

FY 2013 Public Cost and Revenue Analysis (PCRA) Report

I. PREFACE

NOTE: Revisions of 2/06/14 are explained at the end of this document in **bold**.

A. Purpose and Content

USPS-FY13-1, FY 2013 Public Cost and Revenue Analysis (PCRA) summarizes attributable costs for the United States Postal Service's main products. For market-dominant products, it presents product-specific costs, revenues, and volumes. For competitive products, it presents summary information.

B. Predecessor Document

Docket No: ACR-2012, USPS-FY12-1.

C. Corresponding Non-Public Document

USPS- FY13-NP11: FY 2013 Non-Public Cost and Revenue Analysis (NPCRA).

D. Methodology

The PCRA conforms to the Postal Regulatory Commission (PRC) methods for calculating attributable costs, which are revised annually. The Negotiated Service Agreement costs reported in the CRA, however, reflect a final adjustment made to the costs from separate analyses as the data became available.

E. Input/Output

Among the primary outputs from the CRA report are the attributable costs by subclass. This attachment relies on inputs from USPS-FY13-7 and USPS-FY13-NP18, Cost Segment 3 Cost Pools, USPS-FY13-NP21, In Office Cost System (IOCS) Documentation, USPS-FY13-NP22, City Carrier Cost System (CCCS) Documentation, USPS-FY13-NP23, Rural Carrier Cost System (RCS) Documentation, and USPS-FY13-NP24, Transportation Cost System (TRACS) Documentation. Additionally, these items rely on inputs from USPS-FY13-NP13, FY 2013 CRA Model. The primary input for the international data shown on this report is the FY 2013 International Cost and Revenue Analysis (ICRA) report from USPS-FY13-NP2.

II. ORGANIZATION

The USPS-FY13-1, 2013 Public Cost and Revenue Analysis (PCRA) is a 8-page summary of domestic and international attributable costs by rate category, differing from the non-public version (USPS-FY13-NP11) by not presenting product-specific data for competitive products.

PUBLIC CRA REVISIONS OF 2/06/2014

Section A below describes the process used to make the updates associated with the updated RPW extract file materials filed in USPS-FY13-NP31 in response to Q. 11 of ChIR No. 1. Section B describes the effects of that process.

A. Revision Process

RPW gets uploaded to I-forms (USPS-FY13-32 - Workpapers B Input file). RPW goes to the input sheet on each of the cost segment spreadsheets (Workpapers B) that use data.

From the input sheet the numbers go out to some of the worksheets (tabs) in the spreadsheets where they are used in calculations.

The calculations may go to one tab or several tabs in the cost segment worksheet, where more calculations may be made.

The calculations culminate in the Outputs to CRA tab in each cost segment worksheet (Workpapers B).

All data from the Outputs to CRA tab gets uploaded into the CRA model (USPS-FY13-31 - FY2013 CRA Model).

The CRA model distributes the data by class and component to several places in the model.

The CRA model also uploads RPW for its own use to calculate new outputs not done in the Workpapers B.

The outputs from all of those calculations goes into all of the model reports A,B,C,D,F,I and the Output Matrix (USPS-FY13-31 - Reports).

The Output Matrix populates the Public CRA Summary Reports (USPS-FY13-1) with RPW data and unit calculations based on the total costs and RPW pieces.

B. Public CRA changes

Slight changes in the distribution of costs, due to the RPW corrections, can be seen throughout the CRA reports, which are shown most clearly in the C Report, and the A Report for more detail (USPS-FY13-31 – Reports).

The cost segment that shows the most difference in costs is CS1, Postmasters, whose costs are distributed on Product Revenue, and which changed slightly for almost all products. Of course, the total costs for the CS1 are the same, but the distribution among products and the split between market dominant and competitive costs went from \$280,742/\$60,116 to \$280,099/\$60,520.

Other segments with product cost changes, albeit very small, are CS2, Supervisors and Technicians, CS3 Clerks and Mailhandlers, CS6 City Delivery Carriers Office, CS7 City Delivery Carriers Street, CS10 Rural Carriers, CS13 Miscellaneous Local Operations, CS16 Supplies and Services, and CS18 Administration and Area Operations.

