

Preface to Package Services Attachment

A. Overview of the Workpapers

The Package Services workpapers consist of two Excel workbooks, FY2008SPParcelPost.xls and CAPCALC-PSVC-FY2008.xls. For purposes of calculating the percentage change in prices, the Package Services class includes Single-Piece Parcel Post, Inbound Surface Parcel Post (at UPU rates), Bound Printed Matter Flats, Bound Printed Matter Parcels, and Media/Library Mail.

Workbook FY2008SPParcelPost.xls adjusts the FY 2007 Single-Piece Parcel Post billing determinants to develop the volume weights that are used to calculate the Single-Piece Parcel Post revenue components for the Package Services price change calculation. As explained in section B, below, the Single-Piece Parcel Post billing determinants must be adjusted before they can be used as volume weights. The nature of the adjustments and how they were made are described below, in section B. FY2008SPParcelPost.xls also contains the current and new prices for Single-Piece Parcel Post and calculates the Single-Piece Parcel Post revenues at current and new prices.

Workbook CAPCALC-PSVC-FY2008.xls performs all the other revenue calculations required to determine the overall average price increase for Package Services resulting from the prices in this announcement. No adjustments to the billing determinants are required for the other products in Package Services; the FY 2007 billing determinants are used directly. The calculations in CAPCALC-PSVC-FY2008.xls are arranged by product and are summarized as follows:

- Inbound Surface Parcel Post (at UPU rates): The revenue calculations are contained in three worksheets. The first worksheet, "Inbound Surface Parcel Post BD," contains the billing determinants; the second, "Inb. Surface Parcel Post Prices," has the 2007 and 2008 prices; and the third, "Inb. Sur. PP @Cur&New Prices," calculates the revenues at both sets of prices.
- BPM Flats: This section consists of nine worksheets. The first, titled "BPM Flats," is a description of the content of the other worksheets in the BPM Flats section. The first two worksheets following "BPM Flats" contain the single piece and presorted BPM Flats billing determinants. The next four worksheets contain prices: the first two have the current prices for single piece and presorted BPM Flats, followed by two that contain the new prices for single piece and presorted BPM Flats. The final two worksheets contain the calculations of single piece and presorted BPM Flats revenues at current prices and at the new prices. Details of the content and calculations are contained below in section C, and in the CAPCALC-PSVC-FY2008.xls workbook in the "BPM Flats" worksheet, and in the individual worksheets themselves.

- **BPM Parcels:** This section consists of nine worksheets. The first, titled “BPM Parcels,” is a description of the content of the other worksheets in the BPM Parcels section. The next two contain the single piece and presorted BPM Parcels billing determinants. The next two contain the current prices for single piece and presorted BPM Parcels followed by two worksheets with the new prices for single piece and presorted BPM Parcels. The final two worksheets contain the calculations of single piece and presorted BPM Parcels revenues at current prices and at the new prices. Details of the content and calculations are contained below in section C, and in the CAPCALC-PSVC-FY2008.xls workbook in the “BPM Parcels” worksheet and in the individual worksheets themselves.
- **Media Mail and Library Mail:** This section consists of five worksheets. The first, titled “MM-LM,” is a description of the content of the other worksheets in the section. The second worksheet contains the Media Mail and Library Mail billing determinants, as well as the current prices. The next worksheet has the new prices for Media Mail and Library Mail. The final two worksheets contain the calculations of revenues at current prices and at the new prices. Details of the content and calculations are contained below in section C, and in the CAPCALC-PSVC-FY2008.xls workbook in the “MM-LM” worksheet and in the individual worksheets themselves.
- The final section of CAPCALC-PSVC-FY2008.xls is the “All Package Services Summary” worksheet. This worksheet contains the price change calculation for all Package Services. It adds up the revenues at current prices from the current prices revenue sheets in the workbook, plus those from FY2008SPParcelPost.xls to obtain total Package Services revenue at current prices. It adds up the revenues at new prices from the new prices revenue sheets in the workbook plus those from FY2008SPParcelPost.xls to obtain total class revenue at the new prices. It then calculates the percent change in the Package Services average price. This worksheet also calculates the unused rate changed authority for Package Services. Details are supplied in section C, below, and in the “All Package Services Summary” worksheet.

B. Adjustments to the Billing Determinants

The volume weights used to determine the price change calculations for BPM, Media Mail and Library Mail are taken directly from the FY 2007 BPM, Media Mail, and Library Mail billing determinants. No adjustments were made.

