

**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

**REBUTTAL TESTIMONY
OF
ROBERT SHIPPEE
ON BEHALF OF
CAPITAL ONE SERVICES, INC**

TIMOTHY J. MAY
PATTON BOGGS LLP
2550 M Street, N.W.
WASHINGTON, D.C. 20037-1350
Tel: 202/457-6050
Fax: 202/457-6315

Counsel for Capital One Services, Inc.

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1 **INTRODUCTION.**

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3 My name is Robert Shippee, Group Manager of Capital One Services, Inc. (“Capital One”). I
4 earned two degrees from Syracuse University in 1985, Bachelor of Arts in Economics and
5 Bachelor of Science in Industrial Engineering and Operations Research, and two degrees from
6 Cornell University in 1987, Master of Industrial and Labor Relations and Master of Business
7 Administration. Since 1987, I have worked in the financial services industry, at Fleet Bank
8 (including responsibility for merger and acquisition negotiations) and Capital One. I am
9 currently responsible for the company’s relationship with the United States Postal Service.

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11 The purpose of my testimony is to respond to criticisms that the NSA grants discounts for mail
12 that is not “new” volume; to respond to criticisms leveled at Capital One’s address management
13 practices; to clarify the Company’s expectations regarding returns and forwarding under the
14 NSA; and to offer my opinion on the NSA’s alleged adverse effects on others, including
15 competitors.

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17 **1. THE COMPANY’S “BEFORE RATES” TEST YEAR VOLUME FORECAST**
18 **MAY HAVE BEEN OPTIMISTIC.**

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20 There have been criticisms by other parties, even questions by a Commissioner, about the NSA
21 volume discount threshold, which is set more than 100 million pieces below Capital One’s Test
22 Year volume forecast. According to some NSA opponents, this has created a so-called "free
23 rider" problem--volume discounts granted to First Class Mail that would have been mailed in any

1 event, rather than for volume induced by the NSA. To the contrary, we were concerned during
2 negotiations that the discount volume threshold might be set so high that we would not be able to
3 meet it. Capital One does not normally make specific annual First Class Mail volume forecasts,
4 so the Company had no established methodology to make the specific Test Year forecast that
5 was required for this case. Additionally, as we surveyed our business managers last summer in
6 order to produce a “Before Rates” volume forecast, we were concerned that such a forecast,
7 given the recent public announcement concerning the change in our marketing strategy, might be
8 optimistic. As it turns out, based on our October, November and December 2002 numbers, our
9 concerns have been validated. We have provided actual mail volumes for October, November
10 and December to SLS Consulting and have asked them to include these data in calculating a new
11 Test Year volume forecast. Irrespective of what the SLS forecast may show, including a below-
12 threshold Test Year volume, Capital One values the volume discounts that are at the heart of this
13 deal. It is of real value to us to have the potential to earn these volume discounts throughout the
14 three-year term of the NSA.

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16 **2. CAPITAL ONE’S ADDRESS MANAGEMENT PRACTICES ARE FAR BETTER**
17 **THAN REQUIRED BY USPS AND WILL IMPROVE FURTHER UNDER THE**
18 **NSA.**

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20 a) As previously testified, the Company runs NCOA far more frequently than USPS
21 requirements of every 180 days, and commits under the NSA to run NCOA every 30 days
22 for customer addresses and 60 days for prospect mailing lists.

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1 b) Upon approval of the NSA, the Company has further committed to incorporating
2 electronic ACS in its solicitation campaigns. Since this information is expected to be
3 received more quickly, and include additional data not received today (thereby improving
4 the Company's ability to determine which returns are unlikely to be delivered on
5 subsequent attempts), returns are very likely to be reduced.

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7 c) Contrary to statements made before this body (Tr.6/1169-71), the Company's obligation
8 to run NCOA updates and utilize electronic ACS information extends to any lists that are
9 purchased or rented from third-party providers. In fact, Capital One employs vigorous
10 address hygiene practices on all solicitations no matter the source of the data.

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12 **3. THE COMPANY EXPECTS "REPEAT FORWARDS" TO DECREASE UNDER**
13 **THE NSA.**

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15 a) While Capital One has no way to measure so-called "repeat forwards" today, it is certain
16 that the Company's commitment to incorporate electronically-received forwarding
17 information will reduce such occurrences, perhaps dramatically. The net benefit this will
18 bring to the Postal Service could be quite significant, and it has not been included in its
19 already-favorable cost-benefit analysis.

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21 b) The Company plans to diligently use electronic ACS information for both returns and
22 forwards because, quite simply, it is in the Company's best interests to maximize the
23 probability that a particular mailpiece will reach its intended recipient.

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1 **4. THE NSA IS FAIR TO ALL STAKEHOLDERS, INCLUDING COMPETITORS.**

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3 Assertions have been made during these hearings that the NSA gives more to Capital One than
4 necessary to make the deal; that, for example, Capital One would, or should, have agreed to
5 substitute free eACS for physical returns without the added benefit of volume discounts.

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7 a) The negotiations leading to this agreement were among the most difficult and lengthy in
8 my experience. Each party bargained in good faith for the provisions it viewed as critical
9 to make the deal worthwhile. On more than one occasion, one or both parties appeared to
10 be ready to terminate discussions. This is not unusual in negotiations, but it underlines
11 how inappropriate it is for a third party to assess whether either party got the “best” deal
12 they could get. Further, speculation as to whether either party would accept a part of the
13 deal is moot, as both parties made it abundantly clear during negotiations that there was
14 no interest in pursuing such a path, and that the only acceptable agreement is that which
15 is presently before this body.

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17 b) At various times in these proceedings, comments have been offered regarding the
18 potential effects of this NSA on the Company’s competitors. Indeed, Dr. Panzar raised
19 the potential for deleterious competitive effects as his chief concern in this case. In my
20 experience, including direct conversations with those who make marketing decisions at
21 the Company, I am aware of no meaningful linkage between one company’s mail
22 volumes and competitors’ volume. We compete, often rabidly, on product offerings and
23 features, but competitor mail volumes typically do not lead Capital One to change its

1 mailing plans. Nor is Capital One's planning affected by the likelihood that, even today,
2 some of our competitors (due to greater work-sharing and/or density discounts) may
3 enjoy lower average postal rates. The competitive concern, which is admittedly plausible
4 using purely theoretical economic logic, simply does not appear to exist in practice in the
5 credit card industry.

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