Cost Segments that were not affected by the RPW correction were CS8 Vehicle Service Drivers, CS11 Custodial and Maintenance Services, CS12 Motor Vehicle Service, CS14 Transportation, CS15 Building Occupancy, CS17 Research and

Development, CS19 General Management Services and CS20 Other Accrued Expenses.

CRA values that changed (compared to the original filing) have been highlighted in the Public summary report (USPS-FY13-1).

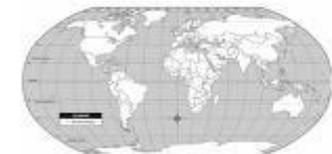
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PUBLIC COST AND REVENUE ANALYSIS

Fiscal Year 2013 - Revised 02/06/2014

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PUBLIC COST AND REVENUE ANALYSIS
Fiscal Year 2013 - Revised 02/06/2014
(in millions)

Mail Classes and Products (note 1)	(in millions)				(per piece)			
	Revenue (note 1) A	Attributable Cost (note 2) B	Volume Variable Cost (note 2) C	Product Specific Cost (note 2) F	Revenue \$ D	Attributable Cost \$ (note 2) E	Contribution \$ (note 2) (D-E)	Cost Coverage (note 2) (D/E)
MARKET DOMINANT PRODUCTS								
First-Class Mail:								
Single-Piece Letters.....	\$10,126.2	\$5,905.2	\$5,876.8	\$28.4	\$0.472	\$0.275	\$0.197	171.48%
Single-Piece Postcards.....	350.8	291.4	290.0	1.4	0.334	0.278	\$0.057	120.37%
Total Single-Piece Letters and Cards.....	10,476.9	6,196.7	6,166.9	29.8	0.466	0.275	\$0.190	169.07%
Presort Letters.....	14,317.5	4,604.6	4,595.7	8.9	0.370	0.119	\$0.251	310.94%
Presort Cards.....	586.9	195.4	194.8	0.6	0.243	0.081	\$0.162	300.40%
Total Presort Letters and Cards.....	14,904.4	4,800.0	4,790.6	9.4	0.362	0.117	\$0.246	310.51%
Flats.....	2,513.4	1,685.7	1,683.8	1.8	1.327	0.890	\$0.437	149.10%
Parcels.....	578.7	583.5	583.5	0.0	2.341	2.361	(\$0.019)	99.18%
First-Class NSAs.....	77.5	22.8	22.8	-	0.363	0.107	\$0.256	339.30%
Outbound Single-Piece First-Class Mail Int'l.....	457.6	321.5	321.0	0.5	1.977	1.389	\$0.588	142.33%
Inbound Single-Piece First-Class Mail Int'l.....	149.5	228.0	227.5	0.5	0.662	1.010	(\$0.348)	65.58%
Fees (note 2).....	136.2	-	-	-	-	-	-	-
Total First-Class.....	29,294.3	13,838.2	13,796.2	42.0	0.441	0.208	\$0.233	211.69%
Standard Mail:								
High Density and Saturation Letters.....	805.2	341.4	339.7	1.7	0.141	0.060	\$0.081	235.84%
High Density and Saturation Flats and Parcels.....	1,929.8	842.7	839.3	3.4	0.170	0.074	\$0.096	229.01%
Carrier Route.....	2,372.7	1,778.7	1,775.8	2.8	0.250	0.187	\$0.062	133.40%
Letters.....	9,261.3	4,902.9	4,888.7	14.2	0.198	0.105	\$0.093	188.89%
Flats.....	2,134.1	2,514.2	2,512.6	1.6	0.383	0.452	(\$0.068)	84.88%
Parcels.....	70.3	109.6	109.6	0.0	0.977	1.524	(\$0.547)	64.13%
Standard Mail NSAs.....	217.0	93.1	93.1	-	-	-	-	-
Every Door Direct Mail Retail.....	138.4	38.5	38.3	0.2	0.142	0.039	\$0.103	359.92%
Fees (note 2).....	56.2	-	-	-	-	-	-	-
Total Standard Mail.....	16,985.2	10,621.1	10,597.2	23.9	0.215	0.135	\$0.081	159.92%
Periodicals:								
In County.....	65.4	87.0	86.9	0.1	0.108	0.144	(\$0.036)	75.18%
Outside County (note 2).....	1,586.1	2,092.1	2,091.5	0.5	0.276	0.363	(\$0.088)	75.82%
Fees (note 2).....	6.7	-	-	-	-	-	-	-
Total Periodicals.....	1,658.2	2,179.0	2,178.5	0.6	0.261	0.343	(\$0.082)	76.10%
Package Services:								
Parcel Post.....	317.6	330.6	330.6	0.1	11.077	11.531	(\$0.453)	96.07%
Alaska Bypass.....	21.5	10.3	10.3	-	24.437	11.721	\$12.716	208.49%
Inbound Surface Parcel Post (at UPU Rates).....	16.5	10.8	10.8	-	19.930	12.976	\$6.954	153.59%
Bound Printed Matter Flats.....	184.8	130.4	130.0	0.4	0.805	0.568	\$0.237	141.67%
Bound Printed Matter Parcels.....	274.6	263.1	262.7	0.4	1.269	1.216	\$0.053	104.35%
Media and Library Mail (note 2).....	316.4	372.4	372.2	0.2	3.348	3.940	(\$0.592)	84.97%
Fees (note 2).....	2.9	-	-	-	-	-	-	-
Total Package Services.....	1,134.3	1,117.7	1,116.5	1.1	1.987	1.958	\$0.029	101.49%
International Negotiated Service Agreements.....	133.2	148.0	147.7	0.3	0.821	0.912	(\$0.092)	89.96%
Free Mail - blind, handicapped & servicemen.....	-	38.5	38.5	-	-	0.705	(\$0.705)	-
Total Market Dominant Mail.....	49,205.1	27,942.5	27,874.5	67.9	0.321	0.182	\$0.139	176.09%

