided, I think, in
22 2001, which perceived any discussions that I understand was
23 Capital One probably by a full year. So, CSR option two has
24 nothing to do with this case. And if that's to be
25 instituted, that will be instituted regardless of what

1 happens with Capital One, NSA, and what the Commission
2 decides.

3 Q I may be asking the wrong person on this one, but
4 I believe those require a change to the domestic mail
5 classification schedule, which has not yet been approved by
6 the Commission. And my understanding was that this was as a
7 result of this proceeding, that might be added to the
8 domestic mail classification schedule.

9 MS. MCKENZIE: Objection, Mr. Chairman. Well, as
10 to whether it belongs in the domestic mail classification
11 schedule certainly is a legal argument to be made and not
12 made with the cost witness. The DMCS language that we
13 propose doesn't have something specific for change service
14 requested option two.

15 Under change service requested option two, the
16 Postal Service will be providing electronic notification.
17 So, absent this NSA, people will be paying for electronic
18 notification 20 cents a piece. And that's already in the
19 DMCS.

20 MS. CATLER: But, do they get forwarding service
21 currently?

22 MS. MCKENZIE: Well, the current CSR, they don't
23 have forwarding service. They will be getting forwarding
24 service. But, the provision or absence of forwarding is not
25 in the current DMCS language as it is.

1 MS. CATLER: Well, if as a result of what's
2 happening here or the people, who currently are paying 20
3 cents a piece to get electronic information, but are not
4 getting their mail forwarded, can continue to pay 20 cents a
5 piece, can continue to get electronic update, but can also
6 get it forwarded, my guess is a lot of them are going to
7 migrate and the Postal Service will then have a cost of
8 forwarding that mail. And I'm wondering from the cost
9 witness whether that cost is being added in to go and figure
10 out the total benefits of this package, which includes
11 adding option two to the SR.

12 THE WITNESS: I would like to say one thing. The
13 only way this relates to what the Capital One arrangement is
14 that forwarding is free in first-class mail. So, there's no
15 change for first-class mailers. They get forwarding for
16 free. They will continue to get forwarding for free.

17 MS. CATLER: But, if people currently are paying
18 20 cents for the electronic update, they don't get
19 forwarding. So that if they change to option two, they will
20 get forwarding and there will be a cost to the Postal
21 Service of that forwarding. And my question --

22 MR. MAY: Mr. Chairman, I object to the testimony
23 by counsel. I don't think counsel has qualified herself as
24 an expert on what the DMM is and she has just made a
25 statement of fact about what's accorded under the current

1 schedule of whether someone gets forwarding. And the
2 witness just testified that all first-class mail gets
3 forwarded. Counsel has suggested something to the contrary.
4 If she includes first-class mail within that statement, if
5 the statement is broader than first-class mail, I object to
6 it on those grounds, because we're talking about first-class
7 mail.

8 But, I think it's an inappropriate time to go into
9 a rather technical subject. A more appropriate time is when
10 witness Wilson is on, who is an expert on address
11 correction. This is a cost witness we have and I just think
12 this is inappropriate colloquy.

13 MS. CATLER: Mr. Chairman, really what I'm trying
14 to do is confirm that any additional costs of forwarding of
15 other mailers, who choose to go into option two, who are
16 currently in the current option, which doesn't involve
17 forwarding, has not been included in this cost analysis of
18 the Postal Service.

19 CHAIRMAN OMAS: Well, I think the witness can
20 answer whether the costs were in his testimony.

21 THE WITNESS: The costs are not in my testimony,
22 because it's my understanding that CSR option two has
23 nothing to do with the Capital One case. And regardless of
24 whatever changes might happen to be made, they are unrelated
25 to the Capital One case.

1 CSR option two was discussed at least a year, it's
2 my understanding, before the Capital One -- there were any
3 discussions with Capital One. So however that worked, that
4 is not related to the Capital One case, to my understanding.

5 CHAIRMAN OMAS: Can we move on?

6 MS. CATLER: Yes, sir.

7 CHAIRMAN OMAS: Thank you.

8 BY MS. CATLER:

9 Q In your response to APW/USPS-T3-2, you were asked
10 about the effect of PARS. You were asked, "will PARS affect
11 the processing method and/or cost of returning undeliverable
12 as addressed mail; and, if so, please describe PARS, provide
13 as much detail in the implementation that is now available,
14 explain how PARS looks at the processing method and the
15 costs of returning UAA mail." Your response was "that I
16 expect PARS will have no impact on the cost of returning UAA
17 mail in the test year."

18 This experiment is to last for three years. Do
19 you have an expectation that PARS will have an impact on the
20 cost of returning UAA mail in the second and third year of
21 this experiment?

22 A PARS may well have an impact on the cost of
23 returning UAA mail in the second or third year of this
24 agreement. I have not quantified that. I don't know if the
25 numbers would be significant at all. But, I have not looked

1 at that.

2 Q In other words, the direction that the numbers
3 would go would be because they would lower the benefit to
4 the Postal Service of this program in the second and third
5 year; is that right?

6 A No, I didn't say that. I said it would lower the
7 cost of UAA mail. I would think it would also lower the
8 cost of the electronic notification. So, for example, if
9 both were to go down, the actual value to the Postal Service
10 could theoretically stay the same.

11 Q I'm not sure I fully understand that. I take it
12 that your answer would be the same with the cost of
13 forwarding on the deliverable as addressed mail in the
14 second and third years, that PARS would lower the value to
15 the Postal Service of this program in the second and third
16 year.

17 A Right. Again, I include no savings of forwarding
18 in my testimony and PARS, based on my understanding, the DAR
19 would actually have a larger impact on forwarding than it
20 would on return.

21 Q And why is that?

22 A Well, if you look at the DAR, the hours saved are
23 more related to forwarding than they are to anything related
24 to returns.

25 Q Mr. Crum, the purpose of your testimony was to

1 quantify the net benefits of the negotiated service
2 agreement to the Postal Service; is that true?

3 A Yes.

4 Q And you divided the net benefits into three main
5 categories and then added them together, is that correct?

6 A Yes.

7 Q Of these three categories, the cost savings from
8 conversion to the address correction services projected to
9 save the Postal Service \$13.1 million; is that correct?

10 A Yes.

11 Q Now, the other two categories of savings is
12 associated with the block discounts being offered in this
13 NSA; correct?

14 A Well, yes. The other two options are the leakage
15 for the discounts provided to Capital One and the new
16 increased contribution from the new mail volume expected to
17 be achieved because of those discounts.

18 Q Okay. So, the first is the loss of revenues to
19 the Postal Service due to the discounts, which is equal to
20 \$6.7 million in the test year, in your testimony; is that
21 correct?

22 A Yes.

23 Q And the second is the increased contribution to
24 the institutional cost of the Postal Service from the
25 additional mail volume generated after rates, and that

1 amount totals to \$1.8 million; is that right?

2 A Yes.

3 Q So, the discounts analyzed alone costs the Postal
4 Service \$4.9 million, based on your calculations?

5 A Based on the numbers in my testimony, yes.

6 Q Now, in doing your revenue and cost savings
7 analysis, I do not see any additional cost savings
8 associated with cost avoided by the Postal Service for
9 simply increasing the volume enough to move from one block
10 of discounts to the next. The size of these discounts are
11 not related to processing or transportation costs avoided by
12 the Postal Service, are they?

13 A I'm sorry, could you just rephrase that? I kind
14 of lost track exactly what you were saying.

15 Q Okay. The discounts --

16 A Right.

17 Q -- they're not related to any savings, any costs
18 avoided by the Postal Service, any processing costs or any
19 transportation costs avoided by the Postal Service, are
20 they?

21 A If you're trying to compare this to, for example,
22 like work sharing, where if someone pre-sorts and they save
23 two cents and you give them a discount for two cents, if
24 that's how you mean your question, yes, you're correct,
25 they're not related directly in that way. It's part of the

1 overall agreement.

