

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-T1-23-29)
January 23, 2003**

The Newspaper Association of America hereby provides submits the answers of
Christopher D. Kent to interrogatories of Capital One Services, Inc., filed January 9,
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 23, 2003

William B. Baker

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COS/NAA-T1-23. Please refer to page 12 of your testimony where you state, “As an alternative estimate of forwards, one might assume that the relationship between COS’s forwarding and return rates corresponds to the average for all FCM. The forwarding average for all FCM (1.96%) is about 159% of the average return rate (1.23%). Under this assumption, COS’s forwarding rate would be 159% of its return rate, which works out to 15.3%, although use of the NCOA presumably should reduce the forwarding rate somewhat.”

- (a) Please confirm that if the FY 2003 Before Rates forwarding rate for Capital One’s First-Class Mail solicitations was 15.3%, then the Postal Service would forward 117.5 million (15.3% times 768 million) Capital One First-Class Mail solicitations in FY 2003 Before Rates. If not confirmed, how many Capital One First-Class Mail solicitations would the Postal Service need to forward?

- (b) Please provide a revised version of Table 2 in your testimony which includes a column showing the “Number of Capital One Pieces Forwarded” that you used to calculate the additional cost due to providing eACS for forwarded mail.

ANSWER:

- a) Confirmed that 15.3% of 768 million is 117.5 million. In my calculations for table 2 in my testimony, however, I used the after-rates FY2003 volume of 776 million solicitation pieces.

b) **Table 2: Forwarding Costs**

Number of Capital One Pieces Forwarded	% Forwarded Using 85% Assumption for CFS Forwarded Mail	% Forwarded Using 95% Assumption for CFS Forwarded Mail	Additional Cost due to Providing EACS for Forwarded Mail	Total Contribution as a Result of the NSA
15,151,515	2.30%	2.05%	\$1,000,000	\$7,205,000
30,303,030	4.59%	4.11%	\$2,000,000	\$6,205,000
60,606,061	9.18%	8.22%	\$4,000,000	\$4,205,000
112,878,788	17.10%	15.30%	\$7,450,000	\$755,000
131,993,468	20.00%	17.89%	\$8,711,569	-\$506,569

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COS/NAA-T1-24. Please refer to www.usps.com/history/pfact00.htm.

- (a) Please confirm that “[a]bout 17% of the nation’s population moves every year, resulting in more than 44 million address changes.” If not confirmed, how many addresses change every year? Please provide all relevant citations.

- (b) Please confirm that 44 million address changes every year translates into approximately 3.667 million address changes every month. If not confirmed, how many addresses change every month? Please provide all relevant citations.

ANSWER:

- a) Confirmed that witness Wilson testified to this during his oral cross-examination (see transcript Volume 3 - Hearing Held on December 4, 2002, Testimony of Witnesses Bizzotto (USPS-T-1) and Wilson (USPS-T-4), page 639).

- b) Confirmed that 44 million/12 equals 3.667 million. This is the number of address changes every month on average, although I have not seen evidence showing that this number is consistent every month.

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COS/NAA-T1-25. Please refer to pages 1 and 2 of USPS-T-4 where witness Wilson states, "Whenever a First-Class Mail piece is UAA, the postal carrier must determine if the customer has moved, or if a deficiency in the address prevents the mailpiece from being delivered to the recipient or address shown on the piece. If the customer has moved, the delivery unit is instructed to send the piece to the CFS unit for redirection to the customer's new address...If an address deficiency makes the mail piece undeliverable, the carrier typically notes on the mailpiece the reason for non-delivery and indicates that the mailpiece should be returned to the sender." Please refer further to witness Crum's response to OCA/USPS-T3-24(c) where he states, "Most returns are not related to the fact that a mail recipient moves."

- (a) Please confirm that the primary reason why First-Class Mail has to be forwarded is that postal customers move. If your response is anything other than an unqualified yes, please explain fully.

- (b) Please confirm that forwarded First-Class Mail generally has an accurate old address for the postal customer. If your response is anything other than an unqualified yes, please explain fully.

- (c) Please confirm that the primary reason why a First-Class Mail workshared letter is returned is that the address on the mailpiece is deficient. If not confirmed, please explain fully and provide a description of all analysis that you have performed of the reasons that First-Class mail workshared letters are returned.

ANSWER:

- a) – b) This is my understanding.
- c) Confirmed that Table 4.4 of USPS LR-J-69 shows that mailpieces returned for the following reasons:

Attempted, Not Known,
No such Number/No Such Street, and
Insufficient Address

comprise 42.57% of the total FCM returned to sender by delivery unit.

