

UNITED STATES OF AMERICA
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

ANSWERS OF
OFFICE OF CONSUMER ADVOCATE
WITNESS: J. EDWARD SMITH TO INTERROGATORIES OF
AMERICAN POSTAL WORKERS UNION (APWU/OCA-T1-1-4)
(January 13, 2003)

The Office of the Consumer Advocate hereby submits the answers of J. Edward Smith to interrogatories of American Postal Workers Union, dated January 3, 2003. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

OFFICE OF THE CONSUMER ADVOCATE

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ANSWERS OF OCA WITNESS J. EDWARD SMITH
TO INTERROGATORIES APWU/OCA-T1-1-4

APWU/OCA-T1-1. Did you test various exogenous explanatory drivers in your equations? If so which ones and what were the results?

RESPONSE TO APWU/OCA-T1-1.

No. Capital One expressed its mail forecast in terms of management projections of the future level of mailings and the effect of a per-piece discount on the projections. The exogenous explanatory drivers of Capital One's mail volume and the marketing strategies used by Capital One remain private undisclosed information. Accordingly, such variables could not be used.

ANSWERS OF OCA WITNESS J. EDWARD SMITH
TO INTERROGATORIES APWU/OCA-T1-1-4

APWU/OCA-T1-2. Did you use Capital One's Standard mail solicitation volume in any of your regressions? If so, what were the results? If not, why not?

RESPONSE TO APWU/OCA-T1-2.

No. There was no information available to permit an adequate analysis.

For example, one would wish to consider the potential drivers of demand for mailing services, the decision process used to choose between Standard Mail, First-Class Mail, and the marketing strategy of Capital One as well as associated variables.

ANSWERS OF OCA WITNESS J. EDWARD SMITH
TO INTERROGATORIES APWU/OCA-T1-1-4

APWU/OCA-T1-3. You state on page 14 of your testimony that various dummy variables were considered for improvement of the equation for customer mail and several were found to be statistically significant. Which dummy variables were found to be statistically significant? Were dummy variables tested in the solicitation mail equations? If so, which ones, and were any of those dummy variables found to be statistically significant?

RESPONSE TO APWU/OCA-T1-3.

For Customer mail, see equations 2, 3, 4, and 5 (which correspond, respectively, to columns 2, 3, 4, and 5) of Table 2. A t value greater than 1.96 (for infinite sample size, slightly different for small samples) would denote statistical significance of the variable at the five- percent level.

For Solicitation mail, see equations 7 and 8 (which correspond, respectively, to columns 7 and 8) of Table 3. A t value greater than 1.96 (for infinite sample size, slightly different for small samples) would denote statistical significance of the variable at the five- percent level.

ANSWERS OF OCA WITNESS J. EDWARD SMITH
TO INTERROGATORIES APWU/OCA-T1-1-4

APWU/OCA-T1-4. You state on page 19 of your testimony that the extrapolation of the previous year's experience to the current projected year may be the least bad alternative to determining a threshold volume. Does this mean that you believe only two years of volume data are required to make an assessment of any company's trend volume? Is so, why? If not, how many years of volume data should be provided, in your opinion?

RESPONSE TO APWU/OCA-T1-4.

The extrapolation that I have presented is based on a one-year trend, with a selective choice of trend for the Alternative Projection. Analysts could easily disagree over the appropriate time period for the selection of a trend, and business conditions can change significantly from year to year, thereby significantly impacting a trend. In general, the trend for a previous year, assuming that the business conditions are not radically changed, could be used to project a future year. However, I base this observation on common sense, not a reference to the economics or marketing literature. If business conditions were radically changed, then one would need to make an adjustment, as I did in the Alternative Projection. Again, I base this observation on common sense, not a reference to the economics or marketing literature.