2 Q Now, the additional institutional costs
3 contribution of \$1.8 million does not assume any shift from
4 standard mail to first-class mail, does it?

5 A That's correct.

6 Q What happens to the revenue the Postal Service and
7 its institutional cost contribution, if, in addition to the
8 new first-class mail volume, there's a switch of some
9 standard mail volume to first-class mail volume?

10 A If an addition to the -- I think the number I have
11 listed here is 15.458969, knowing the new volume, there's
12 additional switching from standard to first class. That
13 would have additional contributions for the Postal Service.

14 Q So, that would be positive contribution to the
15 institutional --

16 A Yes.

17 Q -- cost contribution?

18 A Yes.

19 Q In your response to OCA/USPS-T3-18(f), you make a
20 clarification there, that you are referring to the cost of
21 ACS above the cost of standard forwarding. To clarify, the
22 cost of standard forwarding is not part of your
23 calculations, is it?

24 A That's correct.

25 Q It's not a cost, because Capital One's mail will

1 be forwarded both before and after the NSA takes effect;
2 correct?

3 A Right. Capital One's mail will be forwarded both
4 before and after the NSA, yes.

5 Q Although it is your belief that Capital One's
6 forwarding rate will be reduced should the NSA take effect,
7 because there will no longer be repeat forwarding for it; is
8 that correct?

9 A I didn't say there may not be no repeat
10 forwarding; but, certainly, the first part of your statement
11 I agree with, yes, that there will be less. The forwarding
12 rate should go down. But, again, I have not included any of
13 those things.

14 Q Okay. Can you tell me what the average rate of
15 repeat forward is for the first-class mail stream, as a
16 whole?

17 A I don't know that number.

18 Q There will be an additional cost to the Postal
19 Service for customers, who change from CSR option one to CSR
20 option two. That will be the difference between the cost of
21 forwarding their mail compared to the cost of destroying
22 their mail, will it not?

23 A The cost of forwarding mail is higher than the
24 cost of wasting mail, yes.

25 Q Okay. Have you done any calculations to estimate

1 the additional cost to the Postal Service of forwarding
2 rather than destroying that mail?

3 A I have not done any of that analysis.

4 Q To your knowledge, has such an analysis been done?

5 A I believe NLR-J-69, there are costs of waste and
6 costs of forwarding. That's my only understanding of any
7 analysis that has been done.

8 Q In fiscal year 2003, the Postal Service is
9 expected to begin implementing a new system for redirecting
10 undeliverable as addressed mail, called PARS; is that
11 correct?

12 A Yes.

13 Q PARS is expected to reduce the cost to the Postal
14 Service of handling undeliverable as addressed mail, is it
15 not?

16 A Yes, that's the goal of PARS.

17 Q You did not include any of those cost savings in
18 your calculations, did you?

19 A No, I did not.

20 Q If PARS was fully functional now, would you expect
21 that to reduce the cost to the Postal Service of handling
22 Capital One's UAA mail and thus reduce the \$18.1 million net
23 benefit, that it's derived from the address correction part
24 of this NSA?

25 A Could you go through the wording exactly, again?

1 I want to make sure I understand exactly what you're saying.

2 Q If PARS was fully functional now --

3 A Right. You're saying, if phase one and phase two
4 were already in operation as of today?

5 Q Right. Would that reduce the \$18.1 million net
6 benefit that's derived from the address correction part of
7 this negotiated service agreement?

8 A That's possible, but I can't say for sure. But,
9 it's certainly possible. And this gets back to a point I
10 tried to make before, that while we would expect that would
11 lower the 63 cents, the cost of the physical return, it
12 would likely also lower the 33 cents, also, to some amount.
13 Now whether those two would match, I can't say. But, that's
14 the only reason I'm not giving you a definitive yes, that
15 would lower that.

16 Q All right. But, if assuming that PARS lowers the
17 cost of forwarding and returning mail, then avoiding
18 forwarding and returning mail has less value to the Postal
19 Service, doesn't it?

20 A Yes, in general. The only difference is the
21 electronic notification now costs, you know, a round number
22 33 cents. That number would also likely go down somewhat
23 through PARS. So while the 63 cent number of the return
24 would likely go down, the 33 cent number would likely go
25 down some, also. I have not quantified this. I don't know

1 how much. But, if you're talking a basic directional, I
2 would expect both of those to go down somewhat. I don't
3 know by exactly what rate. I don't know by what rate at
4 all, actually.

5 Q But, in any case, the net savings from this part
6 of the agreement is a temporary savings applicable just to
7 the first year or two of the agreement.

8 A Well, again, we did a -- my analysis was in the
9 test year. So, I'm very comfortable with the numbers in the
10 test year. Beyond that, it would require a different
11 analysis.

12 Q And there is no testimony in this case that talks
13 about the second and third year of this agreement, is that
14 right?

15 A That's true.

16 Q Of the cost savings?

17 A Yes.

18 MS. CATLER: Thank you, very much. I have no
19 further questions, at this time.

20 CHAIRMAN OMAS: Thank you. Mr. Baker?

21 MR. BAKER: Thank you, Mr. Chairman.

22 BY MR. BAKER:

23 Q Mr. Crum, I'm Bill Baker appearing today on behalf
24 of the Newspaper Association of America. I thought that you
25 were involved, sir, were you not, in the process of

1 negotiating this NSA?

2 A I was not one of what you would call a negotiator.
3 There were a number of large group meetings of which I was a
4 participant. But, I was not a negotiator.

5 Q Did you do cost saving analysis to support the
6 negotiators?

7 A Yes. Our department did some costing support for
8 the negotiators.

9 Q I think that was the format of your testimony
10 today?

11 A Yes. I mean, different pieces came together. My
12 testimony was the final result of everything.

13 Q You reviewed that essentially the volume discounts
14 in the NSA are negative, the net for cost customers, and the
15 volume discounts net out to be negative, correct?

16 A Yes, as presented in my testimony.

17 Q And you do not provide an estimate for years two
18 and three of the NSA, is that correct?

19 A That's correct.

20 Q Okay. And so for this NSA to work out as the
21 Postal Service plans, they would have to get the cost
22 savings that you talked earlier about, \$13.1 million; is
23 that correct?

24 A Once again, certainly, the Postal Service is
25 certainly counting on savings from address -- to address

1 correction. It certainly wouldn't make sense, if we were to
2 have only the discounts in isolation.

3 Q So, the Postal Service has to be pretty
4 comfortable that your calculation of the cost estimate be
5 correct, that the cost savings be right?

6 A Yes.

7 Q From avoiding returns and some of the other
8 features, again, that they worked out, because of the amount
9 of money you calculated; is that correct?

10 A Well, I would say, yes, with a caveat. For
11 example, if it was shown to be 13.2 or 13.0 million, I don't
12 think the Postal Service would be totally concerned about
13 that. But if it were to be a dramatic difference, yes, that
14 would be a concern.

15 Q Now, your calculations do not include certain kind
16 of costs that we asked you a series of questions about.
17 First of all, your testimony does not attempt to include the
18 cost to the Postal Service, including negotiating the NSA;
19 is that correct?

20 A That's correct. My understanding is that those
21 were institutional costs and it was part of the preparation
22 for any filing the Postal Service may have.

23 Q Did you ever have occasion to try to calculate the
24 manual feeder service cost?

25 A No.

1 Q So, you don't know?

2 A I didn't calculate those. As was listed in my
3 response, a number of complications involved. We were not
4 even tasked to do that?

5 Q Nor, of course, you do not include the cost to the
6 Postal Service of implementing or monitoring the NSA; is
7 that correct?

8 A That's correct.

9 Q You expect it will incur some cost to do it,
10 though?

11 A Implementing and monitoring, could you describe
12 exactly what you mean by that question?

13 Q Well, I mean, with NSA, Capital One is required to
14 do certain things and the Postal Service is going to be
15 monitoring and attempting to verify certain things it does,
16 my understanding. Is that your understanding, as well?

