

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

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

Docket No. MC2002-2

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S INFORMATION REQUEST No. 3

The United States Postal Service hereby provides responses of witness Crum to  
Presiding Officer's Information Request (POIR) No. 3, questions 1 and 2.

Each question is stated verbatim, then followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO  
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**POIR-3, Question 1:** In the response to APWU/USPS-T3-4 (d), witness Crum states that he assumes that Capital One's First-Class Mail is forwarded at or below the average rate for the class as a whole. In part (e) of the response, he goes on to explain that the (1.96 percent) average forwarding rate for all First-Class Mail is derived from USPS-LR-J-69 by allocating the First-Class Mail UAA percentage (3.197 percent) in Table 4.2 by the proportion of First-Class forwarded mail (61.34 percent) in Table 4.3.3.

- (a) The 9.6 percent return rate of Capital One's First-Class solicitations dictates that the UAA percentage for Capital One's solicitations must be at least 9.6 percent. Please explain why it is reasonable to use a UAA percentage (3.197 percent) that is demonstrably below Capital One's First-Class solicitation UAA percentage as an element of the estimated forwarding rate of Capital One's First-Class solicitations.
- (b) Applying the average forwarding rate for First-Class mail to Capital One's First-Class solicitation volume would suggest a TYBR estimate of 15.1 million forwarded pieces. Viewed in combination with an estimated 73.7 million TYBR returns (9.6 percent of 768 million), this would imply that Capital One's First-Class solicitation UAA mail is roughly 17 percent forwarded and 83 percent returned to sender. In contrast, Table 4.3.3 shows the average First-Class UAA disposition as roughly 61 percent forwarded and 39 percent returned to sender. Please explain any factors that might cause the disposition of Capital One's First-Class solicitation UAA mail to differ from the average for First-Class UAA mail by such a wide margin.

**RESPONSE:**

This question and its subparts seek to understand the relationship, if any, between the return rate and forwarding rate for Capital One's First-Class Mail that is undeliverable-as-addressed (UAA). Specifically, the questions ask how Capital One could have the class-wide average forwarding rate when its return rate is considerably higher than the average. The current questions appear to be based on the premise that if return volumes are high – as they most certainly are for Capital One's solicitation mail – then so must Capital One's forwarding volumes be high. The appeal of this premise appears to lie with an additional assumption: that all UAA mail, which consists of those pieces that are returned and those that are forwarded, is inherently similar.

Examination of the respective causes for forwards and returns, and the factual record

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO  
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regarding Capital One, however, show that a high return rate for solicitation mail does not also imply a high forwarding rate.

While Capital One's use of First-Class Mail for solicitations generates higher levels of returns, there is no reason to believe that it also generates higher levels of forwards. My understanding, in fact, is that the two are generally quite independent of one another such that one can find mailers whose return and forwarding rates are both higher than average, both lower than average, or high for one and low for the other.

The primary cause for returns relates to a deficiency in the address. The reasons include that the addressee is not known at the address, the address itself is lacking key information for delivery, such as an apartment number; the address itself does not exist; or perhaps there is no mail receptacle available for delivery. The other reasons for returns could include that the piece was refused, the address is vacant, the addressee is deceased or the forwarding time has expired. A high rate of return for solicitation mail is understandable given that Capital One does not have a prior existing relationship with the addressees. By comparison, for its customer mail where Capital One has established a relationship with an addressee, the return rate is very close to the First-Class Mail average. See my testimony, USPS-T-3, Attachment A, p 2.

Unlike returns, which can occur for any number of reasons, forwarding happens for only one reason: an addressee has moved within the previous 12 months and the Postal Service has been notified of the new address. What drives the forwarding volume for an address list is how many addressees have recently moved, not the quality of the addresses themselves. A high return rate, which reflects the quality of the

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

addresses, does not correspond to a high forwarding rate, which reflects the mobility of the addressees on the list.

Even if there were some reason to expect a higher than average inherent forwarding rate (and a higher than average return rate is not necessarily such a reason), Capital One's address management practices should significantly reduce its forwarding rate by ensuring that its list reflects the most current change-of-address information. Capital One processes its lists through the National Change of Address database (NCOA) every 30 days for customer mail and 60 days for solicitation mail. This occurs far more frequently than most mailers who process lists every 180 days, the minimum specified by postal regulation. However, NCOA processing, no matter how frequent, would not resolve the primary cause of return to sender mail—deficient addresses.

