



COST AND REVENUE ANALYSIS

FISCAL YEAR 2006

FINANCE

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2006

Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue	Incremental	Volume	Revenue	Marginal	Contribution	Cost
	(note 1)	Cost	Variable Cost	\$	Cost \$	\$	Coverage
	A	B	C	D	E	(D-E)	(D/E)
First-Class Mail:							
Single-Piece Letters.....	\$19,744.7	\$12,414.1	\$11,861.9	\$0.469	\$0.282	\$0.187	166.46%
Presort Letters.....	15,837.9	5,504.3	5,329.8	0.318	0.107	0.211	297.15%
Total Letters.....	35,582.6	18,340.1	17,191.7	0.387	0.187	0.200	206.98%
Single-Piece Cards.....	550.4	470.6	467.3	0.239	0.203	0.036	117.80%
Presort Cards.....	650.2	238.9	238.4	0.192	0.070	0.122	272.74%
Total Cards.....	1,200.6	710.5	705.6	0.211	0.124	0.087	170.15%
Fees (note 2).....	247.3						
Total First-Class.....	37,030.5	19,239.5	17,897.4	0.379	0.183	0.196	206.90%
Priority Mail.....	5,042.0	4,034.2	3,789.4	5.455	4.100	1.355	133.06%
Express Mail.....	918.1	628.9	534.9	16.410	9.561	6.849	171.63%
Mailgrams (note 7).....	0.3	2.3	2.3	0.425	2.941	(2.517)	14.45%
Periodicals:							
In County.....	70.9	78.1	78.0	0.094	0.103	(0.009)	90.90%
Outside County (note 2).....	2,124.8	2,407.3	2,382.2	0.257	0.288	(0.031)	89.20%
Fees (note 2).....	19.4						
Total Periodicals.....	2,215.2	2,488.5	2,460.2	0.246	0.273	(0.027)	90.04%
Standard Mail:							
Enhanced Carrier Route (note 2).....	5,967.7	3,119.1	3,029.0	0.167	0.085	0.082	197.02%
Regular (note 2).....	13,804.6	9,304.1	9,018.3	0.207	0.135	0.072	153.07%
Fees (note 2).....	104.5						
Total Standard Mail.....	19,876.8	12,742.6	12,047.3	0.194	0.118	0.076	164.99%
Package Services:							
Parcel Post.....	1,209.2	1,151.3	1,137.2	3.334	3.135	0.199	106.33%
Bound Printed Matter.....	643.0	556.9	552.3	1.039	0.893	0.147	116.42%
Media Mail (note 2).....	403.8	448.2	446.0	2.091	2.309	(0.218)	90.54%
Fees (note 2).....	2.5						
Total Package Services.....	2,258.6	2,191.9	2,135.5	1.923	1.818	0.105	105.76%

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Classes and Sub-Classes of Mail (note 1)	(in millions)			(per piece)			
	Revenue (note 1) A	Incremental Cost (notes 2 & 4) B	Volume Variable Cost (note 2) C	Revenue \$ D	Marginal Cost \$ (note 2) E	Contribution \$ (note 2) (D-E)	Cost Coverage (note 2) (D/E)
Free Mail - blind, handicapped & servicemen.....	-	47.9	47.9	-	0.615	N/A	0.00%
International Mail (note 2).....	1,820.4	1,501.6	1,409.7	2.294	1.777	\$0.518	129.13%
Total Mail.....	69,161.8		40,324.5	0.324	0.189	0.135	171.51%
Special Services:							
Registry	55.4	89.3	89.3	11.448	18.433	(6.985)	62.11%
Certified	631.6	467.9	443.7	2.377	1.670	0.707	142.35%
Insurance.....	130.9	115.5	115.0	2.560	2.249	0.311	113.81%
COD	9.8	12.1	12.0	6.447	7.942	(1.495)	81.17%
Money Orders (note 2).....	228.1	221.3	145.2	1.298	0.827	0.472	157.09%
Stamped Cards (note 5).....	4.2	2.0	2.0				
Stamped Envelopes.....	21.0	12.3	12.3				
Special Handling.....	9.3	4.7	4.7				
Post Office Box.....	813.7	610.8	585.3				
Other (note 2).....	609.0		350.8				
Total Special Services.....	2,513.0	1,980.4	1,760.3				
Miscellaneous items (note 2).....	877.1		-				
Total Mail and Services.....	72,551.9		42,084.8				
Appropriations: Revenue Forgone.....	99.0						
Total Operating Revenue.....	72,650.9						
Investment Income.....	166.6						
Total (note 3).....	\$72,817.5		42,084.8				
All Other (including Escrow Funding Requirement) (note 3).....			32,790.6				
Total (note 3).....			\$74,875.4				