See accompanying notes.

PUBLIC COST AND REVENUE ANALYSIS
Fiscal Year 2013 - Revised 02/06/2014
(in millions)

Mail Classes and Products (note 1)	(in millions)				(per piece)			
	Revenue (note 1) A	Attributable Cost (note 2) B	Volume Variable Cost (note 2) C	Product Specific Cost (note 2) F	Revenue \$ D	Attributable Cost \$ (note 2) E	Contribution \$ (note 2) (D-E)	Cost Coverage (note 2) (D/E)
MARKET DOMINANT SERVICES								
Ancillary Services								
Certified Mail.....	715.0	535.2	534.9	0.3	3.056	2.288	\$0.769	133.59%
COD.....	4.4	3.7	3.7	0.0	9.111	7.609	\$1.502	119.74%
Insurance.....	108.4	75.8	75.7	0.0	3.862	2.699	\$1.163	143.09%
Registered Mail.....	35.5	28.0	28.0	0.0	15.843	12.500	\$3.343	126.74%
Stamped Envelopes.....	10.9	6.5	6.5	-				
Stamped Cards (note 3).....	1.4	0.5	0.5	-				
Other Ancillary Services (note 2).....	514.8	242.6	239.6	3.0				
Total Domestic Ancillary Services.....	1,390.4	892.2	888.9	3.3				
Total International Ancillary Services (note 2).....	36.1	18.4	18.4	-	1.507	0.767	\$0.740	196.37%
Special Services:								
Address Management Services.....	15.3	8.4	0.1	8.3				
Caller Service.....	93.6	22.8	22.8	-				
Credit Card Authentication.....	14.7	1.9	1.9	-				
Customized Postage.....	0.3	0.1	0.1	-				
Money Orders.....	156.1	103.3	101.1	2.2	1.523	1.007	\$0.516	151.19%
Post Office Box Service.....	358.5	293.9	294.0	0.1				
Stamp Fulfillment Services.....	4.2	5.1	5.1	-				
Other Special Services (note 2).....	-	-	-	-				
Total Special Services.....	642.7	435.4	424.9	10.6				
Total Market Dominant Special Services.....	2,069.2	1,346.0	1,332.2	13.9				
Total Market Dominant Mail and Services.....	51,274.3	29,288.4	29,206.8	81.8				

PUBLIC COST AND REVENUE ANALYSIS
Fiscal Year 2013 - Revised 02/06/2014
(in millions)

