

**UNITED STATES OF AMERICA  
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**

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**ERRATA OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO TESTIMONY OF WITNESS: J. EDWARD SMITH  
OCA-T-1  
(January 03, 2003)**

Attached are corrected pages for the testimony of Office of the Consumer Advocate Witness J. Edward Smith (OCA-T-1). Graphs 1 and 2 have been corrected to correspond to the underlying data, and the phrase "moving average" has been changed to "moving total."

Respectfully submitted,

OFFICE OF THE CONSUMER ADVOCATE

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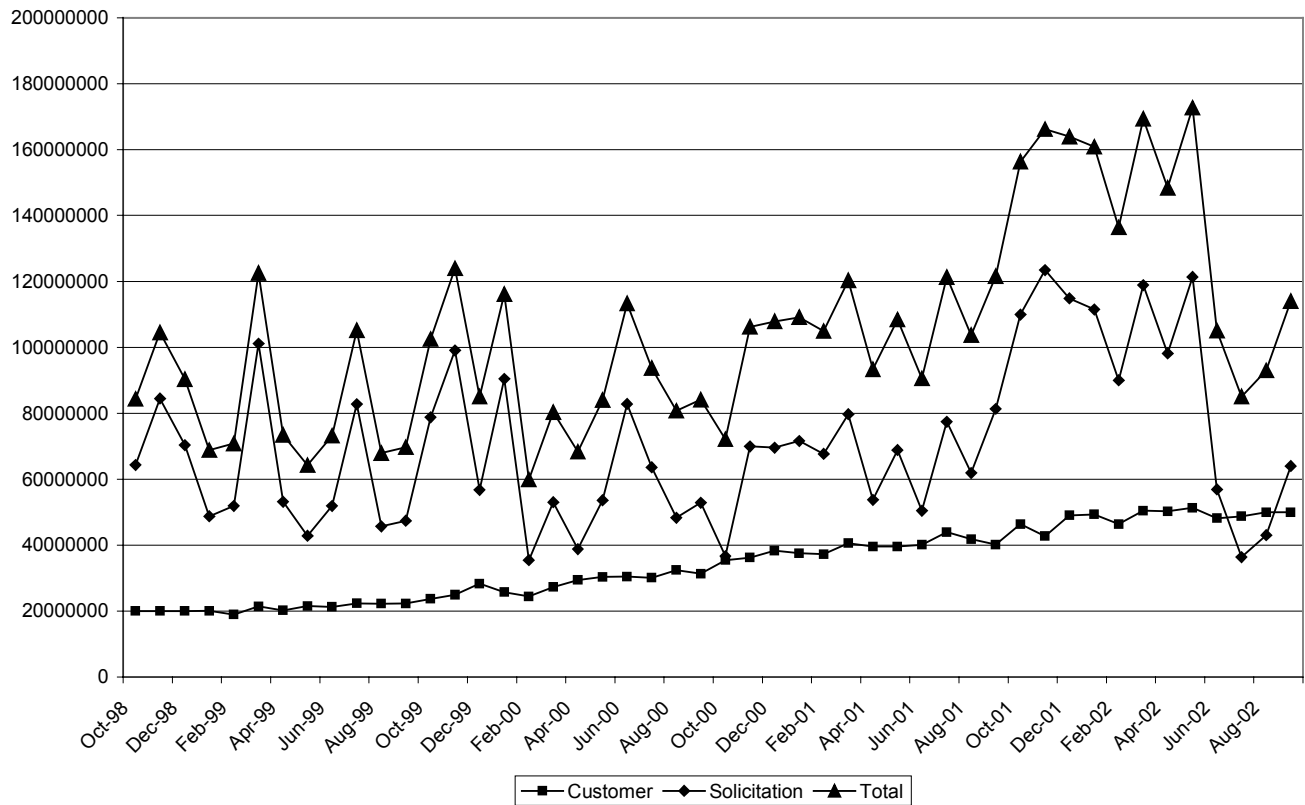
1 IV. CAPITAL ONE MAILING TRENDS SUGGEST THAT A FORECAST OF  
2 1.4 BILLION PIECES IS AT A LOWER BOUND

3 A forecast of 1.4 billion pieces for 2003 approaches plausibility but appears to be  
4 at the lower range of possible outcomes. Graph 1 presents monthly mailings by Capital  
5 One, as delineated by witness Elliott in his testimony.<sup>4</sup> The underlying data and 12-  
6 month moving totals are presented in Appendix 1 of this testimony. Monthly Customer  
7 mailings gradually increased during the time period Oct-98 to Sept-02. In comparison,  
8 monthly Solicitation mailings fluctuated substantially from month to month during  
9 October 1998 through August 2001. Subsequently for October 2001 through May of  
10 2002, there was a substantially higher level of Solicitation mailings, again subject to  
11 substantial fluctuation. It is difficult to see a meaningful time trend in the Solicitation  
12 data in Graph 1. Graph 2 presents 12-month moving totals of Customer, Solicitation,  
13 and Total mailings. The key question is the outlook for 2003.