17 A Yes. I mean, the Postal Service has -- you know,
18 it's not really a trust thing. It's a trust and verify, and
19 there will be some effort made to ensure that those
20 activities take place. I have not analyzed the cost
21 associated with those.

22 Q You did not analyze the verifying part, cost for
23 verifying; is that right?

24 A Right.

25 Q And you did not calculate the possible additional

1 revenue decrease that might occur, if the alternative
2 discount structure kicks in, if year one volumes were below
3 the special; is that correct?

4 A I did not analyze any of the alternative discount
5 stuff.

6 Q And you did not, as I believe counsel has already
7 covered, you do not -- you assumed that there will be no
8 system of mail from standard to first class; is that
9 correct?

10 A Exactly.

11 Q Okay. And I understand, you touched on previously
12 that the institutional costs per piece -- institutional cost
13 for first class is higher than in standard. What's the
14 figure for the standard mail contribution?

15 A I don't remember that off the top of my head. To
16 get to that, you could look at it a variety of different
17 ways. You could look at overall and standard. That's
18 probably not the most appropriate way. You would probably
19 want to break that out by the shape of the mail. For
20 example, the contribution of standard mail letters, the
21 contribution of standard mail flat. So, you'd probably want
22 to look at it in a little more detail, to get the overall
23 contribution of first class versus standard.

24 Q Well, if you wanted to get a sense of what the net
25 benefit to the Postal Service is, from a mail piece of

1 standard to first class, you would maybe quantify it with
2 the contribution for letters, the standard regular mail; is
3 that correct?

4 A Yes, that's where you'd want to start.

5 Q The question we asked to Ms. Bizzoto, we asked
6 about what she thought the cost would be based on. She
7 stated, and this is a response to our question, NAA number
8 seven, to her, and I'll read her quote, "I believe that any
9 rate or classification proposal, including negotiated
10 service agreements such as the Capital One agreement, should
11 be developed using the best data available, including the
12 Postal Service's understanding of its characteristics and
13 requirements of specific knowledge." Have you seen that
14 passage before?

15 A Yes, I've read that.

16 Q Okay. Do you agree with her?

17 A Exactly which passage are you talking about,
18 again?

19 Q The statement that the rate, classification, the
20 NSA for Capital One should be developed using the best data
21 available, including the Postal Service's understanding of
22 its characteristics and requirements of specific knowledge.
23 And I'm focusing on the best data available language, the
24 characteristics and requirements of specific knowledge.

25 A Well, certainly, yes, the best data available to

1 be used.

2 Q When you were first asked to do costing work in
3 support of the NSA and various customers, were you asked to
4 prepare a cost specifically for Capital One?

5 A Boy, I don't remember exactly the wording of what
6 I was asked. I mean, I don't remember exactly what I was
7 asked.

8 Q Were you told to use the national average as a
9 proxy for Capital One cost?

10 A No, I was not told to use a national average.
11 Basically, I was asked to come up with an estimated cost.
12 If a Capital One specific number, which related well to the
13 national average, it could have been easily bound and that
14 would have been done. As it stood, this was the approach we
15 took.

16 Q Did you consider trying to develop a model for the
17 cost of returning and forwarding Capital One mail?

18 A I would say that thought passed through my head.
19 I can't say that I considered it by starting to do that.
20 There were a number of problems, if we would start to go
21 down that road. So, I did not go down that road.

22 Q Approximately how much time did you have to
23 prepare your cost analysis?

24 A Wow, that's an interesting question. I could
25 probably interpret that a number of different ways. The

1 preparation and negotiation phases with Capital One went on
2 for quite a bit. The actual testimony, preparation, prepare
3 my testimony phase was pretty short. That might range from
4 several months, to a couple of weeks.

5 Q So, you're possibly being about a couple of weeks?

6 A Yes.

7 Q Okay. So, the preparation and negotiation phase
8 is still in the course?

9 A Uh-huh.

10 Q So, instead of developing a specific Capital One
11 cost, what you did was look at average cost, including
12 places you decided either to use the average cost, or make
13 that certain adjustment, and I'm going to go through some of
14 these. But, your basic approach is to start with the
15 average cost and consider whether you want to make an
16 adjustment or not, is that correct?

17 A Yes. The basic approach starts off with the
18 average cost and then makes various adjustments to more
19 closely align that with our best guess of Capital One.

20 Q Would you turn to your response regarding inquiry
21 number 2, question 7, please? Now, that's a lengthy
22 response, so feel free to take a moment or two to look it
23 over.

24 (Witness reviews document.)

25 THE WITNESS: All right. I'm done.

1 BY MR. BAKER:

2 Q On page two of your response there, you were
3 calculating a cost to providing electronic notice for
4 Capital One forward. Do you see that?

5 A Yes.

6 Q Okay. Almost smack dab in the middle, you have an
7 equation, the second factor of which is 0.0667.

8 A Yes.

9 Q And what exactly is that? And you may want to
10 look at OCA 27, to help illustrate your answer to that.

11 A Note the 2.6 cents is the cost estimate of putting
12 on mechanized terminals.

13 Q And that's an additional feature, the cost of the
14 additional feature?

15 A That's the estimate of the cost --

16 Q Okay.

17 A -- as listed in LRJ-69.

18 Q Okay. And in OCA-27, you say that that's the
19 right cost to use here; is that correct?

20 A Well, again, the information as contained in POI-
21 R2, question seven was done in our response and not part of
22 my testimony. I tried to make clear subtly that we were
23 asked to do an analysis. We did not include that in my
24 testimony, because I didn't believe there was solid support
25 of a number. But, we were asked to do something, so we

1 tried to do our best. So, with that caveat, we tried to put
2 in our best guess of numbers there.

3 Q You just made a statement about not solidly
4 supportable numbers. Could you list what numbers you felt
5 were not solidly supportable enough to be used?

6 A Well, we did not include any savings -- I did not
7 include any savings from forwarding in my testimony. For
8 example, the calculations in POI-R2, question seven, many of
9 them are open to interpretation and disagreement and, you
10 know, in my personal case, if you can't come up with a
11 certain level of certainty, that it's best left out of your
12 testimony.

13 Q In OCA 27, you said, "well, given the choice
14 between 0.66 cents and 0.997 cents, you think 0.66 is the
15 better number, because that's the next cost associated with
16 mechanized terminals."

17 A Probably that's the better choice, yes.

18 Q And in doing so, can you confirm that in this
19 particular instance, you are not assuming that Cap One has
20 the same case as the entire first-class mail?

21 A The .066 is based on the mechanized terminals,
22 yes.

23 Q And then you're speaking to your .66 cents. Some
24 non-zero media cost can be associated with transferring the
25 new address data to Capital One, is that correct?

1 A I'm sorry, could you repeat that?

2 Q There is a non-zero cost associated with actually
3 transferring --

4 A If you're talking about specifically electronic
5 transmitting, yes.

6 Q Yes, okay. And you have not quantified that, but
7 you believe it to be small?

8 A Yes. I believe that to be small, but I have not
9 quantified it; that's correct.

10 Q Can you turn to your response to POI-R2, number
11 seven?

12 A Yes.

13 Q On the middle of page three, you were calculating
14 an estimate of the maximum number of Capital One pieces that
15 could be forwarded in the test year, is that correct?

16 A We're trying to estimate a range.

17 Q Okay. And in the middle paragraph on page three,
18 you have a formula we've looked at once, that, basically,
19 the elements are -- page two, I'm sorry, page two, on the
20 second paragraph, you take the total number of Cap One's
21 reputations and you multiply that by an average forwarding
22 rate of first-class mail, while you -- about CSS; is that
23 correct?

24 A Yes.

25 Q Okay. And that worked out to 12,794,000 pieces?

1 A Yes.

2 Q Now, I notice that yesterday, the presiding
3 officer asked some questions about that. I assume you're
4 not expecting to answer those today, is that correct?