Mail Classes and Products (note 1)	(in millions)				(per piece)			
	Revenue (note 1) A	Attributable Cost (note 2) B	Volume Variable Cost (note 2) C	Product Specific Cost (note 2) F	Revenue \$ D	Attributable Cost \$ (note 2) E	Contribution \$ (note 2) (D-E)	Cost Coverage (note 2) (D/E)
COMPETITIVE MAIL AND SERVICES								
Total Priority Mail Express.....	794.1	419.7	404.3	15.4	20.301	10.729	9.572	189.22%
Total First-Class Package Service.....	1,191.7	1,001.7	1,000.6	1.1	2.189	1.840	0.349	118.97%
Total Priority Mail.....	6,374.3	4,861.1	4,798.5	62.6	7.315	5.579	1.737	131.13%
Total Ground.....	2,469.4	1,984.6	1,984.6	0.0	1.801	1.448	0.354	124.42%
Total Competitive International.....	2,222.9	1,271.0	1,262.0	9.0				
Total Domestic Competitive Services.....	688.8	343.0	305.9	37.1				
Total Competitive Mail and Services.....	13,741.1	9,881.1	9,755.8	125.3				
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Total All Mail and Services.....	65,015.5	39,169.5	38,962.5	207.1				
RPW items:.....								
Miscellaneous Items.....	2,261.4	-	-	-				
Appropriations: Revenue Forgone.....	41.2	-	-	-				
Total Operating Income.....	67,318.1	39,169.5	38,962.5	207.1				
Investment Income.....	23.7	-	-	-				
Total	67,341.8	39,169.5	38,962.5	207.1				
All Other (note 3).....		33,149.4						
Total (note 3)		72,318.9						

PUBLIC COST AND REVENUE ANALYSIS
Fiscal Year 2013 - Revised 02/06/2014

VOLUME STATISTICS

Mail Classes and Products (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)
MARKET DOMINANT PRODUCTS			
First-Class Mail:			
Single-Piece Letters.....	21,448,767	665,686	0.5
Single-Piece Postcards.....	1,049,161	6,699	0.1
Total Single-Piece Letters and Cards.....	22,497,928	672,385	0.5
Presort Letters.....	38,724,901	2,115,052	0.9
Presort Cards.....	2,419,290	19,750	0.1
Total Presort Letters and Cards.....	41,144,191	2,134,803	0.8
Flats.....	1,894,432	386,490	3.3
Parcels.....	247,187	77,204	5.0
First-Class NSAs.....	213,529	0	0.0
Outbound Single-Piece First-Class Mail Int'l.....	231,475	30,376	2.1
Inbound Single-Piece First-Class Mail Int'l.....	225,757	64,078	4.5
Total First-Class.....	66,454,498	3,365,335	0.8
Standard Mail:			
High Density and Saturation Letters.....	5,711,635	252,744	0.7
High Density and Saturation Flats and Parcels.....	11,337,794	2,050,963	2.9
Carrier Route.....	9,507,627	2,026,806	3.4
Letters.....	46,754,274	2,456,123	0.8
Flats.....	5,568,019	1,398,222	4.0
Parcels.....	71,966	22,956	5.1
Standard Mail NSAs.....	1,036,465	0	0.0
Every Door Direct Mail Retail.....	974,774	123,640	2.0
Total Standard Mail.....	80,962,555	8,331,453	1.7
Periodicals:			
In County.....	603,254	176,250	4.7
Outside County (note 2).....	5,755,719	2,246,058	6.2
Total Periodicals.....	6,358,973	2,422,307	6.1
Package Services:			
Parcel Post.....	28,675	196,145	109.4
Alaska Bypass.....	879	59,363	1080.5
Inbound Intl. Surface Parcel Post (at UPU Rates).....	829	13,994	270.1
Bound Printed Matter Flats.....	229,611	350,762	24.4
Bound Printed Matter Parcels.....	216,386	568,756	42.1
Media and Library Mail (note 2).....	94,524	229,399	38.8
Total Package Services.....	570,905	1,418,418	39.8
International Negotiated Service Agreements.....	162,219	37,523	3.7
U.S. Postal Service.....	630,937	150,147	3.8
Free Mail - blind, handicapped & servicemen.....	54,577	23,038	6.8
Total Market Dominant Mail.....	155,194,663	15,748,222	1.6

See accompanying notes.

