

**BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON DC 20268-0001**

Rate and Service Changes To Implement)
Functionally Equivalent Negotiated Service) Docket No. MC2004-3
Agreement with Bank One Corporation)

**ANSWERS OF BANK ONE CORPORATION TO
VALPAK INTERROGATORIES
VP/BOC-T1-1-11
(July 26, 2004)**

Bank One Corporation (“Bank One”) hereby submits its answers to Valpak Direct Marketing Systems, Inc. and Valpak Dealers’ Association, Inc. (collectively “Valpak”) interrogatories VP/BOC-T1-1-11, filed July 14, 2004. Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

/s/

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July 26, 2004

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-1**

VP/BOC-T1-1.

Please refer to your testimony at page 3, lines 6-11, where you explain that Bank One uses both First-Class Mail and Standard Mail to send approximately 1 billion solicitations each year. Please complete the table below, using either percentages or mail volumes, to clarify information about your solicitation mailings (not including what you call “customer mail” in Section II.B., used to communicate with existing clients about their accounts).

2003 Solicitation Mailings			
	First-Class Mail	Standard Mail	Total
To Customers			
To Non-customers			
Total			100%/1 billion

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

2003 Solicitation Mailings			
	First-Class Mail	Standard Mail	Total
To Customers	<50 % of total	<50 % of total	<50% of total
To Non-customers	<50 % of total	>50 % of total	>50 % of total
Total	<50 % of total	>50 % of total	100% of total

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-2**

VP/BOC-T1-2.

For solicitation mail sent to non-customers in 2003, approximately how many different mailing lists did Bank One use for:

- a. First-Class Mail mailings?
- b. Standard Mail mailings?

ANSWER: Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

- a. Bank One used hundreds of mailing lists for First-Class Mail mailings in 2003.
- b. Bank One used thousands of mailing lists for Standard Mail mailings in 2003.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-3**

VP/BOC-T1-3.

With respect to your response to preceding VP/BOC-T1-2, please indicate how many of the lists used for solicitation mailings to non-customers in 2003 were obtained directly by Bank One from each of the following sources:

- a. Independent list brokers.
- b. List owners.
- c. Other (please explain).

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

- a. A greater number of our lists were obtained from list brokers than from list owners. We also use lists from the three major credit bureaus.
- b. See response to part a.
- c. See response to part a.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-4**

VP/BOC-T1-4.

- a. In 2003, on how many occasions, or what percent of the time — if ever — did Bank One send a solicitation mailing to a list of non-customers more than once?
- b. Please explain briefly the circumstances under which Bank One used a list of noncustomers for more than one solicitation mailing.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

- a. Bank One often sends a solicitation mailing to the same list of non-customers more than once. Bank One may make multiple mailings to the same list during the same campaign cycle. Or Bank One may obtain the same list several times for different campaigns over the course of a year or other extended period.
- b. See response to part a.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-5**

VP/BOC-T1-5.

- a. When Bank One rents a list of non-customers from an independent list broker, do the terms of the rental generally specify, or limit, the number of times that Bank One may use the list? Please explain.
- b. After Bank One has finished using a list of non-customers obtained from an independent list broker (i.e., when it plans no further use of the list on its own behalf), please explain briefly what Bank One does with the list. For example, does Bank One simply destroy the list in its computers and then certify that it has erased it, or does it do something else with it?

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

- a. When Bank One rents a list of non-customers from an independent list broker, the terms of rental generally specify or limit the number of times that Bank One may use the list.
- b. Bank One purges lists from its computer databases in accordance with its agreements with list brokers.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-6**

VP/BOC-T1-6.

- a. When Bank One obtains a list of non-customers directly from a list owner, do the terms of the rental generally specify or limit the number of times that Bank One may use the list? Please explain.
- b. After Bank One has finished using a list of non-customers obtained directly from a list owner (i.e., when it plans no further use of the list on its own behalf), please explain briefly what Bank One does with the list. For example, does Bank One simply destroy the list in its computers and then certify that it has erased it, or does it do something else with it?

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

- a. When Bank One obtains a list of non-customers directly from a list owner, the terms of the rental generally specify or limit the number of times that Bank One may use the list.
- b. After Bank One has finished using a list of non-customers obtained directly from a list owner (i.e., when Bank One plans no further use of the list on Bank One's own behalf), the information is usually purged from the computers.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-7**

VP/BOC-T1-7.

If you obtain lists of non-customer prospects from sources other than list brokers or list owners, or maintain an internal list of non-customer prospects, please explain your procedures in acquiring, using, and updating such lists.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

Bank One obtains mailing lists from credit bureaus for pre-approved offers of credit. All names on a mailing list are routinely run against NCOA before the mailing is sent out.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-8**

VP/BOC-T1-8.

Please refer to the Postal Service request, Attachment F, item II-B, that states, inter alia, “[i]n exchange for waiver of ACS fees, Bank One agrees to update its databases within 7 business days and use the information in future marketing campaigns.”

