

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, DC 20268-0001

ANNUAL COMPLIANCE REPORT, 2008 )  
 )  
 ) Docket No. ACR2008

**VALPAK DIRECT MARKETING SYSTEMS, INC. AND  
VALPAK DEALERS' ASSOCIATION, INC.  
MOTION FOR ISSUANCE OF COMMISSION INFORMATION REQUEST  
CONCERNING CORE COSTING DATA ON DETACHED ADDRESS LABELS  
(January 13, 2009)**

On December 29, 2008, the Postal Service filed its Annual Compliance Report for FY 2008, along with certain of the supporting documentation. Thereafter, the Commission issued Order No. 161, setting forth the procedural schedule for public comment and the Commission's review. The Commission Order did not expressly provide participants an opportunity to inquire into issues that arise in attempting to understand the Postal Service's Report. As a result, Valpak Direct Marketing Systems, Inc., and Valpak Dealers' Association, Inc., (hereinafter "Valpak") pursuant to Commission Rule 3001.21(a) hereby move the Commission to issue a Commission Information Request, seeking additional clarifying data and explanation from the Postal Service with respect to two issues relating to detached address labels ("DALs").

Although Valpak believes that participants should be permitted to request information directly from the Postal Service on the record (*see* Valpak Initial Comments, Docket No. RM2008-4, p. 13), participants certainly should be able to bring a matter to the attention of the Commission. Indeed, according to the Postal Service, if this procedure is followed, "the Commission can pursue such inquiry itself." *See* Postal Service Reply Comments (Nov. 14,

2008), Docket No. RM2008-4, pp. 4-5. When the Commission issues regulations in Docket No. RM2008-4, hopefully parties will be permitted to file such questions directly.

Nonetheless, Valpak's current motion is consistent with the Postal Service's position, although this procedure imposes a greater administrative burden, as a motion procedurally is subject to a response by the Postal Service as well as other participants, and a subsequent Commission order.

### **I. Automation and Local Transportation Costs of DALs**

The Postal Service's Report for FY 2008 shows 45.1 percent of DALs on city routes being delivery point sequenced ("DPS'd") and 13.5 percent of DALs for rural routes being DPS'd.<sup>1</sup> DPSing implies mail processing work at central processing plants. And, since many DALs are known to be entered at DDUs, it also implies a need to transport DALs to the plants from the DDUs. However, Postal Service's Proposal Seven in Docket No. RM2008-2 stated that vehicle service drivers "are unlikely to transport" DDU mail. *See* Postal Service Request, Docket No. RM2008-2, p. 21, and Postal Service Reply Comments, Docket No. RM2008-4, pp. 9-10. What Valpak has been unable to discern from the publicly-available data is whether Postal Service's estimates of the cost of DALs includes the mail processing and local transportation cost for those DALs that are DPS'd.<sup>2</sup>

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<sup>1</sup> USPS-FY08-19, File: UDCInputs08.xls, tab: CCSDALs (for city carrier proportions,  $E7/(E7+E11+E12)$ ) and tab: RCSDALs ( $E7/(E7+E9+E11)$ , excluding boxholder for rural carrier proportions).

<sup>2</sup> The Postal Service recently implemented a change which requires all DALs to be automation-compatible. *See* 73 Fed. Reg. 50,584 (Aug. 27, 2008). This change took effect

Costs associated with DPS'ing obviously include labor and machine time, as well as transportation from the plant to the DDU, and, for DALs entered at the DDU, should include backhaul transportation cost as well.<sup>3</sup> Valpak has been unable to find an explicit development showing the full cost of handling DALs and, because the source files feeding into the final costs are both detailed and complex (and partly reside in the nonpublic annex), it cannot be ascertained whether these DPS and local transportation costs are being properly charged to saturation flats, or erroneously charged to saturation letters.

Valpak moves that the Commission request further information about and explanation of these issues from the Postal Service. Although we simply do not know if mail processing costs and local transportation of perhaps 300 million DALs are being misallocated to letters, this could be a significant error.

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in early FY 2009, and it is therefore likely that a larger portion of DALs will be DPS'd in FY 2009. Thus, it is important that the Commission achieve a better understanding of DAL mail processing costs now.

<sup>3</sup> Mail processing costs are developed from IOCS tallies. When DALs are tallied at DDUs, characteristics of the host piece, which are nearby, are recorded, and these characteristics distinguish DAL tallies from those for saturation letters. When DALs are tallied during a DPS operation, however, the host pieces are unlikely to be in the immediate vicinity, and they may even be at the DDU, rather than in the plant. How the IOCS distinguishes DAL tallies and properly records them under these circumstances is unclear. On a separate note, when DALs are entered at DDUs and transported to and from plants for DPSing, it is not clear whether TRACS samples record DALs (and their associated cost) as saturation letters or saturation flats.

## II. Inconsistent DAL Volumes

Billing determinants show the volume of DALs as 901,549, in thousands.<sup>4</sup> However, another spreadsheet (USPS-FY08-19, file UDCmodel08.xls, tab '1a.DAdjustment') shows billing-determinant volumes in cells K10 through K13 and K16 through K19, and appears to imply a different volume of DALs. Specifically, it would seem that the difference between cells K19 (labeled "ECR Saturation Flats") and K20 (labeled "ECR Attached Label Sat Flats"), or similarly between cells K13 and K14, should equal the volume of DALs. However, this difference is 640,824. It is not obvious why this difference does not equal the DAL volume in the billing determinants referenced above to be 901,954. Any wrong number at this point could affect the resulting costs for carrier operations.

Valpak requests that the Commission order the Postal Service to clarify the correct number of DALs for FY 2008 and explain the role of the 640,824 figure in developing carrier costs for ECR products.

Respectfully submitted,

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William J. Olson  
John S. Miles  
Jeremiah L. Morgan  
WILLIAM J. OLSON, P.C.  
8180 Greensboro Drive, Suite 1070  
McLean, Virginia 22102-3860  
(703) 356-5070

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<sup>4</sup> USPS-FY08-4, file 08 Standard BD.xls, sum of H51 on tab 'ECR FLATS P.G2-2', H51 on tab 'ECR PARCELS P.G2-3', G51 on tab 'NP ECR FLATS P.G4-2', and H51 on tab 'NP ECR PARCELS P.G4-3'.

Counsel for:

Valpak Direct Marketing Systems, Inc. and  
Valpak Dealers' Association, Inc.