5 A That's correct. I'm not going to be answering
6 them today.

7 Q I just thought I'd ask. But, I do have a couple
8 of questions I will ask you about that.

9 A Okay.

10 Q The 1.96 number, that's the average forwarding
11 rate for all first-class mail, correct, derived from the
12 average forwarding rate for all first class?

13 A That's the LRJ-69 answer, the average forwarding
14 rate of all first-class mail.

15 Q And you relied on that, on the basis of Mr.
16 Wilson's testimony, in response to a question that was posed
17 to him; is that correct?

18 A Yes. I mean, that's the -- again, we don't know
19 what the forwarding rate is for Capital One. We really
20 didn't know what to do. We were asked to do an analysis
21 here. So, based on Mr. Wilson's response, that's the number
22 that we are putting here.

23 Q Okay. When you produced that 12 million and
24 change number there, did you have happen to run a sanity
25 check and say, gee, does that make sense, does that number

1 going to be in the right ballpark, or did you just go on
2 from there?

3 A I can't say I stepped back, because I decided -- I
4 usually do that, but there didn't seem to be anything in my
5 head or any of the people I was talking to that we could
6 easily compare that to some logical benchmark and say, well,
7 does that seem reasonable. So, that's a typical thing that
8 I do and most analysts do. But, in this case, neither I nor
9 the people I spoke with about this had a particular
10 benchmark they could compare that to.

11 Q Well, let me ask you a question here. In the use
12 of the average forwarding rate for first-class mail, which
13 produces 1.96, would you agree that the use of that number
14 makes no distinction between the accuracy of missed
15 solicitations and customer account mail?

16 A Well, I mean, the 768 million that's in the
17 calculation we're referring to is the solicitation mail.

18 Q Now, you multiply the solicitation volume by the
19 average forwarding rate for all first-class mail; is that
20 correct?

21 A That's correct.

22 Q Do you think that Cap One's solicitations mail has
23 the same as all first-class mail?

24 A I don't know the answer to that question. I can
25 refer you to what Mr. Wilson's response and I'm sure he

1 would be glad to follow up on that.

2 Q Okay, all right. I think that you may not have
3 any kind of knowledge to that. Would you agree that that is
4 implicit in the use of the average factor at all?

5 A Let me just make sure -- I'm not quite sure what
6 you said. I think I would agree with that.

7 Q That it is implicit in the use of the average
8 forwarding rate and the calculations here, that Cap One's
9 solicitations mail has the same forwarding rate as average
10 first-class mail?

11 A Yes, that's implicit, and not implicit is
12 capacities and UAA, et cetera.

13 MR. MAY: Mr. Chairman, that was not the question
14 that was previously asked. The previous question was
15 whether or not implicit is that Capital One has the same
16 accuracy rate as all first-class mail. When it was
17 restated, and let the record be clear, that the witness
18 responded that, yes, even implicitness that, first, Capital
19 One had the same forwarding rate, not the same accuracy
20 rate, same forwarding rate.

21 CHAIRMAN OMAS: Mr. Baker?

22 MR. BAKER: Thank you, Mr. May.

23 BY MR. BAKER:

24 Q If you found if something were wrong and that if
25 Cap One's solicitations mail is forwarding at a higher rate

1 than the first-class mail average, the tendency there would
2 be to increase the forwarded volume over the 12 million;
3 correct?

4 A Yes.

5 Q Okay. And in particular you calculate the number
6 5.6. Do you see that?

7 A Yes.

8 Q That number represents the number of pieces that
9 are mailed to a specific delivery point in a year?

10 A All that number is is taking the test year
11 estimate of solicitations and dividing it by the Postal
12 Service domestic delivery points in 2001.

13 Q And what is the purpose of that calculation?

14 A Well, just to try to get our hands around this
15 very complicated question. The one that we thought was so
16 complicated to not even include it in my testimony.

17 We kind of had to get some kind of base line to
18 move forward from and that's what we're trying to do. Just
19 saying like what if they mailed to every delivery point?
20 That's still 5.6 solicitation pieces to every domestic
21 delivery point. We're just trying to get some solid number
22 to move forward from.

23 Certainly we don't know that Capital One mails to
24 every domestic delivery point. I would seriously doubt that
25 they do, but we had to try to make some calculation to

1 respond to their request.

2 Q This would be the smallest number that you could
3 get for Capital One's solicitation mailings, isn't it?

4 A Yes.

5 Q And do you believe that that leads you to a
6 conservative calculation of cost savings?

7 A That would lead to a conservative calculation of
8 cost savings afforded, yes.

9 Q 5.6 pieces per year is less than one piece every
10 two months, is that correct?

11 A Well, without getting into one of the many
12 complications, if you assume equal distribution across the
13 year, which again I have no basis really to make that
14 assumption or not other than we wouldn't know what else to
15 do, yes.

16 Q If we're prepared to assume that Capital One is
17 mailing to every delivery point less than once every two
18 months, does it follow that there shouldn't be any repeat
19 forwards for Capital One given that they update their
20 address lists against the NCOA list every 60 days?

21 A Right. I think there's been some confusion here.
22 Let me try to explain this a little bit.

23 Certainly Witness Wilson can get into this a lot
24 more and we will also get into this to POIR-3. But, I don't
25 know if you have a copy of Witness Wilson's response to

1 APWU-8 where she describes the difference between NCS and
2 the NCOA. If someone has a copy I can kind of read through
3 it.

4 One of the key points here is that NCOA is a
5 strict match system. The way it was explained to me and the
6 way it made sense to me is if you think of your freshman
7 college computer class when you're first writing your
8 computer program, every character has to match exactly. So
9 if that character doesn't match exactly under NCOA, then
10 NCOA will not catch it.

11 For example, if I filled out a mailing address and
12 said my name was Charles L. Crum and that's what it said on
13 the NCOA and someone mailed me something to C.L. Crum, NCOA
14 will not catch that. It will just go through.

15 Now when it gets down to the carrier, when it goes
16 to the CFS unit there's a human being there. A human being
17 can certainly tell that C.L. Crum at 125 Jones Street is the
18 same as Charles L. Crum at 125 Jones Street, but the NCOA
19 database because it's a strict match system, it can't do
20 that.

21 Again, Witness Wilson can explain in much more
22 detail exactly how this works and why that's different, but
23 as it was explained to me, that's the simplest way to think
24 of it. It's a strict match. Certainly there are a lot of
25 pieces that will be mailed Charles L. Crum and NCOA would

1 catch those pieces, but if it's not Charles L. Crum, NCOA is
2 not going to catch it and the only way Capital One's going
3 to know when they're mailing to C.L. Crum because it's not
4 going to be caught on NCOAs, at the end of the year they're
5 going to get a return piece saying this forwarding order has
6 expired and they haven't even known for the whole year,
7 they've been sending to C.L. Crum, they figure he's getting
8 them. They're not getting anything back. They think the
9 whole process is working great.

10 So I think that probably gets to the confusion
11 that's been kind of underlying a number of the questions out
12 there.

13 Therefore a mailer, back to your specific
14 question, a mailer can run NCOA and there's still a number
15 of addresses that are not going to be caught by NCOA because
16 of the technical aspects of how the NCOA system works.

17 Q If we can think about one of these pieces that
18 passes the NCOA test --

19 A What do you mean by passes? Like NCOA catches it?

20 Q NCOA does not catch it as a bad --

21 A Okay, as an address in need of forwarding.

22 Q Yes.

23 C.L. Crum instead of Charles L. Crum.

24 A Right.

25 Q If we follow that piece through processing and

1 delivery, where does that get caught?

2 A Again, if you go back to Witness Wilson's
3 response, the carrier determines I guess that the addressee
4 has moved so I guess that gets caught by the carrier.