- a. Please give your interpretation of the term “databases” as that term is used in the above-cited sentence. In particular, please explain the extent to which (if any) this sentence applies to a list of non-customers that Bank One may in the future rent for a First-Class solicitation mailing. Further, if this sentence applies in any way to lists of non-customers that Bank One may in the future rent for Standard Mail solicitation mailings, please explain fully what Bank One will do to update such lists.
- b. Please explain what the above-cited sentence means with respect to the electronic address corrections for Undeliverable as Addressed (“UAA”) mail that Bank One will receive under terms of the negotiated service agreement (“NSA”).
- c. Does the above-cited sentence, or any other term in the NSA, obligate Bank One to use the electronic address corrections for UAA mail which it will receive to update every list of non-customers that Bank One uses for a First-Class solicitation mailing?
- d. Unless your answer to the preceding part c is an unqualified affirmative, please explain what use(s), if any, will Bank One have for electronic address corrections for UAA mail that apply to lists of non-customers.
- e. To the extent that Bank One does not have any use for address corrections (electronic or otherwise) to update mailing lists of non-customers, please provide a full explanation concerning what value such address corrections have for Bank One.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-8**

a. The term “databases” as used in the cited sentence comprises the list or lists of all individuals and addresses maintained by Bank One for use in generating solicitation mailing lists. When Bank One receives notification from ACS that an address is stale or otherwise invalid, an entry will be placed in the databases to ensure that the address is purged from any future solicitation mailing. This process will ensure that Bank One will not use the address again even if it is included in other existing Bank One lists, or in other lists purchased, rented or otherwise acquired by Bank One in the future.

b. The address correction information will be added to Bank One’s database(s) to flag the address for purging from future solicitation mailings. See also response to part a.

c. See responses to parts a and b.

d. See responses to parts a and b

e. Not applicable. See responses to parts a and b.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-9**

VP/BOC-T1-9.

Please assume that, after the proposed NSA is in place, Bank One has sent a substantial solicitation mailing to a rented list of non-customers, and received from the Postal Service electronic address corrections for UAA mail equal to 10 percent of the names on the list.

- a. Does Bank One have any mechanism, or plans for any mechanism, by which it will transmit the corrected list (or the corrections) back to the list broker, to the list owner, or to whomever was the source of the list? If so, please give a general description of what the mechanism is, and how that mechanism works.
- b. For lists of non-customers that Bank One uses for First-Class solicitation mailings, please describe all feedback that Bank One plans to give to the source of the list (e.g., list broker, list owner) regarding the electronic address corrections for UAA mail that it will receive under the terms of the NSA. If Bank One has plans to provide the list source with any feedback, please so state.
- c. If the electronic address corrections for UAA mail generated under the proposed NSA are never incorporated into a subsequent mailing, of what value are the electronic address corrections to Bank One?
- d. Would you presume that unutilized electronic address corrections have value to the Postal Service? Please explain fully any affirmative answer.

ANSWER:

Bank One has objected to this interrogatory because it seeks highly proprietary information and is not reasonably calculated to lead to the production of relevant or admissible evidence. Notwithstanding these objections, Bank One provides the following answer:

- a. No.
- b. To the best of my knowledge, there are no plans to provide such feedback.

**RESPONSE OF BANK ONE WITNESS RAPPAPORT
TO VALPAK INTERROGATORY VP/BOC-T1-9**

c. This question is not applicable because address correction information will be used to improve the quality of addresses used in subsequent mailings by Bank One itself.

d. I do not make this assumption. See my response to part c above, as well as the response to VP/BOC-T1-8(b) for how information will be used.

**RESPONSE OF BANK ONE WITNESS BUC
TO VALPAK INTERROGATORY VP/BOC-T1-10**

VP/BOC-T1-10.

Please refer to (i) the after rates volumes shown in Tables 3 and 4 of your testimony (at p. 6), (ii) the estimated returns for First-Class solicitation mail discussed at page 9, lines 1-7, of your testimony, and (iii) the estimated unit cost for electronic flat and letter returns shown in Appendix A of the testimony of Postal Service witness Michael K. Plunkett (USPS-T-1).

- a. Please confirm that using the assumed volumes in your testimony, and the unit cost in witness Plunkett's testimony, the unit cost of electronic returns in Year 1 will average 3.85 cents for every piece of First-Class solicitation mail originated by Bank One. If you do not confirm, please supply what you believe to be the correct average unit cost, and show how it is derived.
- b. Please confirm that, using the assumed volumes in your testimony and the unit costs in witness Plunkett's testimony, the unit cost of electronic returns in Year 2 will average 3.58 cents for every piece of First-Class solicitation mail originated by Bank One. If you do not confirm, please provide what you believe to be the correct average unit cost, and explain how it is derived.
- c. Please confirm that, using the assumed volumes in your testimony and the unit costs in witness Plunkett's testimony, the unit cost of electronic returns in Year 3 will average 3.67 cents for every piece of First-Class solicitation mail originated by Bank One. If you do not confirm, please provide what you believe to be the correct average unit cost, and explain how it is derived.