The FY 2007 billing determinants for Inbound Surface Parcel Post were included in the FY 2007 International Cost Revenue Analysis (ICRA). No adjustments were made to those billing determinants.

The volume weights used to calculate the price change for Single-Piece Parcel Post reflect the FY 2007 billing determinants, with three adjustments. First, the FY 2007 Single-Piece Parcel Post billing determinants show total Intra-BMC and Inter-BMC Parcel Post volume, not Single-Piece Parcel Post volume specifically. Accordingly, it is necessary to reduce those billing determinants by the volume of barcoded Intra-BMC and Inter-BMC, BMC-presorted Inter-BMC, and OBMC-presorted Inter-BMC. This is done assuming that the distribution by rate cell of this bulk-entered volume does not differ from the distribution of Intra-BMC and Inter-BMC, overall.

Second, the FY 2007 Single-Piece Parcel Post billing determinants include no revenue from a very small, but traditional, Parcel Post revenue source, "Combination Enclosures" (sometimes just called Enclosures). However, much of this revenue may indeed be Single-Piece, so all of it is included in the before- and after-rates revenues used to calculate the Single-Piece Parcel Post price change. This revenue is pegged — both before-rates and after-rates — at a fixed percentage (0.23%) of other non-Alaska Bypass Single-Piece Parcel Post revenue.

Third, pursuant to Docket No. R2006-1, the balloon rate was increased from 15 to 20 pounds on May 14, 2007. This extended applicability to parcels weighing more than 14 pounds, up to 19 pounds (and, as before, measuring more than 84 inches in combined length and girth). Consequently, starting May 14, the balloon-rate category gained parcels from the 15 - 19 pound weight increments.

To estimate the volume shift on an annual (ongoing) basis, available weight-increment data for Priority Mail (which was reclassified in the same way as Single-Piece Parcel Post) were examined since comparable data were not available for Single-Piece Parcel Post. In FY 2007 after the classification change, balloon-rate parcels weighing 14 - 19 pounds accounted for 3.5 percent of all Priority Mail pieces weighing 14 - 19 pounds. However, it was realized that Parcel Post parcels are larger, and therefore possibly more "balloon-intensive," on average than Priority Mail parcels. Indeed, a comparison of balloon-rate parcels weighing 10 - 14 pounds in FY 2006 (i.e., before the reclassification) revealed proportionally 1.671 as many for Parcel Post as for Priority Mail. Applying this factor to the 3.5 percent calculated above yields 5.85 percent as the estimated share of Single-Piece Parcel Post pieces weighing 14 - 19 pounds that are balloon-rated (post-reclassification).

However, the actual adjustment factor applied to FY 2007 Single-Piece Parcel Post volume is 3.96 percent. This is because 33.6 percent of all FY 2007 Parcel Post volume was (already) post-reclassification. The necessary downward adjustment to all volume at the 15 - 19 pound weight increments is $1 - [(1 - 5.85\%)/(1 - (5.85\% \times 33.6\%))] = 3.96$ percent. This volume is transferred to the balloon-rate category (for no change in total volume).

An outline describing the workbook FY2008SPParcelPost.xls—data and calculations—is presented in the first worksheet in CAPCALC-PSVC-FY2008.xls, “SP Parcel Post.” That worksheet identifies each worksheet in the workbook and describes its function.

C. The Revenue Calculations

1. Single-Piece Parcel Post

The billing determinants, adjustments, current and new prices, and revenue calculations for Single-Piece Parcel Post are presented in workbook FY2008SPParcelPost.xls. Revenues for Single-Piece Intra-BMC Parcel Post are calculated in worksheet “New Intra-BMC Prices” and revenues for Single-Piece Inter-BMC Parcel Post are calculated in “New Inter-BMC Prices.” Details are presented in the worksheets themselves.

2. Inbound Surface Parcel Post (at UPU rates)

The billing determinants and prices for Inbound SPP are contained in workbook CAPCALC-PSVC-FY2008.xls. Billing determinants are in worksheet “Inbound Surface Parcel Post BD” with references to where the data are found in the ICRA. Worksheet “Inb. Surface Parcel Post Prices” contains the prices we charge for delivery of Inbound SPP. For all countries except Canada, which has a negotiated agreement for provision of Inbound Surface Parcel Post, there is one per-item and one per-kilogram charge. The prices are denominated in Special Drawing Rights (SDRs). Price changes take place on a calendar year basis so the price change is the difference in the rates from December 31, 2007 to January 1, 2008.