5 Again, I'm about at the end of my understanding of
6 address management. Witness Wilson I'm sure can do a great
7 deal in explaining this, but that's my understanding
8 according to his response to APWU-T4-8, that is caught by
9 the carrier.

10 Q And then it goes to the computerized forwarding
11 center?

12 A Yes.

13 Q Would the carrier endorse anything on that piece?

14 A I'm not sure exactly how that communication takes
15 place.

16 Q At the computerized forwarding center, the clerk
17 would punch in a certain number of letters of the last name
18 and a certain number of digits of the street address, is
19 that correct?

20 A Again, I'm not sure exactly how that works either.

21 Witness Wilson can explain that in I'm sure as
22 much detail as you all would require.

23 Q Let's get back to your use of the 5.6 pieces per
24 year.

25 A Okay.

1 Q Again, if that number is averaging out to less
2 than one piece every 60 days, there aren't going to be any
3 repeat forwards, correct?

4 A Oh, yes -- Are you talking about before
5 introduction of the NSA or after?

6 Before interdiction of the NSA there would
7 continue to be repeat forwards until Capital One through
8 some kind of external means of getting a different address
9 list -- Again, I don't understand exactly how they decide
10 who to mail to, but through some external means they could
11 find out. The only other way they would find out is at the
12 end of the year they get a piece back saying forwarding
13 order expired. Those are the only two ways they would find
14 out for the C.L. Crum example.

15 For the C.L. Crum example, there wouldn't continue
16 to be repeat forwards if it's not for the full year until
17 there's a forwarding order expired unless it's caught by
18 some external means. So there would still be, there would
19 be repeat forwards unless one of those two things happened.

20 Q If we could go farther through your calculations
21 in your response to the POIR, you calculate a number of
22 delivery points that require forwarding, is that correct?

23 A That's right. We try to estimate that.

24 Q That's the \$2,293,782?

25 A Yes.

1 Q In producing that number do you make use of the
2 5.6 pieces per year?

3 A Yes.

4 Q Does it follow that you are assuming that every
5 one of these 2.3 million delivery points is of the C.L. Crum
6 variety as opposed to the Charles L. Crum variety?

7 A This gets down, it's another one of the
8 assumptions you have to make to try to answer this question.

9 I believe the implicit assumption is that NCOA --
10 Assuming Capital One did run NCOA though it had a different
11 number than 1.96 percent. Capital One runs NCOA every 60
12 days, I believe, on the solicitations which then makes the
13 number 1.96 percent for lack -- We don't know 1.96, but for
14 lack of any other information we assume 1.96 percent.

15 So the 1.96 percent assumes that the NCOA has been
16 run every 60 days and it caught those pieces.

17 Now that's, as you can probably figure out that's
18 an imperfect assumption as well. But that's to create a
19 calculation what we're asked to do. You have to make an
20 assumption like that. That's what we did. We assumed that
21 the pieces that could have been caught by NCOA were caught
22 and that's what made the number 1.96 percent.

23 So to answer your question you originally asked,
24 yes, I think. We're assuming all those are of the C.L. Crum
25 variety.

1 Q Under the NSA, the forwarding information will be
2 transmitted back to Capital One at the first instance of the
3 forward. Correct?

4 A Yes.

5 Q And you are assuming that Capital One will then
6 correct its address list within two business days. Is that
7 correct?

8 A It's my understanding, and I think that was talked
9 about this morning. I wasn't here for much of the
10 discussion this morning, that Capital One takes our
11 information in two days or something like that. Yes. I'm
12 assuming that they take the forwarding information data and
13 update their mailing list and know that the person they're
14 mailing to, that they don't live at their old address any
15 more, that they've moved to a new address and it would make
16 sense for them to mail that solicitation to them at the new
17 address and not the old address. So I'm assuming that yes,
18 they update their database.

19 Q The information that is sent back in the
20 electronic notification of forwarding, is that derived from
21 NCOA?

22 A No. My understanding is that's derived from the
23 ACS system. I go back to Witness Wilson's response.

24 MS. McKENZIE: For the record, Mr. Crum, could you
25 say which response you're referring to?

1 THE WITNESS: Witness Wilson's response to
2 APWU-T4-8.

3 Yeah, that's through the ACS system.

4 I'm sorry, maybe I didn't understand your
5 question.

6 BY MR. COSTICH:

7 Q Have you ever received a forwarded piece or seen a
8 forwarded piece?

9 A Yes.

10 Q Did it have a yellow address label on it?

11 A In most all the instances, yes.

12 Q And did that label have printed on it somewhere,
13 probably close to the very top, the first four letters of
14 your last name and the first three digits of your address?

15 A I don't remember.

16 Q But what you are saying is that when a clerk in
17 the computerized forwarding unit keys in something it
18 generates one of these address labels, is that correct?

19 A Again, the technical details related to exactly
20 how and where the forwarding address labels are generated,
21 that's better asked of Jim Wilson.

22 I guess what I'm saying is that my understanding
23 is that Capital One, when ACS catches it and Capital One is
24 notified, they are notified that the address they sent to,
25 the person they were sending to has moved to a new address

1 and they're being provided a new address. Not just a name
2 and three digits, but a new address. That's my
3 understanding and that's what my calculations are based on.

4 Q Do you know how the NCOA database is generated?

5 A Other than what's listed in the response to --
6 Other than Witness Wilson's response that I referred to
7 before and other than to know that's when -- When
8 individuals fill out their "I'm moving" form, that generally
9 supplies that information to the NCOA database. Beyond
10 that, I don't know, but that's my understanding.

11 Q I guess what's troubling me is if I fill out a
12 change of address form, that information goes into the NCOA
13 database. What is this ACS database and how does it get the
14 same information?

15 A Again you're going to have to talk to Jim Wilson
16 about that. Fortunately he's after me, so I'm not punting
17 you to someone who's already appeared.

18 Q The NCOA filed some interrogatories directed to
19 you on the 27th of November. Have you seen those?

20 A Are these 26 and 27, or 28 through 30?

21 Q Twenty-eight through 30.

22 A Yes, I have seen those.

23 Q I've had some discussions with your counsel who
24 indicated that you were prepared to answer a few of the
25 subparts of those interrogatories. Is that your

1 understanding?

2 A Yes. A number of these subparts will be
3 redirected. Several of them I will be answering. So I'd be
4 glad to try to answer the ones that I wouldn't be
5 redirecting to another witness.

6 Q If you can look at T3-28, are you prepared to
7 respond to Part A?

8 A Yes, on T3-28 I'm prepared to respond to A and C,
9 and B and D will be redirected.

10 Q Okay. Part A asks you to confirm that if you are
11 going to assume that Capital One mails to every domestic
12 delivery point, then necessarily you are also assuming that
13 Capital One is mailing to every domestic delivery point that
14 has a forwarding order in effect. Would you agree with
15 that?

16 A To be honest, I don't fully exactly understand
17 what you're asking there. I had a response crafted, but
18 it's -- To be honest, I don't understand exactly what you're
19 trying to get at there.

20 Could you rephrase that?

21 Q I think it's the question as stated, it's just a
22 matter almost of pure logic or set theory, if you will. The
23 number of domestic delivery points that has a forwarding
24 order in effect is a subset of the total number of domestic
25 delivery points, correct?

1 A Yes.

2 Q So if you're going to assume that Capital One
3 mails to every domestic delivery point, then necessarily
4 it's mailing to every member of that subset, domestic
5 delivery points with a forwarding order in effect.

6 A Right. You're just saying that the smaller one,
7 the other one is a -- the smaller one is a subset of the
8 larger one. Yes, I can agree to that.

9 Q Okay.

10 A Just to make it clear, I'm not assuming -- The
11 assumption about every domestic delivery point does not mean
12 I believe Capital One mails to every domestic delivery
13 point. That was just for ease of, to try to present a
14 number such that people could see the response.

15 Q I understand that. But if you're going to make
16 that assumption it seems that you have to also stick with
17 any subsidiary or logical extension to that assumption.

