
ANNUAL COMPLIANCE REPORT

Docket No. ACR2008

**RESPONSE OF VALASSIS DIRECT MAIL, INC. AND
THE SATURATION MAILERS COALITION TO REPLY COMMENTS OF
THE UNITED STATES POSTAL SERVICE**

(February 18, 2009)

Valassis Direct Mail, Inc., a wholly owned subsidiary of Valassis Communications, Inc., and the Saturation Mailers Coalition hereby submit this response to the reply comments filed by the Postal Service on Friday, February 13th. These comments are confined to one issue: the calculation of unit delivery costs for Saturation flats.

In our initial comments, we explained that the unit delivery costs for Saturation flats should include the costs of all flats, whether addressed or not, but that the USPS approach incorrectly based those costs on addressed flats only. Initial Comments at 11-12. In its reply, the Postal Service concurred that the established methodology is intended to represent the unit cost for all Saturation flats, but claimed that its methodology did so. USPS Reply Comments at 17-19. That claim is incorrect, and misconstrues the issue raised in our initial comments.

The misunderstanding stems from the fact that in USPS-FY08-19, the USPS calculated two different Saturation flat unit delivery costs: the first for "Saturation Flats WITH DAL"; and the second for "Saturation Flats WITHOUT DAL." In its reply, the USPS has addressed only the methodology for computing the first figure, the 4.623 cents unit cost for Saturation flats WITH DAL (USPS-FY07-19, UDC Model 08, Tab

1.Table 1). The USPS is correct that its methodology for calculating this first unit cost has not changed since ACR2007 or R2006, and it spends most of the rest of its reply on this issue, explaining how this particular cost was calculated. We do not take issue with that particular unit cost since it is not used for anything.

The relevant unit delivery cost for Saturation flats is the second one which excludes DAL costs. The USPS, however, asserts that the “Saturation flats WITHOUT DAL” unit cost is provided only because “many interested parties may wish to know the impact of DALs on unit delivery costs.” Reply at 18. To the contrary, this unit cost is the only one relevant to developing unit cost and rate differentials – which is the purpose of the USPS-FY08-19 process of disaggregating High-Density/Saturation flat costs into separate High-Density and Saturation flat unit costs.

The Postal Service’s calculation of this latter unit cost does, in fact, depart from the established methodology used in Docket ACR2007. There, the Postal Service in USPS-FY07-19 presented a “Saturation Flats WITHOUT DAL” cost in Cell G80 of UDC Model 071211 Tab 1.Table 1. That unit delivery cost was developed in Tab11.SummaryBY, row 117 (called ECR Saturation Flats Check), which is the summation of rows 114 (ECR Attached Label Flats) and 116 (Saturation Flat Host Pieces). Thus, the unit delivery cost of 3.749 correctly represented the average delivery cost for both saturation attached label and host pieces – as the PRC agreed should be done in R2006. This is the procedure adopted by the Commission in R2006 and the one we had expected to see this time around.

However, in its ACR2008 analysis in USPS-FY08-19, the USPS has changed its methodology. It again presents a “Saturation Flats WITHOUT DAL” cost, this time in

cell G81 of UDC Model08 Tab 1. Table 1, showing a unit delivery cost of 4.623 cents – 23 percent higher than in ACR2007. But unlike its ACR2007 method, this unit cost was developed in Tab1a.DAdjustment, cell C34, which simply repeats what is in cell P20 of the same tab (the new Tab 1a.DAdjustment is to make the non-qualified letter adjustment). Row 20, which develops the result in cell P20, clearly states that this is the cost *only* for ECR Attached Label Flats. This is confirmed by tracing back to Tab11.SummaryBY, which shows that the cost is only for attached label flats, exclusive of host flats, and also by the fact that the volume for attached label flats is less than the volume for all saturation flats (comparing cells K13 and K14 in Tab1a.Dadjustment).

Accordingly, the Postal Service's new methodology is contrary to the established procedure for determining the saturation flat unit delivery cost exclusive of DAL cost. We have attached an annotated and color-coded spreadsheet (captioned "Revised_UDCmodel08.xls") that shows the changes needed to conform to the established methodology.

Respectfully submitted,

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