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2006

VOLUME STATISTICS

Classes and Sub-Classes of Mail (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)	Cubic Feet (thousands)	Weight per Cubic Foot (pounds)
First-Class Mail:					
Single-Piece Letters.....	42,064,524	2,018,228	0.8	113,091	17.8
Presort Letters.....	49,862,002	2,303,999	0.7	128,195	18.0
Total Letters.....	91,926,525	4,322,227	0.8	241,286	17.9
Single-Piece Cards.....	2,301,043	15,133	0.1	1,014	14.9
Presort Cards.....	3,386,571	38,479	0.2	2,577	14.9
Total Cards.....	5,687,614	53,612	0.2	3,591	14.9
Total First Class.....	97,614,139	4,375,840	0.7	244,877	17.9
Priority Mail.....	924,207	1,809,451	31.3	400,400	4.5
Express Mail.....	55,950	53,812	15.4	8,536	6.3
Mailgrams (note 7).....	774	0	0.0	0	0.0
Periodicals:					
In County.....	757,928	255,937	5.4	10,214	25.1
Outside County (note 2).....	8,264,634	3,784,753	7.3	151,040	25.1
Total Periodicals.....	9,022,562	4,040,690	7.2	161,254	25.1
Standard Mail:					
Enhanced Carrier Route (note 2).....	35,651,264	5,716,067	2.6	224,801	25.4
Regular (note 2).....	66,808,295	6,055,107	1.5	261,653	23.1
Total Standard Mail.....	102,459,559	11,771,173	1.8	486,454	24.2
Package Services:					
Parcel Post.....	362,727	1,685,944	74.4	334,305	5.0
Bound Printed Matter.....	618,685	1,382,151	35.7	145,635	9.5
Media Mail (note 2).....	193,136	391,739	32.5	50,456	7.8
Total Package Services.....	1,174,548	3,459,834	47.1	530,396	6.5

SUMMARY OF REVENUE AND COST FOR MAJOR SERVICE CATEGORIES
Fiscal Year 2006

VOLUME STATISTICS

<u>Classes and Sub-Classes of Mail</u> <u>(note 1)</u>	<u>Pieces</u> <u>(thousands)</u>	<u>Weight in</u> <u>Pounds</u> <u>(thousands)</u>	<u>Weight per</u> <u>Piece</u> <u>(ounces)</u>	<u>Cubic Feet</u> <u>(thousands)</u>	<u>Weight per</u> <u>Cubic Foot</u> <u>(pounds)</u>
US Postal Service.....	1,015,940	128,134	2.0	19,371	6.6
Free Mail - blind, handicapped & servicemen.....	77,871	35,588	7.3	3,214	11.1
International Mail (note 2).....	793,499	257,245	5.2	40,476	6.4
Total Mail.....	213,139,048	25,931,768	1.9	1,894,978	13.7
Special Services:					
Registry	4,843	N/A	N/A	N/A	N/A
Certified	265,728	N/A	N/A	N/A	N/A
Insurance.....	51,137	N/A	N/A	N/A	N/A
COD	1,517	N/A	N/A	N/A	N/A
Money Orders (note 2).....	175,640	N/A	N/A	N/A	N/A
Stamped Cards.....	0	N/A	N/A	N/A	N/A
Stamped Envelopes.....	0	N/A	N/A	N/A	N/A
Special Handling.....	1,491	N/A	N/A	N/A	N/A
Post Office Box.....	0	N/A	N/A	N/A	N/A
Other (note 2).....	1,018,270	N/A	N/A	N/A	N/A
Total Special Services.....	1,518,625	N/A	N/A	N/A	N/A