18 The point being that if we get an answer to sub-
19 part D, we're going to get a much higher number than your 12
20 million or two million. Would you agree with that?

21 A Now you're talking about the total number of
22 forwarding orders. That's for everybody, right? How many
23 forwarding orders were in effect at any time during fiscal
24 year 2000, 2001 and 2002? That's total forwarding orders
25 for the entire country moving, not just the individuals

1 Capital One is mailing to. I'd have to think more about
2 that one. I don't know.

3 I'm still confused over your question in A, I'm
4 sorry. I know you said it was a subset but I still don't
5 understand exactly what you're trying to get at there.

6 Q Well, is it possible to have more than one
7 forwarding order in effect for the same delivery point?

8 A That would mean that the person moved during the
9 year. Certainly. People move more often than every year.
10 That can happen. I wouldn't expect that to be the typical
11 example but I certainly think that does happen. It
12 certainly does happen.

13 Q If we can focus on a single delivery point, and
14 let's assume it's a house that's been rented by several
15 friends and over the course of the year they move out one at
16 a time but they fill out a change of address form and give
17 it to the Postal Service.

18 A Okay.

19 Q That would generate several forwarding orders for
20 one delivery point, correct?

21 A Yes. That's exactly correct.

22 Q What we would really need is the number of -- No,
23 it's still the right question. Every delivery point with a
24 forwarding order in effect during the year. Under your
25 assumption that Capital One is mailing to every delivery

1 point then it necessarily follows they're mailing to every
2 delivery point with a forwarding order in effect. That's
3 just a matter of logic regardless of where I may be trying
4 to go with it. Can we agree on that?

5 A Okay.

6 MS. McKENZIE: I believe Mr. Crum is ready to
7 answer Part C of that.

8 BY MR. COSTICH:

9 Q All right. Let's move on to Part C which asks how
10 many domestic residential delivery points were there in
11 fiscal years 2000, 2001, 2002.

12 A I should have caveated, I don't have the 2002
13 numbers, but for 2000 and 2001 per the Postal Service annual
14 report in 2001 there were 123,889 429 domestic residential
15 delivery points in 2000 and 125,406 149 in 2001.

16 MS. McKENZIE: Mr. Crum, do you have your units
17 correct? You said 126,000 --

18 THE WITNESS: 123,889,429 and 125,406,149. Sorry.
19 No, I did not have my descriptions correct.

20 BY MR. COSTICH:

21 Q So that's most of the total number of domestic
22 delivery points, correct?

23 A Correct.

24 Q I believe you were prepared to respond to some
25 parts of Interrogatory No. 30, is that correct?

1 A Yes.

2 Q Question 30 asks you, Part A asks you to confirm
3 that the end result of your calculations is that there are
4 between 10.5 million and 2.2 million repeat forwards. Is
5 that correct?

6 MS. MCKENZIE: Excuse me, Mr. Chairman. It's not
7 really an objection, but I would ask counsel from OCA to
8 repeat the question in full so that the record is clear.

9 CHAIRMAN OMAS: Mr. Costich?

10 MR. COSTICH: Certainly.

11 BY MR. COSTICH:

12 Q You were asked to refer to Question 7 of POIR No.
13 2. Then the question states, "Your estimate of costs
14 avoided appears to assume the avoidance of between 10.5
15 million and 2.2 million forwards." Part A asks, "Is this
16 correct?"

17 A My response to that was first, I make no specific
18 estimate of costs avoided. As I tried to explain earlier we
19 responded to POIR-2 Question 7 because we were asked to do
20 it. That does not mean we are making a cost estimate of the
21 avoided costs due to forwarding. There are too many
22 assumptions in there to have a solid analysis but we were
23 asked to do that. Therefore I provided a range of likely
24 things.

25 I also wrote down, "Please refer to my response

1 OCA-T3-16D."

2 That reads, "While I was aware of these potential
3 savings it was decided not to include them because there
4 were simply too many unknowns to develop a solid supportable
5 cost or cost savings point estimate. These unknowns include
6 the forwarding ratio of Capital One and the average number
7 of solicitations per address that Capital One mails to in
8 any given year. As my response to POIR No. 2 Question 7
9 indicates, it is highly likely that the electronic address
10 correction notices for forwarded mail will yield additional
11 savings for the Postal Service and in a qualitative sense
12 that should make parties more comfortable regarding the
13 value of the NSA to the Postal Service. But since the
14 savings cannot be readily quantified I felt that the
15 conservative approach should be taken. Given that, your
16 statement appears reasonable."

17 Q I understand that Question 7 posed a difficult
18 question, but what I'm hearing you say is that the numbers
19 that you're coming up with are mushy. Is that fair?

20 A I'm not sure exactly how you define mushy. The
21 decision was made not to include forwarding savings because
22 we didn't think we could come up with rate case supportable
23 solid numbers, numbers that I would be comfortable
24 testifying to. Therefore, we did not include them.

25 So in response to POIR-2, Question 7, we had to

1 answer that. I tried to come up with a range, tried to list
2 some of the likely scenarios of how the numbers would work
3 out, but not making a forwarding savings estimate. There
4 are too many complications involved. There are a number
5 we've talked about, a number we haven't, I'm sure a number
6 that you've thought about that we haven't even thought
7 about. But the point is we're not making a cost savings
8 estimate for forwarding.

9 Q Do you have an answer for Part D?

10 MS. MCKENZIE: For the record, could you repeat
11 Part D?

12 MR. COSTICH: Yes, I will. I just want to make
13 sure the witness has an answer for that part.

14 THE WITNESS: Yes, I wrote confirmed. It's
15 actually I guess just under 365 and a quarter days in the
16 currently used Gregorian calendar.

17 BY MR. COSTICH:

18 Q The question was, "Please confirm that there are
19 approximately six 60-day periods in a calendar year."

20 A Yes. Confirmed.

21 Q An easy question for once.

22 Are you prepared to respond to Part K?

23 A Yes.

24 Q That question is, "Please confirm that the
25 provision of free electronic notification of forwarding to a

1 mailer that updates its addresses with NCOA is of virtually
2 no additional value to the Postal Service because it
3 prevents virtually no repeat forwards."

4 A My answer to that is "Not confirmed. NCOA is not
5 a perfect system but a good effort to get address updates in
6 a simple, efficient manner.

7 "There appears to be misunderstanding of at least
8 one aspect of the relationship between NCOA matching and
9 move updates. NCOA is an exact match system and only
10 catches some moves. Please refer to Witness Wilson's
11 response to APWU/USPS-T4-8.

12 "For example, if John A. Smith fills out a change
13 of address form and a piece is run through NCOA listing the
14 addressee as John A. Smith, then the piece will probably be
15 caught. If it says J.A. Smith or J. Smith, et cetera, the
16 piece will not be caught.

17 "When forwarding information is provided through
18 ACS a completely different process occurs. Similar names
19 are likely caught in that case and the mailer will receive
20 the corrected address and avoid repeated forwards."

21 MR. COSTICH: Thank you.

22 I have no further questions, Mr. Chairman.

23 CHAIRMAN OMAS: Thank you, Mr. Costich.

24 Is there any other party who would like to cross-
25 examine the witness?

1 MR. WARDEN: Irving Warden representing the
2 American Bankers Association.

3 CHAIRMAN OMAS: Proceed.

4 CROSS-EXAMINATION

5 BY MR. WARDEN:

6 Q Mr. Crum, I want to make sure I understand what
7 you've said in response to the various counsel today on the
8 issue of the cost on returned and forwarded mail.

9 These costs that you gave in response to the OCA
10 interrogatory No. 7 to you, and ABA Interrogatory No. 1,
11 these costs are based on the library reference J-69, right?

12 A Yes.

13 Q So your --

14 A Excuse me. As adjusted. LRJ-69, for example, has
15 a return savings of 63 cents. I lowered that based on the
16 adjustments to get it down to about 53 cents. It's not
17 directly from J-69, although it's based on J-69.

