

Preface for Standard Mail Attachment

A. Overview of the Workpapers

The Standard Mail workpapers consist of five Excel workbooks. Four of the workbooks are used to adjust the before rates period (pre-May 14, 2007) billing determinants and after rates period (post-May 14, 2007) billing determinants, and to develop the volume weights that are used in the price change calculation. The fifth workbook, CAPCALC-STD-FY2008.xls, performs the revenue calculations required to determine the overall average price increase for Standard Mail resulting from the prices in this announcement.

As explained in subsection (B), below, the Standard Mail billing determinants must be adjusted before they can be used as volume weights for price change calculations. These adjustments are made in the four workbooks: STD-LFP Crosswalk-2007a.xls, STD-LFP Crosswalk-2007b.xls, STD-HDSatCR Crosswalk-2007a.xls, and STD-HDSatCR Crosswalk-2007b.xls.

- Workbook STD-LFP Crosswalk-2007a.xls, based on the Commission's workpapers in Docket No. R2006-1, adjusts the before rates period billing determinants for Letters, Flats and Parcels and NFMs (formerly Regular and Nonprofit Regular) to account for significant changes in the rate design arising from Docket No. R2006-1. These adjustments are described below in subsection (B) below, and the details are documented in the worksheet titled "Description" at the beginning of STD-LFP Crosswalk-2007a.xls. They are also documented in the individual worksheets that were changed. The "Description" worksheet identifies each of the worksheets in the Commission's model that were changed.
- Workbook STD-LFP Crosswalk-2007b.xls rearranges the after rates period billing determinants for Letters, Flats and Parcels and NFMs (formerly Regular and Nonprofit Regular) into a format that is more conducive to revenue calculation. It also develops some data on nonbarcoded parcels and NFMs shares that is needed for some of the adjustments to the before rates period billing determinants in STD-LFP Crosswalk-2007a.xls. The workbook also combines the adjusted before rates billing determinants from workbook STD-LFP Crosswalk-2007a.xls with the rearranged after rates billing determinants for Letters, Flats and Parcels and NFMs to develop the volume weights used in CAPCALC-STD-FY2008.xls for calculating Letters, Flats and Parcels and NFMs revenues. The worksheet "Description" at the beginning of STD-LFP Crosswalk-2007b.xls provides the details of the development of the Letters, Flats and Parcels and NFMs volume weights, with references to specific worksheets in the workbook.

- Workbook STD-HDSatCR Crosswalk-2007a.xls adjusts the before rates period billing determinants for the High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route products (formerly ECR and NECR) to account for some changes in the rate design arising from Docket No. R2006-1. It also rearranges the billing determinants into a format that is more conducive to revenue calculations. These adjustments are described in subsection (B) below, and also in the first worksheet in the workbook, titled “Description” which provides references to specific worksheets in STD-HDSatCR Crosswalk-2007a.xls. The workbook also develops volume adjustments to reflect migration of some former ECR letters to the non-carrier route 5-digit automation letters category. This migration would have been expected to occur, had the Docket No. R2006-1 Standard Mail rate design been in place during the before rates period of the year. These migration calculations are used to support some of the volume adjustments in workbook STD-LFP Crosswalk-2007a.xls.
- Workbook STD-HDSatCR Crosswalk-2007b.xls rearranges the after rates period billing determinants for the High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route products (formerly ECR and NECR) to make them more conducive to revenue calculations. These adjustments are described in subsection (B), below, and in the first worksheet in STD-HDSatCR Crosswalk-2007b.xls, titled “Description.” The workbook also combines the adjusted before rates period billing determinants from workbook STD-HDSatCR Crosswalk-2007a.xls with the rearranged after rates period billing determinants for former ECR and NECR to develop the volume weights used in CAPCALC-STD-FY2008.xls for calculating the High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route product revenues. The “Description” worksheet at the beginning of the workbook provides the details of the development of the volume weights, with references to specific worksheets in the workbook.

The fifth workbook, CAPCALC-STD-FY2008.xls, takes the adjusted billing determinants volume weights from workbooks STD-LFP Crosswalk-2007b.xls and STD-HDSatCR Crosswalk-2007b.xls and, using current and new prices, develops the total Standard Mail revenues at current and new prices. The details of these calculations are described in subsection (C), below, and in the first worksheet in CAPCALC-STD-FY2008.xls, titled “Description,” which provides references to specific worksheets in the workbook. The last worksheet in CAPCALC-STD-FY2008.xls performs the price change calculation for Standard Mail, showing that the overall price change is below the cap. It also calculates the unused rate adjustment authority for Standard Mail.

