UNITED STATES OF AMERICA
Before The
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

Experimental Rate and Service Changes) Docket No. MC2002-2
To Implement Negotiated Service Agreement)
With Capital One Services, Inc.)

ANSWERS OF OFFICE OF CONSUMER ADVOCATE
WITNESS JAMES F. CALLOW TO INTERROGATORIES OF
CAPITAL ONE SERVICES, INC. (COS/OCA-T2-13-16)
(January 21, 2003)

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The Office of Consumer Advocate hereby submits the answers of James F. Callow

to interrogatories COS/OCA-T2-13-16, dated January 8, 2003. Each interrogatory is

stated verbatim and is followed by the response.

Respectfully submitted,

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COS/OCA-T2-13

Please refer to your response to COS/OCA-T2-4; page 17-18 of OCA-T-1, which describes witness Smith's extrapolation approach; and page 3 of your testimony where you state, "A unique volume threshold would be determined for each mailer based upon the mailer's historical First-Class volume data."

    (a) Under your proposed volume discount classification, is the Postal Service free to calculate the discount threshold using any method that it chooses so long as the method uses "its own [USPS] or publicly available data"? If your response is anything other than an unqualified yes, please describe how much freedom the Postal Service will have in setting the discount threshold based upon "its own or publicly available data."

    (b) Please confirm that your proposal does not require that the Postal Service use the extrapolation approach proposed by witness Smith to determine the discount threshold and explain fully why your proposal does not require the Postal Service to use this approach.

    (c) Please define fully "publicly available data" as used in your proposed Domestic Mail Classification Schedule language and list all forms of publicly available data that the Postal Service can use in calculating the discount threshold.

    (d) Please explain whether publicly available data, as used in your proposed DMCS language, must be historical.

RESPONSE TO COS/OCA-T2-13

    (a) Yes. However, the word "data" should be interpreted broadly to mean information, not just numeric data.

    (b) Confirmed. Witness Smith's forecasting model is based upon the data for one mailer—Capital One. It is one among several forecasting models that could be used by the Postal Service to establish the volume threshold for a mailer. I did not specify a single forecasting model or method in order to permit the Postal Service to develop the most appropriate method based upon the type, quantity and quality of mailer information available to it.

    (c) Publicly available information was specified so the Postal Service could not use private information that would otherwise be unavailable for public inspection and

review. Thus, any information that can be made public, such as posted on the

Commission's website, without violating any contractual or copyright provisions would

be included within the meaning of "publicly available."

(d) No. The Postal Service is not limited to using historical information.

COS/OCA-T2-14

Please refer to page 2 of OCA-T-1 where witness Smith states, "I conclude that the previous year's mail volume adjusted by previous levels of growth can serve as an estimator of the next year's level of mail volume. Such a number may be deficient, as is the case for Capital One, apparently due to changes in marketing approaches." Please refer further to page 18 of OCA-T-1 where he states, "The application of a revised growth rate requires a degree of judgment and ignores potential migration to the Internet of some billing statements." Please refer further to page 3 of your testimony where you state, "A unique volume threshold would be determined for each mailer based upon the mailer's historical First-Class volume data."

    (a) In your opinion, is it preferable for the Postal Service to set the discount threshold based upon a "deficient" Test Year volume forecast based solely upon USPS and publicly available data or a more accurate forecast that is based partially on a mailer's judgment and that has subsequently been reviewed by Postal Service experts? Please explain your response fully.

    (b) Given that, as witness Smith notes in his testimony, mailers change marketing approaches and that some billing statements may begin to migrate to the internet, do you believe that the Postal Service can accurately forecast Test Year volume based solely upon the mailer's historical First-Class volume data? Please explain your response fully.

RESPONSE TO COS/OCA-T2-14

    (a) The proposed DMCS for the Experimental Volume-Based Declining Block Rate classification directs that the volume threshold be established by the Postal Service using only its own or publicly available data. *See* OCA-T2 Attachment B, DMCS § 620.61. This question presumes that a forecast based upon Postal Service and publicly available information will be "deficient" while one based upon a mailer's judgement and reviewed by the Postal Service is not. Under either method, establishment of the "correct" volume threshold for any mailer is unknowable. Thus, I don't know whether a mailer's volume forecast is "more accurate." There is, however, an obvious incentive for the mailer to provide a "low" forecast so discounts can be claimed on a larger volume of mail. It is for this reason that my proposal precludes the

Postal Service from basing a mailer's volume threshold on "mailer judgement."

Consequently, the requirement that the Postal Service use only its own or publicly

available data is one of several means of reducing financial risks to the Postal Service

associated with establishing a volume threshold. The others are linking access to

volume-based discounts to reducing the number of physical returns so as to reduce

Postal Service costs, and limiting the total amount of discounts available to any one

mailer.

(b) No. I do not propose that the Postal Service rely solely upon a mailer's

historical First-Class volume data. The Postal Service can use its own or publicly

available information. Such information might include forecasts or other prospective

statements by a mailer that are publicly available and independently verifiable.