Worksheet “Inb. Surface Parcel Post Prices” also contains data on the conversion of the item charge from SDRs to US\$. The conversion factor used was the January 2, 2008 exchange rate of 1 SDR equals \$1.578470. Worksheet “Inb. Surface Parcel Post Prices” also contains data on the conversion of the kilogram charge to pounds. As with the item charge, the January 2, 2008 exchange rate was used to convert SDRs to US\$. In addition, kilograms were converted to pounds by using the conversion factor of 1 kilogram equals 2.2046 pounds.

Worksheet “Inb. Sur. PP @Cur&New Prices” contains the volume and weight data contained in “Inbound Surface Parcel Post BD” and the 2007 rates for Inbound SPP in “Inb. Surface Parcel Post Prices.” Multiplying the volume and weight by the CY 2007 rate equals the revenue at “current” prices. Using the same volume and weight as in the above calculation and multiplying these by the new rates that went into effect on January 1, 2008, equals the revenue at new prices. “Inb. Sur. PP @Cur&New Prices” then shows the percent change by

dividing the revenue at new prices by the revenue at “current” prices. The total percent change of Inbound SPP is 2.62 percent.

3. BPM Flats

The billing determinants, current and new prices and revenue calculations for Bound Printed Matter Flats are all contained in workbook CAPCALC-PSVC-FY2008.xls in nine worksheets. The worksheet “BPM Flats” with the red tab contains a description of the BPM Flats section of the workbook.

The billing determinants for BPM Flats are in the two worksheets “FY2007 BDs BPM SP Flats” and “FY2007 BDs BPM Presort Flats.” The current prices are in the worksheets “Current BPM SP Flats Prices” and “Curr. BPM Prsrt. Flats Prices” and the new prices are in worksheets “New BPM SP Flats Prices” and “New BPM Presort Flats Prices.” Sources for these data are given in the individual worksheets. Revenues are calculated using current and new prices by multiplying the volumes from the billing determinants by the current and new prices. Details are presented in worksheets “BPM Flats Revs.@Curr. Prices” and “BPM Flats Revs.@New Prices.”

4. BPM Parcels

The billing determinants, current and new prices and revenue calculations for Bound Printed Matter Parcels are contained in workbook CAPCALC-PSVC-FY2008.xls in nine worksheets. The worksheet “BPM Parcels” with the red tab contains a description of the BPM Parcels section of the workbook.

BPM Parcels billing determinants are in the next two worksheets “FY2007 BDs BPM SP Parcels” and “FY2007 BDs BPM Presort Parcels.” Current BPM Parcels prices are in the worksheets “Current BPM SP Parcels Prices” and “Curr. BPM Prsrt. Parcels Prices” and the new prices are in worksheets “New BPM SP Parcels Prices” and “New BPM Presort Parcels Prices.” Sources for data are given in the individual worksheets. Revenues are calculated using current and new prices by multiplying the volumes from the billing determinants by the current and new prices. Details are presented in worksheets “BPM Parcels Revs.@Curr. Prices” and “BPM Parcels Revs.@New Prices.”

5. Media Mail and Library Mail

The billing determinants, current and new prices and revenue calculations for Media Mail and Library Mail are contained in workbook CAPCALC-PSVC-FY2008.xls in four worksheets. The worksheet “MM-LM” with the red tab contains a description of the Media Mail and Library Mail section of the workbook.

The billing determinants and current prices for both Media Mail and Library Mail are in the worksheet “FY 2007 MM & LM BDs.” The new prices are in the

worksheet "MM & LM New Prices." Sources for data are given in the individual worksheets. Revenues are calculated using current and new prices by multiplying the volumes from the billing determinants by the current and new prices; details are presented in worksheets "MM & LM Revs. @ Current Prices" and "MM & LM Revs. @ New Prices."

6. All Package Services

Worksheet "All Package Services Summary" in CAPCALC-PSVC-FY2008.xls contains the percent change calculation for the Package Services class. Single-Piece Parcel Post revenues (at current and new prices) are input from workbook FY2008SPParcelPost.xls and revenues at current and new prices for the other products in Package Services are read directly from their respective worksheets in CAPCALC-PSVC-FY2008.xls. Specific sources and details are contained in worksheet "All Package Services Summary." The new prices in this announcement increase the average Package Services class price by 2.876 percent. This is below the 2.9% price increase cap. This worksheet also calculates the unused rate change authority from the cap and the class percentage increase at 0.024 percent.