ANSWER (redirected to Bank One witness Lawrence Buc):

Not confirmed. I am informed by the Postal Service that the correct figures are 3.36 cents for 2004, 3.15 cents for 2005, and 3.28 cents for 2006. The table below provides the underlying calculations. According to the figures in USPS-T-1, Appendix A, the unit cost of returning flats electronically is approximately 58% less than the cost of returning them manually, and the unit cost of returning letters electronically is approximately 38% less than the cost of returning them manually. Note that substituting the cost of returning mail manually (the current return procedure) for the cost of returning mail electronically in the calculations below yields much higher unit costs --

**RESPONSE OF BANK ONE WITNESS BUC
TO VALPAK INTERROGATORY VP/BOC-T1-10**

6.77 cents for 2004, 5.80 cents for 2005, and 6.03 cents for 2006. Therefore, in the context of this NSA, electronic returns are expected to generate a net savings per First-Class solicitation of 3.41 cents in 2004, 2.65 cents in 2005, and 2.75 cents in 2006.

Year	After Rates Volume		Cost/Electronic Return		Return Rate		ACS Rate	Contingency
	Letter	Flat	Letter	Flat	Letter	Flat		
	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]
2004	48,442,000	35,043,000	\$0.343	\$0.447	9.0%	11.0%	85%	1.025
2005	128,442,000	35,043,000	\$0.357	\$0.465	9.0%	11.0%	85%	1.025
2006	128,442,000	35,043,000	\$0.371	\$0.484	9.0%	11.0%	85%	1.025

Year	Electronic Return Cost	
	Total	Per 1C Solicit
	[9]	[10]
2004	\$2,806,030	\$0.0336
2005	\$5,157,280	\$0.0315
2006	\$5,363,572	\$0.0328

- [1] USPS-T-1, Appendix A, page 2
- [2] USPS-T-1, Appendix A, page 2
- [3] USPS-T-1, Appendix A, page 1, (9)
- [4] USPS-T-1, Appendix A, page 1, (8)
- [5] USPS-T-1, Appendix A, page 1, (2)
- [6] USPS-T-1, Appendix A, page 1, (3)
- [7] USPS-T-1, Appendix A, page 1, (10)
- [8] USPS-T-1, Appendix A, page 1, (12)
- [9]=[7]*[8]*([1]*[3]*[5]+[2]*[4]*[6])
- [10]=[9]/([1]+[2])

**RESPONSE OF BANK ONE WITNESS BUC
TO VALPAK INTERROGATORY VP/BOC-T1-11**

VP/BOC-T1-11.

Assuming that, in your response to preceding interrogatory VP/BOC-T1-10, you confirmed that every piece of First-Class solicitation mail originated by Bank One has an average cost for electronic returns of 3.67 cents per piece, please confirm that in the third year of the NSA the Postal Service's unit contribution to overhead will be reduced by 8.67 cents for each piece of Bank One solicitation mail that receives the maximum discount of 5 cents per piece. If you do not confirm, please provide what you believe to be the correct amount, and explain fully how it is derived.

ANSWER (redirected to Bank One witness Buc):

Not confirmed. The calculation in Interrogatory VP/BOC-T1-11 appears to be based upon two faulty assumptions, as well as an incorrect average cost figure for electronic returns. First, the calculation appears to assume that the average cost for returning Bank One's current solicitations is currently zero. That is incorrect. As discussed in response to VP/BOC-T1-10, the unit cost of manual returns is much higher than the unit cost of electronic returns. Therefore, the return provisions in the NSA will increase the contribution of Bank One's First-Class Mail solicitations, not reduce it. Second, the question appears to assume that there will be mail in the 5-cent discount tier without the discount. As shown in my Before-Rates volumes, this assumption is highly implausible.

I have calculated the increase in unit contribution under two scenarios. If the discount creates an incentive for a **new** piece of solicitation volume in the 5-cent tier in Year 3, the increase in unit contribution will be 10.5 cents (the 15.5 cents shown in cell I15 on worksheet "Contrib Inputs" of USPS-T-1, Appendix A minus the 5-cent discount). If the 5-cent discount creates an incentive for a piece of solicitation volume to **migrate** from Standard Mail to First-Class Mail, the increase in contribution would be approximately 2 cents (the 10.5 cents mentioned above minus the 8.6-cent contribution shown in cell I20 of the same worksheet).

CERTIFICATE OF SERVICE

I hereby certify that I have today caused the foregoing document to be served in accordance with Section 12 of the Commission's Rules of Practice

/s/

Joy M. Leong

July 26, 2004