18 Q And I believe there's a small difference also in
19 the forwarding costs, right?

20 A Yes. Actually I had not presented the exact
21 forwarding costs. That would lower it by two-tenths of a
22 cent if you were to make an adjustment for Capital One. The
23 numbers presented were just the average forwarding costs.

24 Q So the cost in that library reference that you
25 use, was that from R-2001?

1 A I believe that was in both -- Yes. The LRJ-69 was
2 from R-2001.

3 Q So those costs would be for first class, work
4 shared first class letter mail generally.

5 A I'd have to check the source. It's certainly not
6 just work shared. It would be first class.

7 Let me check the library reference.

8 (Pause)

9 A That's based on Table 512 which is the annual cost
10 for UAA mail being returned to sender due to COA orders and
11 invalid addresses.

12 Q Okay.

13 A So I assume that would be all first class mail.

14 Q And then when we have your discussion later, your
15 response to POIR-2, Question 7 I believe it is, was on
16 forwarding numbers. As I understand it what you're saying
17 is as far as cost savings you didn't feel those numbers were
18 solid enough to present in your testimony.

19 A Exactly.

20 Q What about the forwarding cost savings? Did you
21 relate those to, did those fall in the same category?
22 That's where I kind of lost track here, the difference
23 between the forwarding cost and the savings, the return
24 costs. How about the return cost savings? Is that
25 something you felt more confident about?

1 A The return costs there were less unknowns and we
2 could count on specific numbers. For example, we could
3 count on Capital One to provide an estimate of their returns
4 that we found reasonable. We really have no estimate of
5 Capital One's forwarding percentage. They didn't know what
6 that is. Our address management witness made an assumption
7 but he certainly doesn't know what the forwarding ratio is
8 for Capital One.

9 Q So make sure I understand it then. Where do we go
10 in our testimony to find the return cost savings? As
11 opposed to the returned costs.

12 A That can be found a number of places. The easiest
13 is probably Attachment A, Page 2.

14 If you look at the chart in the upper left-hand
15 corner, well there are any number of places you can take
16 this, but it's a manual returned unit cost, electronic
17 returns unit cost. The numbers are 53.5 cents and 33.2
18 cents.

19 On a unit basis those are the returned cost
20 savings. They have to be adjusted by other factors like the
21 85 percent, et cetera.

22 Q So those costs would be not adjusted for Capital
23 One's situation but would be general first class return
24 costs.

25 A Those took the average, and we made a number of

1 adjustments to try to match Capital One as best we could.

2 Q So those are adjusted for Capital One.

3 A Not specifically adjusted to Capital One, but we
4 made a number of adjustments to try to estimate Capital One
5 as best as possible.

6 Q And in your response to one of the counsel, maybe
7 counsel's question, was the issue of the discounts were not
8 related directly to cost savings. I believe you responded
9 that this was part of a negotiated deal.

10 You weren't saying there weren't cost savings,
11 you're just saying that wasn't calculated based on the cost
12 savings. The discounts --

13 A Exactly. I'm definitely not saying there are not
14 cost savings. I very definitely believe there are cost
15 savings. I just said that the discounts are not directly
16 related to the cost savings.

17 Q And the cost savings occur -- Is it an over-
18 simplification to say the cost savings occur every time the
19 Postal Service does not have to return or forward a piece of
20 mail?

21 A Yes. Simply stated that's basically it. Although
22 we don't include any savings from forwarding, so the savings
23 listed in my testimony occur when the Postal Service does
24 not have to return a piece of mail that they would normally
25 have returned based on the rules of first class mail.

1 MR. WARDEN: Thank you. I have no further
2 questions.

3 CHAIRMAN OMAS: Thank you, Mr. Warden.

4 Is there anyone else who would like to cross-
5 examine the witness?

6 (No response)

7 CHAIRMAN OMAS: Are there any questions from the
8 bench? Mr. Covington?

9 VICE CHAIRMAN COVINGTON: Thank you, Chairman
10 Omas.

11 Good afternoon, Witness Crum. I had a couple of
12 short questions for you.

13 First of all we were noticing in your testimony
14 you stated that you were now a part of, I guess it would be
15 the Pricing Innovation Group?

16 THE WITNESS: It recently changed names to Pricing
17 Strategy, I think.

18 VICE CHAIRMAN COVINGTON: When did Pricing
19 Innovation Group jell at USPS?

20 THE WITNESS: I believe I started working there
21 about the first of March 2002.

22 VICE CHAIRMAN COVINGTON: Okay, 2002.

23 THE WITNESS: Yes, about the first of March, 2002.

24 VICE CHAIRMAN COVINGTON: So now you're the
25 Pricing Strategy Division of USPS. I mean that's where

1 you're employed.

2 THE WITNESS: Yes, exactly.

3 VICE CHAIRMAN COVINGTON: Witness Crum, how
4 familiar were you with Capital One's mailing behavior prior
5 to this filing? Or did you only start noticing their
6 mailing behaviors for solicitation of return volume when the
7 negotiating began on this classification case?

8 THE WITNESS: I would say my first discussions
9 regarding Capital One took place in January of 2002. That
10 would have been my first information at all related to
11 anything to do with Capital One even as far as knowing the
12 size, that they were a large first class mailer. I'd
13 certainly heard of them as a credit card company but I had
14 no Postal Service understanding of them until January of
15 2002.

16 VICE CHAIRMAN COVINGTON: Okay, January of 2002.

17 Witness Crum, I'd like to refer you to a Postal
18 Service response that was given APWU/USPS-2. Are you
19 familiar with that answer?

20 THE WITNESS: No, I'm not.

21 VICE CHAIRMAN COVINGTON: What it does is it
22 calculates estimates of the potential financial results of
23 the NSA in the last two years of the agreement under various
24 assumptions.

25 THE WITNESS: Oh, okay. I believe I have read

1 through maybe an earlier version of that. I can't say I
2 read through the final version, but I have seen that.

3 VICE CHAIRMAN COVINGTON: It assumes that both
4 volume and the cost of physical returns could change by five
5 percent a year. Do you recall that? Is that a correct
6 statement?

7 THE WITNESS: I think the idea was to throw in
8 various scenarios as far as possible changes and see how
9 that would impact the results. I did not craft that
10 response, if that's what you're asking me.

11 VICE CHAIRMAN COVINGTON: Right. As a matter of
12 fact the volume data, I think this was information that we
13 received from Witness Elliott, Dr. Elliott, I'm sorry, that
14 indicated that even without volume discounts from 1999 to
15 the year 2000, it specifically stated, Witness Crum, that
16 Capital One's first class volume grew almost 10 percent, and
17 it further said that from the year 2000 to 2001 it grew over
18 15 percent. So bearing that in mind, do you feel that
19 volume growth estimates for 2004 and 2005 should be higher
20 than a rate of five percent, which I think you all are
21 stating in that response? If you've got 10 percent growth,
22 1999 to 2000 and then 15 percent growth from 2000 to 2001,
23 why would it go back down the next year to five percent?

24 THE WITNESS: I can't really speak to my -- I
25 don't really have a forecast of Capital One's growth. In my

1 testimony I used what Witness Elliott, used Witness
2 Elliott's number that I assume he spoke with Capital One
3 about, so I don't have any personal forecast of how Capital
4 One's volume might grow.

5 VICE CHAIRMAN COVINGTON: Is it safe to assume
6 then if there's a growth rate higher than five percent,
7 would the Postal Service projections in this particular case
8 possibly underestimate that revenue leakage?

9 THE WITNESS: If there is greater volume growth.
10 I think that would -- If there were to be greater volume in
11 the absence of any NSA, that would create greater discount
12 leakage, if that's your question. Yes.

