

**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)

**SUPPLEMENTAL ANSWER OF BANK ONE CORPORATION TO
OFFICE OF CONSUMER ADVOCATE INTERROGATORY
OCA/USPS-T-1-44
(September 1, 2004)**

Bank One Corporation ("Bank One") hereby provides the supplemental answer of Brad Rappaport to the Office of Consumer Advocate interrogatory OCA/USPS-T1-44, filed August 5, 2004, and initially answered by USPS witness Michael Plunkett on August 8, 2004, and redirected in part to Bank One witness Brad Rappaport. This supplemental answer provides previously unavailable data concerning J. P. Morgan Chase volumes.

Respectfully submitted,

/s/

David M. Levy
Joy M. Leong
Sidley Austin Brown & Wood LLP
1501 K St., N.W.
Washington, D.C. 20005
(202) 736-8000

Counsel for Bank One Corporation

September 1, 2004

**SUPPLEMENTAL ANSWER OF BANK ONE
TO OCA INTERROGATORY OCA/USPS-T-1-44
(redirected to Bank One witness Rappaport)**

OCA/USPS-T1-44. Please reproduce Appendix A of USPS-T-1 for J.P. Morgan Chase.

ANSWER:

I have provided the Postal Service with several inputs needed to generate a model of Before Rates and After Rates volumes for Bank One and J. P. Morgan Chase combined, under the hypothetical (and unlikely) assumption that all J. P. Morgan Chase volumes would be integrated into the NSA on January 1, 2005 (the "Combined Model"). This hypothetical was developed to provide OCA with an illustration of the financial effect of integrating J. P. Morgan Chase volumes into the NSA. I emphasize, however, that full integration of J. P. Morgan Chase volumes into the NSA is unlikely to occur until well after that date.

I provided the following inputs relating to J. P. Morgan volumes: (1) Before-Rates forecasts for First-Class Mail for 2004, 2005, and 2006, (2) After-Rates forecasts for First-Class Mail for 2005 and 2006, and (3) return rates for J. P. Morgan Chase solicitations.

Because the Postal Service is assuming in this hypothetical that integration will not occur until the beginning of 2005, I did not provide an After-Rates forecast for First-Class Mail for 2004. Under the terms of the NSA, J. P. Morgan Chase's First-Class Mail volumes are ineligible for discounts under the NSA until the Postal Service has approved the integration of those volumes into the NSA. In effect, J. P. Morgan Chase's Before-Rates and After-Rates volumes would be considered to be identical in 2004.

**A SUPPLEMENTAL ANSWER OF BANK ONE
TO OCA INTERROGATORY OCA/USPS-T1-44
(redirected to Bank One witness Rappaport)**

J. P. Morgan Chase volume forecasts are shown in Table 1. The Attachment to OCA/USPS-T1-44 (Rappaport) provides the underlying calculations.

Table 1

J.P. Morgan Chase First-Class Mail Volume Forecasts (in Millions)

Mail Type	2004		2005		2006	
	BR	AR	BR	AR	BR	AR
Solicitations	112.4	n/a	38.2	97.1	40.6	103.0
Letters	112.4	n/a	38.2	97.1	40.6	103.0
Flats	---	n/a	---	---	---	---
Customer	358.1	n/a	380.6	380.6	404.5	404.5
Total	470.5	n/a	418.9	477.7	445.1	507.5

The 2004 customer mail volumes in Table 1 include actual volumes for December 2003 to June 2004 and forecasts through November 2004. (Because of differences between invoice and mailing dates, J. P. Morgan Chase’s 2004 customer mail forecasts extend only through November 2004; using this “hybrid year” does not materially affect the analysis, however.) Because J. P. Morgan Chase does not yet have official 2005 and 2006 customer volume forecasts, I estimated customer mail volumes for 2005 and 2006 by applying the 2002-2004 annual growth rate (approximately 6.3 percent) to 2004 volumes.

I believe that the 2005 and 2006 customer mail forecasts may overstate the number of pieces that qualify for discounts for at least two reasons. First, the forecasts do not specifically adjust for possible electronic diversion. J. P. Morgan Chase, like all financial institutions, is trying to convert customers from paper statements to electronic statements. As this trend grows, electronic diversion could offset any growth in

**A SUPPLEMENTAL ANSWER OF BANK ONE
TO OCA INTERROGATORY OCA/USPS-T1-44
(redirected to Bank One witness Rappaport)**

customer mail volumes. Second, growth in customer mail volumes is driven by growth in accounts. Under the terms of the NSA, growth in accounts could trigger an upward adjustment to the volume threshold in 2006, which would reduce the number of pieces qualifying for discounts.

