

PREFACE TO SPECIAL SERVICES ATTACHMENT

I. Contents

Attachment USPS-R2008-1/5 contains the workpapers necessary to demonstrate that the percentage change in Special Services prices complies with the annual limitation. It contains two Excel files and this preface.

II. Organization

A. Overview

The following information is contained in the Special Services Calcs.xls workbook:

- The product specific worksheets use and include the same Billing Determinant data that were presented in the Annual Compliance Report (Docket No. ACR2007) to calculate the fee increases for specific products. The fee increase calculation in each sheet uses links to the Billing Determinant volumes then multiplies the volume times the current price, and volume times the new price.
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- The “Cap Calc Page” worksheet calculates the amount of the fee increase for all of the special services. Links to the total revenue derived from the current prices and new prices are used to populate the revenue cells for each product, and the percentage change and the share of total revenue are calculated using these revenues. The revenues are aggregated and a total increase in revenue is calculated. The international special services revenue show on this worksheet are derived in the CAPCALC-International Special Services-FY2008.xls workbook in worksheet Cap Calculation. (A description of the international component in the overall price change appears below).
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- The “Rates” worksheet shows the current and new prices for each product; each of the individual sheets is dynamically linked to this sheet for its current and new price information.
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- The “Hardcoded Data” worksheet contains data that are used on each sheet and calculates the average price for FY2007 for some special services so that a FY 2007 volume can be derived.
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- The “Index” and “CoverPage” worksheets are the index of the workbook and the cover page for Attachment USPS-R2008-1/5, respectively.
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- The “Distribution of Fees”, “Fee Distribution Current” and “Fee Distribution New” worksheets proactively provide data similar to that requested by the Commission

in their review of the Annual Compliance Report. These sheets provide information that would have been used in a traditional rate case.

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B. Billing Determinants

For domestic special services, there are only two deviations from the Billing Determinants as filed in ACR2007.

1. The "Address Correction" worksheet in workbook Special Services Calcs.xls. presents the original ACR2007 version of the Billing Determinants, the Weighted Version of the Billing Determinants, and the calculation of the fee increase for this product. The weighting adjustment was necessary because of the classification change made as part of Docket No. R2006-1. In that docket an automated option for Address Correction Service was added. This option was only available after the May 14th implementation date for First-Class Mail and was only available for testing with Standard Mail. The volumes for the fourth quarter of FY2007 were multiplied by four as an estimate of what the impact would have been if the services were available for the whole year.
2. Premium Stamped Cards and Stationary were omitted from the ACR2007 Billing Determinants. The "Prem Stamped Stationary & Cards" worksheet provides the volume and revenue data as they would have been filed in the ACR2007 Billing Determinants; that worksheet also provides a weighting adjustment reflecting that the Postal Service expects no decrease in total volume, but does expect the volume to shift to products bearing the current postage.

III. International Special Services Cap Calculation

The following International Special Services and Fees are included in the cap calculation for the Postal Service's Market Dominant products.

Customs Clearance and Delivery Fee (inbound)
 International Business Reply Card and Envelope
 International Reply Coupon Service
 International Certificate of Mailing (individual and multiple pieces)
 International Registered Mail
 International Return Receipt
 International Restricted Delivery

For consistency, the general rule of thumb in pricing these services was to mirror the price for the equivalent domestic service. This strategy was followed with respect to International Certificates of Mailing (COM), International Registered Mail, International Return Receipts, and International Restricted Delivery. Overall, the collective revenue of the seven International Special Services will increase a total of 6.03 percent. This is considerably higher than the increase in domestic Special Services rates due to the difference in volume mix for the two sets of services (for example, 90 percent of the

International Special Services' revenue increase is accounted for by International Registered Mail whose revenue increased by 6.4 percent). Below is a description of how the 6.03 percent figure was calculated; included are references to the appropriate tabs in the Excel worksheet entitled CAPCALC–International Special Services–FY2008.xls.

A. Starting Point

The Fiscal Year (FY) 2007, Revenue, Pieces and Weight (RPW) Extract Report was the source of revenue and transaction data used to calculate the percentage increase in International Special Services revenue for cap purposes. The data in tab “Rate Category Data” tab are taken from an Extract File from the RPW Report for FY 2007. The rows dealing with International Special Services were extracted from this tab and compose the “International Special Services” tab. This tab serves as the primary source of the inputs to the next seven tabs, which are billing determinants for (and have the names of) the seven International Special Services used for the cap calculation.

B. Calculating Revenue under the May 2007 Rates

The benchmark volume for each of the seven International Special Services is taken from the following tabs:

1. “Int Business Reply”: The RPW report showed that 204,455 Business Reply cards and envelopes were sold in FY 2007; however, the cards and envelopes are sold at different prices, and the RPW does not give a breakdown of how many of each were sold. This tab calculates how many of each were sold (the methodology is described in the tab), and the calculated totals, which sum to 204,455, were used for the cap calculation.
2. “Int Certificate of Mailing”: The RPW report showed that there were 472,800 COM transactions in FY 2007; these transactions are broken out into four categories, each of which has a different price. These four individual totals were used for the cap calculation.
3. “Int Reply Coupon Service”: The RPW report showed total revenue for this service but not the volume of coupons sold. The total used in the cap calculation (449,159) was computed using the methodology described in the tab.
4. “Int Registered Mail”: The RPW report showed that 1,738,766 pieces of international registered mail were sold in FY 2007. This total was used for the cap calculation.
5. “Int Return Receipt”: The RPW report showed that 490,610 international return receipts were sold in FY 2007. This total was used for the cap

calculation.

6. "Int Restricted Delivery": The RPW report showed that 1,430 international restricted delivery transactions in FY 2007. This total was used for the cap calculation.
7. "Customs Clearance & Delivery": The RPW report showed that 74,694 Customs Clearance and Delivery fees were paid in FY 2007. This total was used for the cap calculation.

The volumes for each of the seven International Special Services were extracted from the above tabs and input into the tab "Cap Calculation" (see cells K17 – K62). These volumes were then multiplied by the appropriate May 14, 2007, rates (see cells I17 – I62) to produce total benchmark revenue of \$20,821,729 (see cell M66).

C. Calculating Revenue under New Rates

The volumes for each of the seven International Special Services were then multiplied by the new rates in cells O17 – O62 in the tab "Cap Calculation," resulting in the revenue totals shown in cells Q17 – Q62. This revenue from the new rates summed to \$22,077,886 (cell Q66), a 6.03 percent (cell R66) increase over benchmark revenue.

IV. Revenue and Percentage Change Calculations

The "Cap Calc Page" in workbook Special Services Calcs.xls shows the calculation of the overall fee increase for each special service and in the aggregate. It also calculates the unused amount of the cap. The overall increase for Special Services is 2.8483 percent, leaving a bank of 0.052 percent.