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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SECOND INTERROGATORIES OF CAPITAL ONE SERVICES, INC.

TO OFFICE OF THE CONSUMER ADVOCATE

WITNESS J. EDWARD SMITH (OCA-T1-13-22)

Capital One Services, Inc (COS) hereby requests Office of the Consumer Advocate 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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Dated: January 8, 2003

COS/OCA-T1-13. Please refer to your response to COS/OCA-T1-2(a) where you state, "Also, implicit in the procedure is that Capital One's Solicitation mail is not different from that of other workshared First-Class mail. This appears to be an unrealistic assumption in terms of Capital One's Solicitation mail and the Solicitation mail of other organization." Please describe in what ways you believe Capital One's Solicitation mail is different than First-Class Solicitation mail sent by other organizations.

COS/OCA-T1-14. Do you believe that the own-price elasticity for solicitation mail in total is higher than or lower than the own-price elasticity of billing and customer communication mail in total? Please describe your reasoning fully.

COS/OCA-T1.15. Please refer to your response to COS/OCA-T1-2(a) where you state, "This approach appears to be based on the assumption that the two types of mail can be summed and, subsequently, a single elasticity for workshared First-Class mail can be used." Please confirm that in its calculation and use of a single elasticity for workshared First-Class Mail, the Postal Service also makes the assumption that the different types of workshared First-Class Mail can be summed and that the elasticity of that sum can be used for rate-setting purposes.

COS/OCA-T1-16. Please refer to your response to COS/OCA-T1-7(a) where you state, "Insignificance of the time variables is sufficient to eliminate the equations from consideration."

(a)   Please confirm that a mail volume data series that is neither increasing nor decreasing over time is likely to produce regression results with time variables that are statistically insignificant. If not confirmed, please explain fully.

(b)   The above quoted statement from your response to COS/OCA-T1-7(a) implies that you would eliminate a regression equation from consideration for the mail volume data series described in subpart (a) of this interrogatory on the basis of its statistically insignificant time variables. Please explain whether this is the case.

OCA/COS-T1-17. Please refer to your response to COS/OCA-T1-9(b). Please confirm that your projection uses a growth rate derived from volume data covering the period from October 2000 to September 2002.

OCA/COS-T1-18. Please refer to your response to COS/OCA-T1-10(c). Please confirm that your alternative projection uses a growth rate derived from volume data covering the period October 1999 to September 2001.

OCA/COS-T1-19. On page 3 of your testimony, you state that the payment of incentives at a lower than forecasted volume creates a significant free-rider problem, that is, the payment of an incentive where none is necessary, because the mail would have been sent even absent an incentive. I ask you to assume that the payment of the discount is not for the purpose of incenting First-Class volume but rather to incent the mailer, in this case Capital One, to enter into an agreement which has significant cost-savings opportunities for the Postal Service. On that assumption, would the payment of a discount for volume which would materialize in any event create the "free-rider" problem to which you allude. Please explain any affirmative answer.

OCA/COS-T1-20.   I direct your attention to your testimony at page 11, where you state that the number of Capital One customer mailings is a near-deterministic function of the number of existing credit cards, and to the testimony of Capital One witness Jean that the company has made a decision to convert substantial numbers of its statement mail to electronic statements over the next three years. (Tr. 2/40).   If that statement turns out to be correct, is it not the case that the number of customer mailings will not be a "near-deterministic function of the number of existing credit cards," but, in fact, the growth of customer mail will slow, and, possibly, cause a reduction in the gross volume of customer mail?

OCA/COS-T1-21.   Please refer to your testimony on page 17 where you say that: "Although one can obtain a trend analysis for customer mailings, a trend analysis for solicitation mailings appears to be meaningless." I take it that you imply that a trend analysis for customer mailings is meaningful and valuable. If that is your view, please explain whether your trend analysis took account of the Company's testimony that it was already engaged in and intended to accelerate its conversion of customer mail to electronic communications over the term of the Negotiated Service Agreement. If the answer is in the negative, please explain why your trend analysis of customer mail has any value, given the fact that it does not take account of uncontroverted statements by the Company as to its future behavior.

OCA/COS-T1-22.   On page 17 of your testimony you state that: "It is not surprising that regression analysis has not provided strong results. If one had access to Capital One's private undisclosed information, one might, of course, obtain better results."   Is it not the case that, even though you did have access to the Company's disclosed information that they intended to convert in an aggressive manner to electronic communications with their customers, as opposed to First-Class mail communications, that your regression analyses failed to take account of that fact in your calculations?