

PREFACE TO PERIODICALS ATTACHMENT

A. Overview of the Workpapers

Attachment USPS-R2008-1/3 contains the workpapers necessary to demonstrate that the percentage change in Periodicals prices complies with the annual limitation. It contains this preface and an Excel file: CAPCALC-PER-FY2008.xls.

After the cover page and index, the next three tabs in this file, *MCS07 Pieces*, *MCS07 Bundles*, and *MCS07 Containers*, provide Periodicals mail characteristics data for FY2007. The aggregate data used in these tabs come from ACR USPS-FY07-14, Table 10. These data are used to estimate adjusted billing determinants that can be applied to the new rate structure as if it were in effect for all of FY2007. (For more discussion of these adjustments, see Part B, below.) The results are then used to calculate the revenues from the current rates and the new rates.

The next tab, *Billing Determinants*, provides all Periodicals Outside County billing determinant data that are used in the subsequent tabs. These data can also be found in ACR USPS-FY07-4. Next, the *Editorial Pounds* tab uses postage statement data to allocate the editorial pounds to the DDU, DSCF, DADC cells for the period under the R2005-1 rates (first three quarters plus a small portion of the fourth quarter), which are then added to volumes for these cells for the period under the R2006-1 rates.

Interim Data is the tab that brings the piece and pound elements together. At this point the piece data are for flat-shaped pieces only. The next tab, *Pieces Adj.*, estimates the letter-shaped piece volumes based on billing determinants data, especially the breakdown of Basic Automation letters into MADC and ADC Automation letters. Then in the same tab the residual pieces (RPW pieces minus estimated pieces) are allocated to various categories using RPW by shape data (ACR USPS-FY07-14, shape indicia fy2007rV.xls). The adjusted billing determinants appear in the tab *Adjusted Data*.

The next three tabs provide postage revenues for *Regular Rate*, *Nonprofit*, and *Classroom*, using both the current rates and the new rates. This breakdown is needed to estimate the revenue loss from the preferred rate discount for Nonprofit and Classroom publications.

Outside County is the tab in which the cap calculation is provided for Outside County publications. Cell L136 provides the revenue leakage for the new discount for Limited Circulation publications. To develop this revenue leakage, the FY07 Periodicals mailing statement data were aggregated by publication and rate element. Then the qualifying publications were identified as those with fewer than 5,000 Outside County pieces per issue - (FY Outside County volume divided by annual number of issues) - and at least one Within County piece. This

process identified 8,937 publications with 222,239,584 Outside County pieces in FY07. Then the average revenue per piece was calculated, excluding advertising pound revenue, for transactions entered after the R2006-1 rates were implemented ((Total R2006-1 revenue - R2006-1 advertising pound revenue)/R2006-1 pieces). The result was multiplied by total FY 07 Outside County pieces to calculate the FY 2007 revenue if the R2006-1 rates were in effect for all of FY07. This led to \$74,907,588.65 subject to the proposed discount. With a discount of 5 percent, the resulting revenue leakage would be \$3,745,379.43. This estimate does not include requester publications that might qualify.

Determining Within County revenue is relatively simple because there are no structural changes and the FY2007 billing determinants are used to calculate the postage revenue for cap compliance, as provided in the tab labeled *Within County*.

B. Adjustments to the Billing Determinants

Since the Periodicals price structure was overhauled in the tenth month of FY 2007, the 2007 billing determinants are not particularly useful as weights for calculating Periodicals revenue and cap compliance. A 2007 Periodical Characteristics Study is used to develop adjusted billing determinants for the cap compliance. The resulting billing determinants reflect all the rate elements recommended by the Commission in Docket No. R2006-1. The data are available for Regular Rate, Nonprofit, and Classroom, but are more reliable when used in the combined form for all of Outside County. While these data pertain to flat-shaped mail, they are reasonably representative of the entire class.

All of the rate elements for flat-shaped mail and bundles and containers are populated using the mix from the 2007 characteristics study. Automation letters volume is available directly from the billing determinants. The letter-shaped portion of the other 1 percent is distributed to the nonautomation machinable category, while the parcel-shaped portion is distributed to the nonautomation non-machinable category, based on RPW by shape data.

C. The Revenue Calculations

The last tab, *Summary*, shows the revenue under current and new rates, along with the overall percent change and the percent that will be banked for Periodicals.