Witness Wilson's estimate that Capital One's forwarding rate is no more than the average for First-Class Mail is a reasonable one. See his response to APWU/USPS-T2-8, Tr. 3/552. Witness Wilson's statement is not based upon actual knowledge of Capital One's forwarding rate. *Id.* Instead, it is based upon his knowledge of Capital One's address management practices. Because Capital One processes its addresses through NCOA and at a rate far more frequent than most mailers, Wilson estimated that Capital One rate is at or below the average. *Id.* Since the Postal Service does not track an individual mailer's forwarding volume, it is theoretically possible that Capital One's forwarding rate is higher than the average. However, given the basis for witness Wilson's opinion, I decided it was reasonable to rely on his estimate. See my response to APWU/USPS-T3-4(d), Tr. 2/268.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

I have also learned another fact about Capital One that supports witness Wilson's estimate that its forwarding rate is no more than average. When Capital One processes its address lists against NCOA, approximately 4 percent of its address are updated. This rate, called a match rate, is close to the average for all mailers that use NCOA. This match rate indicates that Capital One's address lists are about as current as other mailers who use NCOA. If Capital One's match rate had been higher than average, it would indicate that the list had more stale or old addresses and would therefore require more forwarding.

As a final point, the Postal Service did not include in its direct case any attempt to quantify savings associated with avoided mail forwarding precisely because no suitable quantified foundation for estimating such savings could be determined. There are simply too many unknown factors, such as Capital One's forwarding rate. When the Presiding Officer nonetheless requested such a calculation in Presiding Officer Information Request No. 2, Question 7, one was provided that rested on a series of assumptions, which were conservative in the direction of avoiding an overestimate of increased contribution (avoidance of costs). The conclusion of that analysis was that under no circumstances would avoidance of return costs or costs of electronic address correction notices have a negative impact upon the net financial value of the NSA to the Postal Service. If, as the instant question queries, the forwarding rate is more than average, I note that the cost savings from the avoided forwarding costs would only increase.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO  
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**POIR-3, Question 2:** In the response to POIR 2, question 7, witness Crum calculates that the estimated 12,794,880 Capital One solicitations that would have been forwarded in the test year would go to 2,293,782 delivery points. This calculation assumes that, in the absence of the NSA, a piece requiring forwarding would be sent to each of these delivery points 5.6 times in the test year. Please explain how the effects of Capital One's practice of processing its solicitation mail addresses through the National Change of Address (NCOA) database every 60 days is reflected in the assumption that a piece requiring forwarding would be sent to the same address 5.6 times without the address being corrected.

**RESPONSE:**

Running NCOA at least every 60 days decreases the forwarding rate of Capital One solicitations and is the key reason for witness Wilson's estimate that Capital One has an average to below average forwarding rate. See his response to APWU-T2-8, Tr. 3/552. Running NCOA does not, however, eliminate all repeat forwards. Witness Wilson estimates that NCOA may capture only about 25 percent of potential changes of addresses. Tr. 3/638-39, 651-52. See also his response to APWU-T2-8 (Tr. 3/552) and Tr. 3/644-645. Thus, when NCOA fails to identify an address in Capital One's database as one with a forwarding order, it will not correct the database. For such addresses, the ACS notices will enable Capital One to update its database and save the Postal Service the cost of forwarding the piece from the old to the new address.

I also note that the impact of NCOA has already been considered and included in the range analysis presented in response to POIR 2, question 7, Tr. 2/318-22. To conduct the analysis, I used witness Wilson's estimate that Capital One's forwarding rate is no more than the average for First-Class Mail. Since his estimate is based upon Capital One's NCOA practices, the impact of NCOA implicitly became a part of the range analysis. Finally, just to clarify, the response to POIR 2, Q7 did not present the 12,794,880 figure referenced above as an estimate of forwarded Capital One

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS CRUM TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

solicitations. It was described as the “theoretical maximum number of pieces forwarded through CFS units” based on the available assumptions.

## **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.

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