13 VICE CHAIRMAN COVINGTON: Following up on that
14 question, it just says that that particular response also
15 includes an assumption about savings from the PARS system.
16 To your knowledge would you be able to respond? Has the
17 Postal Service performed any cost benefit analysis regarding
18 the PARS system? If so, is the five percent annual
19 reduction in cost consistent with that analysis?

20 THE WITNESS: My understanding of the cost
21 analysis that's been done related to PARS is not how it
22 would impact Capital One costs but are more or less in the
23 DAR, it was how many work hours would be saved. It's a
24 capital investment type of analysis. I'm not aware of any
25 analysis that would specifically say how much it would save

1 for Capital One. Based on my understanding, I'm not sure
2 exactly how that would be done.

3 VICE CHAIRMAN COVINGTON: Ms. McKenzie, I'd like
4 to ask is there any way of you letting me know or letting
5 the Commission know if there's been any study in that
6 regard?

7 MS. McKENZIE: Commissioner Covington, are you
8 talking about overall PARS savings? Or something more
9 specific.

10 VICE CHAIRMAN COVINGTON: Cost benefit analysis of
11 the PARS system as it would relate to savings.

12 MS. McKENZIE: As it would relate to Cap One
13 savings? Or as it would relate to specific savings?

14 VICE CHAIRMAN COVINGTON: Capital One.

15 MS. McKENZIE: I don't think we have an analysis
16 that I'm aware of that has done to say what are the savings
17 anticipated in PARS and how would it affect Cap One's mail.
18 I can certainly check into it and see if we can develop
19 something like that but I'm not sure if that's possible.

20 VICE CHAIRMAN COVINGTON: If it's available I
21 would imagine, could you possibly advise Chairman Omas when
22 we could expect a copy of it?

23 MS. McKENZIE: Yes, I'll let you know by Friday as
24 to whether I think we can develop it or not.

25 CHAIRMAN OMAS: That's great. Thank you.

1 VICE CHAIRMAN COVINGTON: And Witness Crum, one
2 final question.

3 In your professional opinion, and I think I know
4 the answer to this, and with the testimony that you prepared
5 in regard to this negotiated service agreement request, can
6 you honestly advise the Commission as to whether the Postal
7 Service is going to realize a positive financial impact by
8 undertaking an experiment of this nature?

9 THE WITNESS: In my testimony, definitely for the
10 test year that's what I've carefully analyzed. I certainly
11 stand behind my numbers for savings in the test year.

12 While I have not looked at the out years of the
13 agreement, it seems reasonable to me to expect a
14 continuation of those savings, but I have not specifically
15 analyzed those as part of my testimony. Therefore I can't
16 say with 100 percent certainty, yes. Although I have no
17 reason to say I don't think the savings would continue.
18 That was not part of my testimony.

19 VICE CHAIRMAN COVINGTON: Thank you Witness Crum.
20 That's all I have, Chairman Omas.

21 CHAIRMAN OMAS: Commissioner Goldway?

22 COMMISSIONER GOLDWAY: Yes. I wanted to follow
23 upon Commissioner Covington's question about the potential
24 for what we would call any-how growth in the second and
25 third year. Could you present us with some figures of what

1 the leakage would be if we assumed rather than just five
2 percent growth, 10 and 15 percent growth?

3 THE WITNESS: Yes. I could provide various
4 scenarios based on different assumptions. I wouldn't have
5 any of the background to say five or ten percent is
6 appropriate, but I certainly could provide an estimate of --

7 COMMISSIONER GOLDWAY: Well Capital One was not
8 offering us an explanation of what their estimates were, so
9 I think having a wider range of possible leaks on the record
10 here would be useful for us.

11 THE WITNESS: I can certainly provide that based
12 on various assumptions, yes.

13 COMMISSIONER GOLDWAY: Could you do that by
14 Friday?

15 THE WITNESS: Yes.

16 COMMISSIONER GOLDWAY: Thank you.

17 CHAIRMAN OMAS: Thank you.

18 Is there anyone else?

19 (No response)

20 CHAIRMAN OMAS: Ms. McKenzie, would you like some
21 time with your witness?

22 MS. MCKENZIE: Yes, please, Mr. Chairman. Why
23 don't we take 15 minutes so we can keep it short.

24 CHAIRMAN OMAS: Why don't we keep it to ten?

25 MS. MCKENZIE: That's fine.

1 CHAIRMAN OMAS: Off the record.

2 (Whereupon, a recess was taken)

3 CHAIRMAN OMAS: On the record.

4 Ms. McKenzie?

5 MS. MCKENZIE: No redirect.

6 CHAIRMAN OMAS: Commissioner Covington?

7 VICE CHAIRMAN COVINGTON: Chairman Omas, before we
8 move to the next stage of the proceedings, prior to our
9 recessing so to speak Ms. McKenzie, Witness Crum had alluded
10 to a DAR, Division Analysis Report. I was wondering if
11 there is any way that DAR could be made available to us here
12 at the Commission, and if so when. We would be more
13 interested in the overall report as opposed to how it would
14 relate to what's going on with this request from Capital
15 One.

16 MS. MCKENZIE: There already is some information
17 from the DAR in the case. In response to, I think it's
18 Postal Service response to APWU I believe T4-13. Let me
19 verify that and see if that gets you what you need.

20 VICE CHAIRMAN COVINGTON: I found T14, and this is
21 not basically what I have in mind. I think we need the
22 actual report itself.

23 MS. MCKENZIE: I'll have to check to see. I know
24 normally we don't disclose the DAR. We'll be in discussions
25 I know with the vendor for Phase 2 and there may be some

1 information. We have to be careful about it, but I couldn't
2 argue as to whether that's a problem or not.

3 The question I would have is do you want basically
4 the cost savings from the DAR in lieu of the earlier
5 request?

6 VICE CHAIRMAN COVINGTON: Yes, in lieu of the
7 earlier request.

8 MS. MCKENZIE: Let me see what information we have
9 that we can make available. These are, at least the labor -
10 - We were asked for the savings, we gave the labor hour
11 savings which are fine, and we'll see how much information
12 we can give beyond that before we start running into some
13 issues and some concerns. Some of it we may have to put
14 under protective conditions.

15 VICE CHAIRMAN COVINGTON: Thank you, Ms. McKenzie.

16 CHAIRMAN OMAS: That would be fine.

17 Do you think you can try to see about getting that
18 to us on Friday?

19 MS. MCKENZIE: That I should be able to get to you
20 by Friday.

21 CHAIRMAN OMAS: Or even earlier.

22 MS. MCKENZIE: My more experienced colleague says
23 we'll get back to you on Friday as to what the status of
24 that is. Again, we do have to talk with various people as
25 to how much of it we can release or not release. But at

1 least by Friday whether we need protective conditions or
2 not, --

3 CHAIRMAN OMAS: We should listen to you and not
4 your more experienced colleague.

5 VICE CHAIRMAN COVINGTON: Have your colleague be
6 quiet.

7 (Laughter)

8 CHAIRMAN OMAS: Mr. Crum, that completes your
9 testimony here today. We appreciate your appearance. Thank
10 you very much. You are now excused.

11 (Witness excused)

12 CHAIRMAN OMAS: This concludes today's hearings.
13 We will reconvene tomorrow morning at 9:30 a.m. when we will
14 receive testimony from the Postal Service Witnesses Bazzuto
15 and Wilson.

16 Thank you and have a nice evening.

17 (Whereupon, at 3:27 p.m. the hearing was recessed,
18 to reconvene at 9:30 a.m. on Wednesday, December 4, 2002.)

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REPORTER'S CERTIFICATE

DOCKET NO.: MC2002-2
CASE TITLE: Experimental Rate and Service Changes to
Implement Negotiated Service Agreement with
Capital One Services, Inc.
HEARING DATE: December 3, 2002
LOCATION: Washington, D.C.

I hereby certify that the proceedings and evidence are
contained fully and accurately on the tapes and notes
reported by me at the hearing in the above case before the
Postal Rate Commission.

Date: December 3, 2002


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