**UNITED STATES POSTAL SERVICE
NOTES TO COST AND REVENUE ANALYSIS
Fiscal Year 2006**

1. Cost and Revenue Analysis

The U.S. Postal Service (Postal Service) annually prepares the Cost and Revenue Analysis (CRA) covering the period from October 1 through September 30. The CRA aids us in determining that we are meeting the statutory requirements under Title 39 U.S. Code, that “each class of mail or type of mail service bear the direct and indirect costs attributable to that class or service....” The CRA presents management’s estimates of the total and per unit revenue by category of mail or service. It also presents each category’s estimated incremental and marginal costs. These estimates are considered as one element of the postal rate making process.

The postal system of accounts is the basis for CRA data; however, the postal system of accounts generally does not accumulate financial data by class and subclass of mail. Apportionment factors, derived from various postal operational and statistical information sources, are required for development of the data for CRA purposes. Some of these sources (e.g., In-Office Cost System and Origin-Destination Information System - Revenue, Pieces and Weight (ODIS-RPW) system) are dedicated to this purpose and involve extensive statistical sampling of postal activity during the year. We compare and scale calculated amounts to actual data in the postal system of accounts, as appropriate. With respect to the ODIS-RPW system, calculated sample revenue should approximate a subset of actual Postal Service Trial Balance revenue, but the RPW Reporting system has been designed to accommodate and adjust for any differences. Although the accuracy of the ODIS-RPW system does not necessarily depend on how close calculated revenue is to actual revenue, we are investigating reasons for the continuing differences between the two. In FY06, the Book Revenue Adjustment Factor stayed approximately the same as in FY05.

In preparation for the Fiscal Year 2005 CRA, the Postal Service introduced improvements in the design of the In-Office Cost System data collection instrument. These changes are described in testimony filed before the Postal Rate Commission (PRC) in Docket No. R2006-1.

Some methods we have proposed that have not been adopted by the PRC are still used in the CRA development. For example, we attribute mail processing costs differently from the PRC, generally assuming that costs vary less than proportionately with volume. The methods employed in developing CRA data are described in the Summary Description and in testimony we filed before the PRC. These documents are available from Cost Attribution in Finance.

2. Definitions

Incremental Costs – An estimate of the cost we incur as a result of providing the entire annual quantity of a subclass of mail or service. Incremental cost of a subclass of mail or service can be determined by estimating the cost avoided by eliminating that particular subclass of service, assuming that all other products continue to be provided at their current volumes. The purpose of this determination is to indicate whether the customers of one subclass of mail (or group of subclasses) may be subsidizing (or contributing revenue to) customers of another subclass of mail (or group of subclasses.)

Marginal Costs – We estimate the marginal cost of a subclass or mail category as the change in cost that results from a small change in its volume alone, when the volumes of other subclasses or mail categories remain constant.

Volume Variable Costs – Volume times Marginal Cost.

Contribution – Revenue per piece minus Marginal Cost per piece. Contribution indicates the rate at which a given subclass offsets all other costs.

Cost Coverage – Revenue per piece as a percentage of Marginal Cost. Unit Revenue/Marginal Cost times 100.

Fees – Fees associated with a specific class or subclass of mail are included in the reported revenue for that class or subclass.

International Mail – International mail includes costs and revenues from both U.S. origin and foreign origin mail and special services. Volume statistics generally do not include foreign origin mail. Accordingly, the per piece figures on the International line, though indicative of changes from previous years, do not signify the true unit revenue, cost and contribution. Aggregate revenues and costs reflect adjustments to periodic accruals for transportation and terminal dues, among other factors, some of which relate to activity occurring in prior years.