B. Adjustments to the Billing Determinants

During FY 2007, Standard Mail Regular and Nonprofit Regular subclasses had two significantly different rate designs, so full year billing determinants cannot be used for price cap calculation without some adjustments. For example, before May 14, automation flats had only two presort categories: Basic and 3/5. After May 14, these two categories were each subdivided into two categories for a total of four presort rate categories. To develop appropriate volume weights to calculate the Standard Mail price change it is necessary to apportion the aggregated pre-May 14 volumes into the finer post-May 14 categories. In the previous example, therefore, the pre-May 14 3/5 automation flats volume must be split into separate 3-digit and 5-digit automation flats volumes, and so on. The billing determinants volumes for the post-May 14 period can be used without adjustment.

Billing determinants volumes for former Standard Mail Regular and Nonprofit Regular (now Letters, Flats, and Parcels and NFM products) for the pre-May 14 period were allocated to the post-May 14 pricing categories using the distribution model in the Commission's Docket No. R2006-1 Standard Mail Regular / Nonprofit Regular workpapers. The Commission's pricing model (from PRC-LR-15, workpaper PRCRegNPRates.xls) is replicated in workbook STD-LFP Crosswalk-2007a.xls, with several changes, as discussed below.¹ Instead of using forecast volumes for the test year, pre-May 14 billing determinants volumes were substituted in the workpaper's "VOLUME" worksheet. The volumes reallocated to the post-May 14 pricing categories were then taken from the "TYBRVolwithnewcats" worksheet for commercial pricing categories and "TYBRVolwithnewcats NP" worksheet for nonprofit categories. The following additional modifications were also made to the model:

- The volumes of automation 5-digit letters were augmented by ECR Automation Basic letter volumes and portions of Basic ECR letter volumes derived from the ECR portion of the billing determinants. Since the Automation Basic category was eliminated in Docket No. R2006-1, all Automation Basic letters were migrated to the lowest existing pricing category for which they would otherwise qualify -- 5-digit automation letters. In addition, since the qualifications for the ECR Basic letter category were changed in Docket No R2006-1, a portion of the pre-May 14 billing determinants volume were migrated to the 5-

¹ This use of a Commission workpaper is a one-time event occasioned by the need to use an approved methodology to apportion the pre-May 14 volumes into the post-May 14 pricing categories. The Commission's workpaper was only minimally changed in order to preserve the integrity of the workpaper and its formulas. Consequently there is a large amount of extraneous information: data, calculations, values and analyses, left in the workpaper that the Postal Service did not rely on in developing, analyzing or reporting its prices. The Postal Service only relied on the volume recategorization model in the workpaper and does not support any other data, calculations, values or analyses that do not feed directly or indirectly into the worksheets "TYBR Volwithnewcats" and "TYBR Volwithnewcats NP."

digit automation category, based on post-May 14 experience, as a reasonable adjustment to the pre-May 14 ECR letters volumes.

- The CMM data in the “NEW NONLETTER CAT TYBR VOL” and “NEW NONLETTER CAT TYBR VOL NP” worksheets were updated and corrected. The CMM volumes entered into the Commission’s original nonprofit worksheet were the commercial, not nonprofit, volumes. This led to an incorrect calculation of CMM nonprofit shares, which in turn, affected other nonprofit distribution shares as well.
- A new worksheet was added to the model: “Nonbarcoded Shares.” This worksheet contains the shares of parcels and NFMs that pay the nonbarcoded surcharge that was introduced in Docket No. R2006-1. In the Commission’s original workpapers, this volume was assumed to be zero. The data in the “Nonbarcoded Shares” worksheet reflects the actual post-May 14 shares of parcels and NFMs that pay the surcharge. These shares are also used to develop the pre-May 14 volumes of parcels and NFMs that belong in the nonbarcoded pricing category.

In addition to these adjustments affecting the former Regular and Nonprofit Regular pre-May 14 billing determinants, there was one adjustment (other than the migration of former ECR / NECR Basic / Auto Basic letters just discussed) to the pre-May 14 billing determinants for former ECR / NECR billing determinants:

- Prior to the implementation of Docket No. R2006-1 pricing and classification changes, detached address labels (DALs) had no price attached to them and so were not tracked in Postal Service data systems. Consequently, their volume was unknown, and estimates of their volume were rather uncertain. Once a price was charged to use DALs, many mailers stopped using them. For these reasons, the pre-May 14 volume of DALs that should be allocated to the DAL surcharge pricing category in the cap calculation weights was based on the post-May 14 volumes of DALs that actually paid the surcharge. The pre-May 14 volume was calculated by applying the post-May 14 share of saturation flats and parcels using DALs to the pre-May 14 volumes of saturation flats and parcels.

