

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 NEWSPAPER ASSOCIATION OF AMERICA  
WITNESS CHRISTOPHER D. KENT TO INTERROGATORIES OF  
CAPITAL ONE SERVICES, INC. (COS/NAA-T1-15-22)  
January 16, 2003**

The Newspaper Association of America hereby provides submits the answers of  
Christopher D. Kent to interrogatories of Capital One Services, Inc., filed January 2,  
2003.

Respectfully submitted,

NEWSPAPER ASSOCIATION OF AMERICA

By:

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**CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all  
participants requesting such service in this proceeding in accordance with section 12 of  
the Rules of Practice and the Presiding Officer's Rulings.

January 16, 2003

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William B. Baker

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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.

**ANSWER:**

The point I am making at the referenced page of my testimony is that the Postal Service, as the proponent of the NSA, should have identified the actual costs to it of returning and forwarding Capital One's mail, and what those costs will be in the second and third years of the NSA, rather than relying on averages. It is not the purpose of my testimony to develop the cost model and to calculate those costs in order to accurately analyze the impact of the proposed NSA, a burden that is on the Postal Service.

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**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.

**ANSWER:**

I believe that the Postal Service should present an accurate and complete cost and benefit analysis of any proposed NSA. Without knowing the impact of a given NSA, it is impossible to determine if the NSA is beneficial or harmful.

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**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.

**ANSWER:**

As I was not part of the negotiations, it is impossible for me to say what the purpose of the discount is, although I am aware that USPS and COS witnesses have stressed that the discounts and free eACS parts of the agreement cannot be analyzed separately but must be considered as a whole. It seems that a more direct way to address the problem of Capital One's preference for free, but high-cost, physical returns in lieu of less costly, but higher priced, electronic address confirmation service is to correct the faulty pricing signals for physical returns and ACS.

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**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.

**ANSWER:**

Yes. In the proposed NSA, however, the discounts start at anywhere from 1.025 – 1.225 billion pieces, depending on the volume Capital One mails in the first year of the agreement. In absence of the proposed NSA, Capital One expects to mail 1.408 billion pieces in FY2003. See testimony of COS witness Jean, page 5.

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**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.

**ANSWER:**

I am not privy to Capital One's proprietary and confidential information, such as its algorithm to decide whether or not to mail a FCM solicitation. Therefore, I can neither confirm nor rebut. However, I believe that in this case Mr. Jean has testified that Capital One did not make any representations as to changes in its use of First-Class Mail if the NSA were not reached. See Tr. 2/70 (NAA/COS-T1-11).

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**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?

**ANSWER:**

Nowhere in my testimony do I say that mailers will deliberately send UAA mail.

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**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?

**ANSWER:**

Yes, I am comparing the ratio of COS’s forwarding to return rate to the FCM forwarding to return rate ratio. The reason I think that Capital One’s forwarding rate is high is because their address list quality is poor, as indicated by their return rate of 9.6% (**eight** times the FCM average). This is hardly surprising, given that Capital One has no relationship with the people on their solicitation lists. What is surprising is the contention made by the USPS that Capital One, despite the poor quality of their address lists, is somehow catching the vast majority of the address changes every year. The USPS justifies its assumption that Capital One’s forwarding rate is equal to the FCM average on the grounds that COS uses the NCOA (National Change-of-Address) system to update its mailing lists every 60 days. NCOA catches only about 25% of possible change of addresses, which means **75%** will not be caught by NCOA. According to witness Wilson, 17% of households move each year. It is difficult to believe that while COS has incorrect addresses for 9.6% of its solicitation targets, it somehow manages to catch the majority of the 75% of change of addresses that NCOA does not. My rationale for linking the forwarding rate to the return rate is that both are related to poor address quality and if Capital One has a return rate 8



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times higher than the FCM average, then one would expect the forwarding rate for the mail sent using those same address lists to be higher than the FCM forwarding rate.

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**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.

**ANSWER:**

Confirmed that Mr. Crum did not claim any savings from reduced forwarding costs in calculating his net contribution from the NSA. Further confirmed that there should be some amount of cost savings from reduced forwards. However, I cannot confirm that the net effect would be to increase the net contribution from the NSA, because the net effect cannot be known without knowing the costs and volumes of Capital One’s forwarded mail, including the effects of the implementation of PARS.