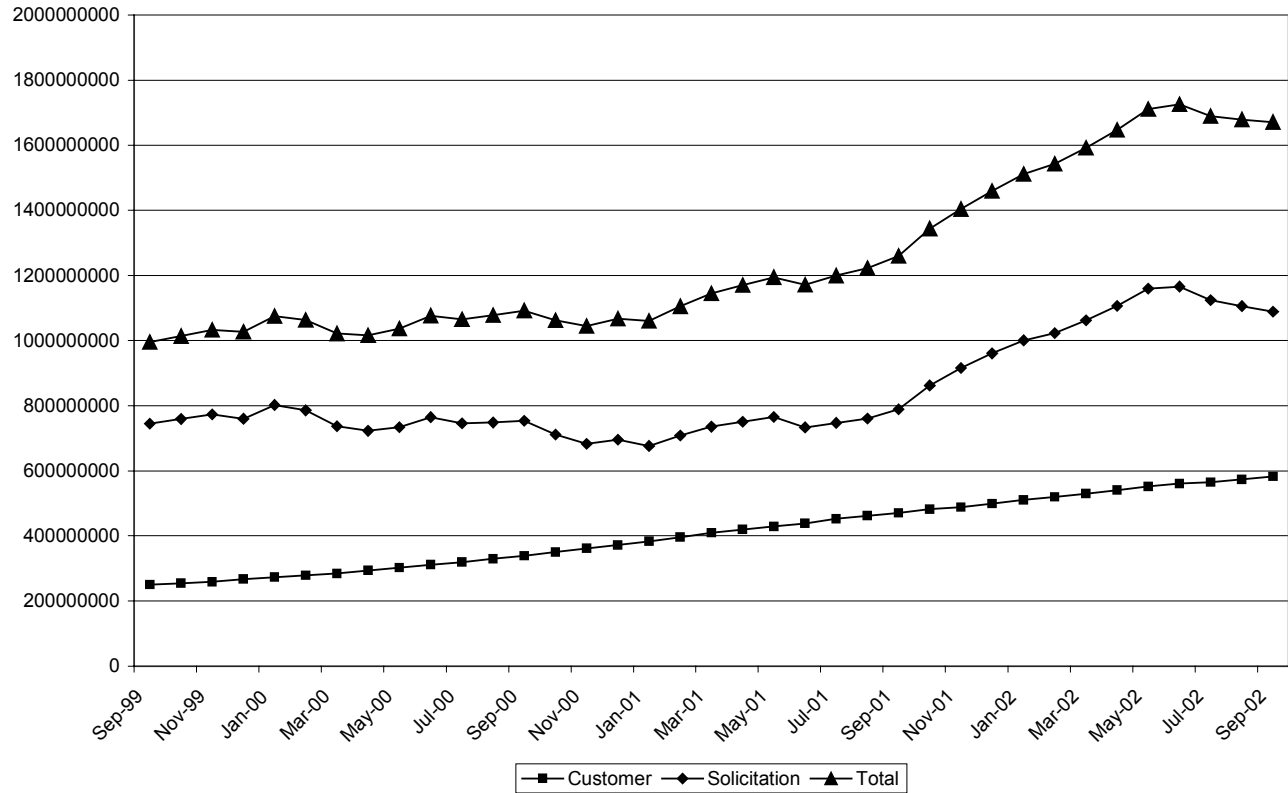
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<sup>4</sup> Direct Testimony of Stuart Elliott, Docket No. MC2002-2, COS-T-2. Exhibit 2.

**Graph1: Capital One Monthly Pieces--Customer, Solicitation, Total**



**Graph 2: Capital One 12-Month Moving Totals, Customer, Solicitation, Total Mail**



**1 Customer Mail**

2 A time trend analysis based on 12-month moving totals indicates that the level of  
 3 Customer mail is gradually rising. As of September 2002 total Customer mail was at a  
 4 rate of 582 million pieces per year, having increased since September of 2000 and  
 5 September of 2001 at rates of 2.29 percent and 1.80 percent per month respectively.

1 C. Accordingly, a Regression Analysis has not Worked in Forecasting Capital  
2 One's Potential Future Mailings

3 Although one can obtain a trend analysis for Customer mailings, a trend analysis  
4 for Solicitation mailings appears to be meaningless. The regression effort presented in  
5 this testimony highlights how little is actually known about Capital One's level of  
6 mailings. Capital One management has indicated fundamental shifts in their marketing  
7 approaches in terms of choice of media and operations<sup>9</sup>. It is not surprising that a  
8 regression analysis has not provided strong results. If one had access to Capital One's  
9 private undisclosed information one might, of course, obtain better results. Such,  
10 however, is not currently the case. The regression approach has failed in the case of  
11 Capital One, probably due to the unavailability of private unverifiable information.

12 D. An Alternative to Regression Analysis is the Extrapolation of the Previous  
13 Year's Level of Mailing Effort, Increased Somewhat to Allow for Additional  
14 Company Efforts

15 The Appendix presents 12-month rolling totals for Customer and Solicitation mail.  
16 Every December the 12-month roll becomes the total for a calendar year. Every month  
17 the 12-month roll becomes the total for a 12-month year ending in that month.

18 A forecast of mail volume for the test year is necessary to establish a threshold  
19 for the initiation of per piece discounts. OCA has studied a forecast for the next year  
20 that is based on the level of the 12-month roll as of the end of the previous year,  
21 adjusted for the growth that occurred during that year. Table 4 gives an example.

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<sup>9</sup> Direct Testimony of Stuart Elliott on Behalf of Capital One Services, Inc., COS-T-2, Docket No. MC2002-2, at 4, lines 9-19. Direct Testimony of Donald Jean on Behalf of Capital One Services, Inc., COS-T-1, Docket No. MC2002-2, at 3, line 11 and at 4, line 11.