

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

VALASSIS NSA

Docket No. MC2012-14

VALASSIS NSA

Docket No. R2012-8

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1
(MAY 16, 2012)

Chairman's Information Request (CHIR) No. 1 was issued on May 9, 2012.
The request sought answers no later than May 16, 2012. Attached are the Postal
Service's responses to questions 1 -4.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

1. 39 CFR 3010.42(c)(1) requires the Postal Service to file estimated mailer-specific costs, volumes, and revenues absent the agreement. Additionally, if mailer specific costs are not available, 39 CFR 3010.42(c)(4) requires the Postal Service to provide the source and derivation of the costs that are used as well as a discussion regarding the currency and reliability of those costs and their suitability as a proxy. Please identify the locations in the Postal Service's filings where this information is provided. If such information has not been provided, please supplement the filing to provide the necessary information.

RESPONSE:

The Valassis NSA represents new volumes, revenues, and costs that would not exist absent this agreement. The Postal Service's estimates of the financial effect under the Valassis NSA rely on mailer-specific volume estimates provided by Valassis using its own internal data (see Attachment F which contains volume distributions by weight, 'SM Sat. Flats Rev Calc' tab.) Specific costs and revenues under the agreement will result from new mailings different from existing Standard Mail saturation flats volume generated by Valassis or any other mailer. Average costs and revenues for Standard Mail Saturation Flats entered at the DDU and DSCF levels represent appropriate proxies for this analysis. Data are available for the costs for Saturation Flats entered at DDU at the DSCF ('SM Sat. Flats Cost Calc' tab). These data reflect the underlying characteristics of this mail. According to the Standard Mail billing determinants, the average unit weight of Standard Mail Flats is between 3 and 4 ounces. The expected average weight of pieces subject to the agreement is estimated to be 7 ounces ('SM Sat. Flats Rev Calc' tab). Except for weight, however, shape and other physical characteristics of the mailpieces under the agreement will not differ significantly from the mail represented by the average costs used as a proxy. Regarding weight, the Postal

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

Service is not aware of reasons to conclude that costs at the expected weights will exceed revenues. In fact, the cost and revenue relationship would have to differ markedly from that reflected in the costs representing mailpieces with very similar characteristics at the proxy weights.

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

2. 39 CFR 3010.42(c)(3) requires the Postal Service to file an analysis of the effects of the agreement on the contribution to institutional costs from mailers who are not party to the agreement. Please identify the location in the Postal Service's filings where this information is provided. If such information has not been provided, please supplement the filings to conform with these requirements.

RESPONSE:

The Valassis NSA represents new volume at a positive contribution rate, which will help with overall institutional costs. The NSA is intended to generate brand new shared mail programs that are designed to bring advertisers into the mail that are either not already in the mail or are leaving the mail for distribution alternatives. (See, e.g., USPS Notice at p.3; Mastervich Statement pp. 4-6.) Thus, it is unlikely that the NSA will harm any other mailer. Instead, the VDM NSA will generate additional contribution that will improve institutional costs for all mailers and assist the USPS in finding a stable financial solution.

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

3. Please refer to VDM_NSA_Financial_Model.xls. In this spreadsheet the unit contribution calculations are based on the overall FY 2011 unit contribution of DSCF and DDU Saturation Flats. In FY 2011 the average weight per piece for Saturation Flats dropshipped at the DSCF was 2.5 ounces and for Saturation Flats dropshipped at the DDU was 3.4 ounces. The Valassis NSA requires pieces to weigh at least 4 ounces. Please provide a justification for using the average FY 2011 unit contribution of DSCF and DDU Saturation Flats when the characteristics of Valassis NSA mail pieces will be different from the average Saturation Flats DSCF and DDU mail piece.

RESPONSE:

See the "Analysis Footnote" tab in Attachment F to the Notice. The question correctly notes that the weight of the existing product for which cost data exist does not match the weight of the anticipated NSA pieces. Given this phenomenon, the Postal Service developed an approach to reach a reasonable conclusion that the NSA meets the requirement that the agreement will improve the Postal Service's finances.

Separately, it should be noted that the VDM_NSA_Financial_Model.xls only estimates the contribution from new program volumes covered under the NSA. To the extent that Valassis must produce new program packages that weigh less than 4 ounces, it will have to pay full rates. This may occur as part of either a program or new customer start-up and is a risk that Valassis undertakes while the Postal Service receives full unit contribution that it would not receive without the NSA. Further, to the extent that current Valassis programs are retained as a result of the NSA's requirements, there is greater Valassis volume and contribution over the NSA period than would occur without the NSA.

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

4. Please provide narratives explaining how the Postal Service will ensure that:
 - a. Valassis does not “transfer or consolidate advertising from current advertisers in its existing program into its new mailing program or extend the new program to Zip codes or carrier routes that are beyond the market profile of its existing baseline mailing programs.” Notice at 4.
 - b. Valassis does not “migrate advertising circular business from the USPS solo mail stream into the new saturation shared program.” Notice at 4.

RESPONSE:

The contract provides two remedies for the Postal Service, which should deter Valassis from transferring advertisers from their current program or migrating advertising circular business from the USPS solo mail stream. If Valassis were to transfer advertisers from its current program into its new mailing program, the Postal Service could terminate the contract. Valassis also would be subject to a penalty in the form of a surcharge equal to the published solo mail price for such individual circulars at the time of mailing if Valassis were to migrate advertising circular business from the USPS solo mail stream.

Further, the Postal Service will monitor the content and verify the advertisers in the package, monitor Valassis mail volumes to ensure there is no corresponding drop in their existing mail, and monitor advertisers against their solo volumes to ensure that this is new volume and not a migration of existing volume for every new program initiated on a quarterly basis. The Postal Service will also conduct quarterly audits to ensure that the “contract pieces” as defined in the NSA are meeting the specified contract requirements. Valassis must provide volume and postage details within 30 days of the close of each quarter for verification with postal records.

RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 1

Additionally, Valassis is required to enter the Standard Mail mailpieces subject to this agreement under dedicated PostalOne™ permit accounts intended for the sole purpose of this NSA. No other volume is permitted to be entered under these permits. These mailpieces will have permit imprint indicia designated solely for the purpose of this agreement, which will assist the Postal Service in tracking and auditing this volume. The substantial penalties for violation of the terms of the agreement concerning eligible advertisers, shifting advertising from Valassis' existing programs, and migration of solo mail will, in the Postal Service's view, provide strong incentives for full compliance.