COS/OCA-T2-15

Please refer to your response to COS/OCA-T2-2(a) where you state, "Unable to confirm. The interrogatory does not indicate whether discounts to be provided to a mailer under the proposed Experimental Volume-Based Declining Block Rates would be sufficient to induce the mailer to participate in the Experimental Automated Address Correction Service." Please also refer to page 17 of your testimony, which notes that only mailers participating in the Experimental Automated Address Correction Service would have access your Experimental Volume-Based Declining Block Rates. Finally, please refer to your response to COS/OCA-T2-3.

(a) Please confirm that, if access to volume-based discounts were not contingent on participation in the Experimental Automated Address Correction Service, the mailer described in COS/OCA-T2-2 would not participate in your proposed Experimental Automated Address Correction Service.

(b) Please confirm that it is your opinion that because you propose only to allow mailers who participate in the Experimental Automated Address Correction Service to participate in the Experimental Volume-Based Declining Block Rates, access to the volume-based discounts might induce mailers to participate in the Experimental Automated Address Correction Service classification. Please explain your response fully.

(c) Similarly, since the Capital One NSA is proposed as a package deal that includes elements of both your Experimental Automated Address Correction Service and your Experimental Volume-Based Declining Block Rates, can the volume discounts be viewed as inducements both to increase mail volume and to waive its right to physical returns? Please explain your response fully.

(d) Please confirm that, to keep the total NSA discount given to Capital One constant, if a percentage of the cost savings from Capital One waiving its right to physical returns were passed through in the form of a per-return discount, the total volume discount given to Capital One as part of the NSA would need to be reduced. If not confirmed, please explain fully.

(e) Please confirm that reducing the volume discount portion of the negotiated service agreement would reduce the incentive for Capital One to maintain and grow its use of First-Class Mail. If not confirmed, please explain fully.

RESPONSE TO COS/OCA-T2-15

(a) Confirmed, by definition. There are no discounts for mailers that participate

in the Experimental Automated Address Correction Service.

(b) Confirmed. There are no discounts for mailers that participate in the

Experimental Automated Address Correction Service. Thus, any mailer seeking

discounts would have to participate in the Experimental Volume-Based Declining Block

Rate classification.

(c) I agree the Capital One Negotiated Service Agreement (NSA) is proposed as

a package deal where the volume discounts can be viewed as inducements both to

increase mail volume and for Capital One to waive its right to physical returns.

(d) Confirmed. Under the NSA, holding the total amount of discounts available

to Capital One constant, while passing a portion of the cost reduction from reducing

physical returns to Capital One in the form of a per piece discount, would by definition

reduce the amount of volume-based discounts.

(e) While the incentive would be reduced, I cannot predict how Capital One

would react, if at all.

COS/OCA-T2-16

Please refer to your response to COS/OCA-T2-3(c) where you calculate per-piece incentive to increase mail volume from 1.409 billion pieces to 1.41 billion pieces. Furthermore, assume that the rate that an individual participant in your Experimental Volume-Based Declining Block Rates classification pays to mail First-Class Mail letters (in the absence of the volume discounts) is uniformly 29.1 cents per piece.

(a) Please confirm that the per-piece incentive to mail First-Class Mail letters above 1.15 times the discount threshold in your proposed classification is always less than or equal to two cents per piece. If not confirmed, please explain fully and provide the maximum per-piece incentive for mailing volume above 1.15 times the discount threshold.

(b) Please confirm that the per-piece discount between the discount threshold and 1.15 times the discount threshold in your proposed classification is always greater than or equal to 3 cents per piece. If not confirmed, please explain fully.

(c) Please confirm that for First-Class Mail letters sent by this mailer in the volume block between the volume threshold and 1.15 times the volume threshold, the effective rate (29.1 cents minus the per-piece incentive) is no more than 26.1 cents per piece.

(d) Please confirm that for First-Class Mail letters sent by this mailer in the volume block above 1.15 times the volume threshold, the effective rate (29.1 cents minus the per-piece incentive) is no less than 27.1 cents per piece.

(e) Would you agree that declining-block rates refer to rates that decline as quantity increases? If not confirmed, please provide your definition.

(f) Would you agree that the definition of declining-block rates in subpart (e) does not describe your proposal for First-Class Mail letters above 1.15 times the discount threshold? If not confirmed, please explain fully.

RESPONSE TO COS/OCA-T2-16

(a) Confirmed.

(b) Confirmed, by definition. There are no discounts less than 3 cents.

(c) Confirmed.

(d) Confirmed.

(e) Confirmed.

(f) Confirmed. The purpose of the volume limit is to reduce the total amount of

discounts available to any one mailer, and thereby limit the financial risk to the Postal

Service. The cost for this "insurance" is a limitation on the additional contribution the

Postal Service can obtain from the mailer. The benefit from this "insurance" is the

preservation of a portion of the reduction in costs to the Postal Service from "electronic"

returns.