To estimate 2004 Before-Rates First-Class Mail solicitation letter volumes, I multiplied the ratio of First-Class Mail solicitations to total solicitations from the January to June 2004 period by 2004 total solicitation volume estimates that were provided to me by J. P. Morgan Chase. These estimates were derived from the company's plans, which were used in the ordinary course of business to make a variety of business decisions.

Then, I used a two-step process to develop Before-Rates and After-Rates First-Class Mail solicitation mail forecasts for 2005 and 2006. First, I projected 2005 and 2006 volumes by applying the 2002 to 2004 annual growth rate (six percent) to J. P. Morgan Chase's total 2004 solicitation volumes. Second, I applied Bank One's 2005 and 2006 ratios of First-Class Mail solicitation letters to total solicitations (Before-Rates – 6.1%; After-Rates – 15.4%) to J. P. Morgan Chase's total solicitation volume estimates for these years. Using Bank One's "First-Class Mail ratios" is appropriate because post-merger marketing decisions for the merged corporate entity will be the responsibility of a company-wide marketing department composed primarily of former Bank One marketing employees, and headquartered in Wilmington, Delaware, the home of the former Bank One marketing department.

**A SUPPLEMENTAL ANSWER OF BANK ONE
TO OCA INTERROGATORY OCA/USPS-T1-44
(redirected to Bank One witness Rappaport)**

Finally, J. P. Morgan Chase's return rates of approximately 0.6 per cent for customer mail and approximately 4 per cent for First-Class Mail solicitations were previously provided in response to OCA/BOC-T1-17. J. P. Morgan Chase's return rates for solicitation have been generally lower than Bank One's, in large part because of the different types of mailing lists targeted by the two banks. J. P. Morgan Chase mailed a substantially higher percentage of its solicitations to its existing customers; Bank One mailed a higher percentage of its solicitations to prospective customers. Because mail to existing customers has much lower return rates than mail to prospective customers, J. P. Morgan Chase's return rates for solicitation were lower than Bank One's return rates.

Attachment to OCA/USPS-T1-44 (Rappaport)

J.P. Morgan Chase First-Class Mail Volume Projections (in Millions)

Mail Type	2004		2005		2006	
	BR	AR	BR	AR	BR	AR
Solicitations	112.4	n/a	38.2	97.1	40.6	103.0
Letters	112.4	n/a	38.2	97.1	40.6	103.0
Flats	---	n/a	---	---	---	---
Customer	358.1	n/a	380.6	380.6	404.5	404.5
Total	470.5	n/a	418.9	477.7	445.1	507.5

Table 2. January to June 2004 First-Class Mail Solicitation Ratio (Volume in Millions)

	Volume	
FCM	60.8	[1] errata to OCA/BOC-T1-19
Total	322.5	[2] errata to OCA/BOC-T1-19
FCM%	19%	[3]=[1]/[2]

Table 3. Annual Growth Rates and Outyear Volumes

	Customer	Tot Solicit	
2002	317.0	530.3	[4] errata to OCA/BOC-T1-19
2004	358.1	596.2	[5] errata to OCA/BOC-T1-19; Internal J. P. Morgan Chase Data
Annual Growth	6.3%	6.0%	[6]=([5]/[4])^(1/2)-1
2005	380.6	632.2	[7]=[5]*([6]+1)
2006	404.5	670.3	[8]=[7]*([6]+1)

Table 4. Bank One 2005 and 2006 BR and AR Solicitation Ratios (Volumes in Millions)

	BR	AR	
First-Class Mail	64.4	163.5	[9] BOC-T-1 at 6, Tables 3 and 4
Standard Mail	1000	900.9	[10] BOC-T-1 at 3, Line 11 (AR reduction due to switching to First-Class Mail)
Total	1064.4	1064.4	[11]=[9]+[10]
FCM %	6.1%	15.4%	[12]=[9]/[11]

Table 5. J.P. Morgan Chase 2004 BR and 2005 and 2006 BR and AR FCM Solicitation Volumes (in Millions)

	BR	AR	
2004 Total Solicit	596.2	---	[13]=Solicitation Volume From [5]
2005 Total Solicit	632.2	632.2	[14]=Solicitation Volume From [7]
2006 Total Solicit	670.3	670.3	[15]=Solicitation Volume From [8]
2004 FCM Solicit	112.4	---	[16]=[13]*[3]
2005 FCM Solicit	38.2	97.1	[17]=[14]*[12]
2006 FCM Solicit	40.6	103.0	[18]=[15]*[12]

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

September 1, 2004