The adjustments to the billing determinants just described are shown in four Excel workbooks which develop the final Standard Mail volumes used to perform the price cap calculation. These workbooks, included in this filing as USPS-R2008-1/2, are:

- STD-LFP Crosswalk-2007a.xls. This workbook develops the adjusted volumes for the former Standard Mail Regular and Nonprofit Regular subclasses (now the Letters, Flats and Parcels and NFMs products) by adjusting billing determinants data for the pre-May 14, 2007 period

using the Commission's Docket No. R2006-1 model. The adjustments made to the model are described in the first worksheet in the workbook, "Description." The worksheets in the model that were changed have been highlighted by colored tabs. Sources for the new data are given in each worksheet.

- STD-LFP Crosswalk-2007b.xls. This workbook contains the billing determinants for the post-May 14, 2007 prices period put into the new products format in worksheets "FY2007 AR Comm. Pieces & Pounds" and "FY2007 AR NP Pieces & Pounds." It also contains the adjusted pre-May 14 billing determinants data from STD-LFP Crosswalk-2007a.xls, where the worksheet "TYBR Volwithnewcats" has been retitled "FY2007 BR Comm. Pieces & Pounds" and the worksheet "TYBR Volwithnewcats NP" has been retitled "FY 2007 BR NP Pieces & Pounds." The before rates (pre-May 14) and after rates (post-May 14) volumes are combined in worksheets "LFP Comm. Cap Weights FY2007" and "LFP NP Cap Weights FY2007" to develop the volumes that are used in the price cap calculations in workbook CAPCALC-STD-FY2008.xls. Details of the data and calculations are described in the first worksheet in the workbook, titled "Description." Sources for data are given in each worksheet.
- STD-HDSatCR Crosswalk-2007a.xls. This workbook contains the billing determinants for the pre-May 14, 2007 period for the former ECR and Nonprofit ECR subclasses (now High Density and Saturation Letters, High Density and Saturation Flats and Parcels, and Carrier Route Letters, Flats and Parcels). These billing determinants are adjusted to reflect estimated migration from the former Basic and Automation Basic letters categories to the Automation 5-digit Letters category, and to reflect the number of Saturation Flats and Parcels that would pay the DAL surcharge, had the surcharge been in effect during the pre-May 14 period. Details are described in the first worksheet in the workbook, "Description." Sources for the data are given in each worksheet.
- STD-HDSatCR Crosswalk-2007b.xls. This workbook contains the billing determinants for the former ECR and NECR subclasses for the post-May 14, 2007 prices period put into the new products format in worksheets "FY2007 AR Comm. Pieces & Pounds" and "FY2007 AR NP Pieces & Pounds." It also contains the adjusted pre-May 14 billing determinants data from STD-HDSatCR Crosswalk-2007a.xls, in "FY2007 BR Comm. Pieces & Pounds" and "FY 2007 BR NP Pieces & Pounds." The before rates (pre-May 14) and after rates (post-May 14) volumes are combined in worksheets "HD-Sat-CR Com. Cap Wts. FY 2007" and "HD-Sat-CR NP Cap Wts. FY 2007" to develop the volumes that are used in the price cap calculations in workbook CAPCALC-STD-FY2008.xls. Details of the data and calculations are described in the first worksheet in the workbook, titled "Description." Sources for data are given in each worksheet.

C. The Revenue Calculations

The adjusted billing determinants are used to calculate the price increase for Standard Mail in workbook CAPCALC-STD-FY2008.xls. The data and calculations are described in the first worksheet "Description" and in the individual worksheets. The volumes used for the revenue calculations are taken from the workbooks described in subsection (B): STD-LFP Crosswalk-2007b.xls and STD-HDSatCR Crosswalk-2007b.xls. The prices are the current Standard Mail prices from the MCS rate schedules and the new prices set forth in Appendix A of the Postal Service's Notice of Market-Dominant Price Adjustment. The revenue calculations are presented in the four worksheets: "LFP Revenue@Current Prices," "LFP Revenue@New Prices," "HD-Sat-CR Revenue@Curr. Prices," and "HD-Sat-CR Revenue@New Prices." The final revenue calculation and percentage price increase for Standard Mail as a whole is presented in worksheet "Price Change Summary," which also contains the calculation of unused rate change authority and the average revenue calculation for all commercial and all nonprofit Standard Mail, showing that the new prices meet the 60% ratio requirement.