

**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

**SECOND INTERROGATORIES OF CAPITAL ONE SERVICES, INC.
TO NEWSPAPER ASSOCIATION OF AMERICA
WITNESS CHRISTOPHER D. KENT (NAA-T1-15-22)**

Capital One Services, Inc (COS) hereby requests Newspaper Association of America to respond fully and completely to the following interrogatories and requests for production of documents pursuant to Rules 25 and 26 of the Commission's Rules of Practice and Procedure.

Respectfully submitted

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COS/NAA-T1-15 On page 4, you are critical of the failure to present a three year cost analysis, noting that if the Service fails to realize projected cost savings, in the second and third years, other mailers will have to absorb any losses. Please explain precisely how you would propose that the Postal Service calculate the cost savings and financial impacts of the proposed NSA in years 2 and 3, bearing in mind your further criticism that the postal Service should have modeled the cost of handling Capital One's First-Class Mail, rather than using average First-Class mailing costs. Please specifically describe the methods you propose the Postal Service use to calculate Capital One's costs, Capital One's volumes, and the roll forward programs that you would use for cost and volume projections for all three years of the agreement.

COS/NAA-T1-16 Would it be your contention that the Commission should recommend no NSA with any postal customer unless the Postal Service is able to model the costs of that particular customer, if cost savings are an element of the agreement; and unless the future volumes of that customer, of whatever class or sub-class, can be projected in some objectively verifiable form? Please explain your answer.

COS/NAA-T1-17 On page 5, you testify that if the proposed discounts are supposed to act as an incentive to motivate COS to better sanitize its mail, then the discount should be based on the cost that would be saved by the Postal Service. Is it not the case that one of the purposes of the proposed discount is to create an incentive for Capital One to agree to accept free address correction service in lieu of the actual physical return of its UAA First-Class Mail, thereby improving the quality of Capital One's addresses, with resultant cost savings, and saving the Postal Service the costs of physical return of UAA mail? Explain any negative answer.

COS/NAA-T1-18 On pages 5 and 6 of your testimony, you state that the Postal Service has failed to extract any commitment from Capital One that it will, in fact, maintain its First-Class Mail volumes and, consequently, the proposed discounts will not incent Capital One to retain current First-Class Mail. Granted that a penalty for breaching a guarantee of volume would be a strong incentive to maintain the volumes, is it not also the case that providing a discount for current levels of First-Class Mail at the margin would also create an incentive to maintain that volume? Please explain any negative answer.

COS/NAA-T1-19 On page 6 you state that the volume penalty provision set at a 750 million piece threshold is set so low that you imply that it is meaningless and would come into play only if something more serious than declining First-Class volumes were afflicting Capital One. Would it not be the case that Capital One, while remaining quite healthy and viable, could still divert all of its First-Class Mail solicitation volume to Standard Class solicitation and make the 750 million piece threshold a very real and very meaningful guarantee and real penalty? Please explain any negative answer.

COS/NAA-T1-20 On page 6, you testify that it is conceivable that some mailers will look to this particular NSA and see “engaging in high cost behavior as a way to get a better deal with the Postal Service.” Please explain how it makes economic sense to a mailer to deliberately send undeliverable mail so that the mailer might receive free address correction service for that undeliverable address. Please explain how the costs of the preparation of the mail, the postage affixed to the mail, and the lost opportunity cost of being unable to reach your customer, would be economically offset by getting free address correction service rather than paying 20 cents for a correct address?

COS/NAA-T1-21 On page 12 of your testimony, you state that “one might assume that the relationship between COS’s forwarding and return rates corresponds to the average for all FCM.” Isn’t it the case that you actually mean that it corresponds to the ratio between forwarding and return rates? Please explain the logical rationale for linking the ratio (percent forwarded to percent returned) to Capital One’s First-Class Mail and First-Class solicitations volumes? Please explain what there is about a high return rate for a mailer that would dictate that it would also have an abnormally high forwarding rate?

COS/NAA-T1-22 On page 16, you state that witness Crum “appears to have overstated the actual cost savings associated with the forwarding of COS Mail.” Please confirm that witness Crum did not claim any savings from reduced forwarding costs in calculating his net contribution from the Capital One deal. Is it not the case that there will indeed be some cost savings and that those cost savings would, if included, increase the net contribution from the Capital One deal? Explain any negative answer.