Other – Other Special Services is a category that includes several cost items such as identifiable costs for return receipts, delivery confirmation, signature confirmation, merchandise return receipt, business reply, and Forms 3547/3579. The volume and revenues are the same as the RPW Report’s Delivery Receipt Services.

Miscellaneous Items – Miscellaneous items include philatelic sales, fees, fines, unclaimed money from dead letters, sales of services performed for government agencies and private contractors. They do not include the \$37.2 million in revenue earned from the money order float, which is included in special services and international mail revenue in the CRA.

Combined Mail Categories – The following mail categories include more than one subclass due to the enactment of Public Law 106-384 (October 27, 2000):

- “Outside County” contains Nonprofit Periodicals, Classroom Periodicals and Regular Periodicals.
- “Enhanced Carrier Route” (ECR) contains Standard Mail Nonprofit ECR and Standard Mail Regular ECR.
- “Regular” contains Standard Mail Nonprofit and Standard Mail Regular.
- “Media Mail” contains Library Rate and Media Mail (formerly known as Special Standard.)

3. Miscellaneous Adjustments

A) Mortgage income of \$.43 million is included with interest income in the Annual Report and is reported as miscellaneous revenue in the CRA.

	(in millions)
Operating Revenue per Annual Report	\$72,650
Interest Income per Annual Report	<u>167</u>
Annual Report Revenue	<u>\$72,817</u>
CRA Report Revenue	<u>\$72,817</u>

B) Interest expense on borrowings and deferred retirement liabilities shown separately in the Annual Report are reported as part of the total CRA Report Expenses, as is the escrow funding now required (see note 6 below.)

	(in millions)
Operating Expenses per Annual Report	\$71,684
Interest expense on deferred retirement liabilities	231
Interest expense on borrowings	<u>2</u>
Annual Report Expenses	<u>\$71,917</u>
Escrow Funding	2,958
Total	<u>\$74,875</u>
 CRA Report Total	 <u>\$74,875</u>

4. Product Specific Costs

Product specific costs, not included in volume variable costs, represent a portion of the incremental cost of certain subclasses of mail. Though these costs make up a very small portion of overall costs, they constitute the largest part of the difference between volume variable and incremental cost for some products. Selected product specific costs are shown below (in millions):

Priority Mail	\$113.9
First Class Mail	84.3
Express Mail	72.4
International Mail	75.1

5. Cards

Volume variable costs are for the printing costs related to stamped cards.

6. Public Law 108-18

On April 23, 2003, Public Law 108-18, the “Postal Civil Service Retirement System Funding Reform Act of 2003” was signed into law, which was in effect during Fiscal Year 2006. Under this legislation, the Postal Service reduces the amount paid for certain retirement benefits administered by the Office of Personnel Management (OPM). The legislation expresses that to the extent “savings” resulting from the Act are attributable to fiscal years prior to 2006, they will be used to reduce postal debt and to hold postage rates unchanged. The legislation expresses the sense of Congress that some portion of any anticipated “savings” after fiscal year 2005 be used to address debt repayment, pre-funding of postretirement healthcare benefits for current and former employees, productivity and cost saving capital investments, delaying or moderating increases in postal rates, and any other matter. Included in the legislation was the requirement that the Postal Service bear the CSRS cost associated with the prior military service of Postal Service retirees, a cost previously funded by the U.S. Treasury. The legislation included provisions for the Congress to reconsider whether responsibility for the cost will be borne in the future by the U.S. Treasury or by the Postal Service. Until provided for by law, the corresponding “savings” accruing to any fiscal year after 2005 are to be considered operational expenses of the Postal Service and held in escrow, and may not be obligated or expended. Public Law 108-18 was nullified on December 20, 2006 by the passing of the Postal Accountability and Enhancement Act, Public Law 109-435, specifically in Sections 802 and 804.

7. Mailgrams

Mailgram service was no longer provided after February 28, 2006 and will not be shown as a line item in future CRA reports.

8. Other

All figures in the CRA are rounded and may not add to totals.

Percents are rounded to the nearest decimal.

- Denotes zero values.

() Denotes negative values.