The table does not have a separate distribution of reasons for non-delivery for workshared letters nor a distribution of reasons for non-delivery for mailpieces returned to sender by CFS units.

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COS/NAA-T1-26. Please refer to witness Crum’s response to OCA/USPS-T3-24(c) where he states, “Thus, Capital One can keep their forwarding ‘at or below’ national averages by running NCOA more frequently.” Please refer to witness Crum’s response to POIR No. 3, Question 1 where he states, “However, NCOA processing, no matter how frequent, would not resolve the primary cause of return to sender mail—deficient addresses.”

- (a) Do you agree that, *ceteris paribus*, the forwarding rate for a mailer will be lower if it runs its lists through the NCOA database more frequently? If you do not agree, please explain fully.

- (b) Do you agree that NCOA processing “would not resolve the primary cause of return to sender mail—deficient addresses”? If you do not agree, please explain fully.

ANSWER:

- a) Agreed, *ceteris paribus*.

- b) Agreed that NCOA processing would not improve deficient addresses.

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COS/NAA-T1-27. Please refer to witness Crum's response to POIR No. 3, Question 1 where he states, "I have also learned another fact about Capital One that supports witness Wilson's estimate that its forwarding rate is no more than average. When Capital One processes its address lists against NCOA, approximately 4 percent of its address are updated. This rate, called a match rate, is close to the average for all mailers that use NCOA. This match rate indicates that Capital One's address lists are about as current as other mailers who use NCOA." Please confirm that having a match rate that is consistent with that of other NCOA mailers suggests that Capital One's forwarding rate is similar to other mailers who use NCOA. If not confirmed, please explain your reasoning fully.

ANSWER:

Not confirmed. COS is continuously mailing solicitations to new persons with whom they have no relationship. Even for those lists used by COS for multiple mailings, there is a lag time between processing against NCOA and the mailings.

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COS/NAA-T1-28. Please refer to page 15 of your testimony, where you state, “It is clear, however, that (at least at the onset of the NSA) multiple notifications will still be necessary due to the frequency of mailings and the lag time between received the notification and incorporating the information into the mailing lists.”

- (a) Please describe in detail all analysis that you have performed related to your assertion “that (at least at the onset of the NSA) multiple notifications will still be necessary.” Please be as quantitative as possible.
- (b) Please provide your understanding of how frequently Capital One sends a First-Class Mail solicitation to the same postal customer.
- (c) Please provide your understanding of how long the lag time is between Capital One receiving the notification and incorporating it into its mailing lists.
- (d) At the onset of the NSA, how many notifications do you believe will be necessary? Please explain your reasoning fully.

ANSWER:

- a) My statement that multiple notifications will be needed is based on common sense, an understanding that COS mailings occur in real time, and that there are lags between the time the mailing occurs and the time COS lists are updated.
- b) In his response to POIR 2, question 7, witness Crum assumed 5.6 solicitations to each delivery point per year. Some postal customers will certainly receive more and some will receive less, and COS has not provided any information on this matter.
- c) Based on the terms of the proposed NSA, COS is required to update its mailing lists within 2 days of receiving the notification.

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However, multiple future mailings may already be in preparation when notifications from previous mailings are received.

- d) I cannot quantify the number of mailings necessary without more information on COS's mailing practices.

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COS/NAA-T1-29. Please refer to page 15 of your testimony where you state, “witness Crum has a valid point regarding a probable improvement in the repeat-forwarded rate” and where you further state, “Adjusting to remove the postage due mail costs reduces that cost figure, slightly, to approximately \$0.306.”

- (a) Please provide your best estimate of the reduction in the repeat-forwarded rate that will result from the agreement and provide all underlying calculations.
- (b) Please confirm that \$0.306 is approximately 4.6 times as large as the \$0.066 cost that witness Crum calculated for eACS forwards. If not fully confirmed, please explain fully.

Assuming that \$0.306 is the cost difference between a mailpiece that is forwarded and a mailpiece that is normally delivered, please confirm that the “breakeven ratio” at which the avoided cost from eliminating forwards is equal to the incurred cost of providing eACS forwarding notifications is 4.6 eACS forwarding notifications per corrected address. If not confirmed, please explain fully and provide your best estimate of this breakeven ratio.

ANSWER:

- a) I do not have the data to quantify the reduction in the repeat-forwarded rate.
- b) Confirmed that $\$0.306/\0.066 equals approximately 4.6.

Not confirmed. This hypothetical does not include enough data to make an accurate and reliable judgment. For example, the actual costs of forwarding COS mail would be needed to estimate the breakeven ratio.