PUBLIC COST AND REVENUE ANALYSIS
Fiscal Year 2013 - Revised 02/06/2014

VOLUME STATISTICS

Mail Classes and Products (note 1)	Pieces (thousands)	Weight in Pounds (thousands)	Weight per Piece (ounces)
MARKET DOMINANT SERVICES			
Ancillary Services			
Certified Mail.....	233,945	NA	NA
COD.....	486	NA	NA
Insurance.....	28,080	NA	NA
Registered Mail.....	2,238	NA	NA
Other Ancillary Services (note 2).....	2,545,872	NA	NA
Total International Ancillary Services (note 2).....	23,943	NA	NA
Special Services			
Money Orders.....	102,507	NA	NA
Total Market Dominant Service Transactions.....	2,937,071	NA	NA
COMPETITIVE PRODUCTS			
Total Priority Mail Express.....	39,116	38,233	15.6
Total First-Class Package Service.....	544,334	185,476	5.5
Total Priority Mail.....	871,366	1,815,870	33.3
Total Ground.....	1,370,836	2,411,601	28.1
Total Competitive International.....	282,131	319,417	18.1
Total Competitive Mail.....	3,107,782	4,770,597	24.6
Total Market Dominant Mail (no services).....	155,194,663		
Total Competitive Mail (no services).....	3,107,782		
Total All Mail (no services).....	158,302,445		

**UNITED STATES POSTAL SERVICE
NOTES TO PUBLIC COST AND REVENUE ANALYSIS
Fiscal Year 2013**

1. Public Cost and Revenue Analysis

The U.S. Postal Service (Postal Service) has annually prepared the Domestic Cost and Revenue Analysis (CRA) and International Cost and Revenue Analysis (ICRA) covering the period October 1 through September 30. The CRA and ICRA were created to aid in determining that the statutory requirements under Title 39 U.S. Code are met, that “each class of mail or type of mail service bears the direct and indirect costs attributable to that class or service....”

As a result of the enactment of Public Law 109-435 on December 20, 2006, the Postal Service continues to produce cost and revenue information by product but using methods approved by the Postal Regulatory Commission (PRC). The PRC methods are described in the PRC’s Annual Compliance Determination Report. The Fiscal Year 2013 Public Cost and Revenue Analysis Report (PCRA) combines revenue and cost data from both the domestic and international CRAs. It represents the PRC’s method when presenting each category’s estimated attributable and unit costs. The PCRA also displays revenue, pieces and weight information from the Revenue, Pieces and Weight (RPW) report. The Public CRA differs from the Non-Public CRA by not detailing costs for products defined by the PRC as “Competitive.”

The postal system of accounts is the basis for PCRA data; however, the postal system of accounts generally does not accumulate financial data by categories of mail. Apportionment factors, derived from various postal operational and statistical information sources, are required for development of the data for PCRA 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.

2. Definitions

Volume Variable Cost – The change in unit cost that results from a change in its volume alone, when the volumes of other subclasses or mail categories remain constant. That change in unit costs is multiplied by the total volume of the subclass or mail category to get total volume variable costs.

Product Specific Cost – Product specific costs, not included in volume variable costs, represent a portion of the attributable cost of certain subclasses of mail.

Attributable Cost – The sum of volume variable plus product specific costs.

Contribution – Revenue per piece minus attributable cost per piece.

Cost Coverage – Revenue per piece as a percentage of attributable cost per piece (unit revenue divided by attributable cost.)

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 detail is provided in the International Cost and Revenue Analysis report.

Other Domestic Ancillary Services -- Includes identifiable costs for the following domestic services: return receipts, signature confirmation, certificate of mailing, merchandise return service, merchandise return receipt, restricted delivery, business reply, address correction services, bulk parcel return service, parcel airlift, shipper-paid forwarding, premium stamped stationery, premium stamped cards and that portion of delivery confirmation not transferred to Priority Mail and Parcel Select. The volume and revenues are the sum of the RPW Report's Delivery Confirmation, Return Receipt, and Other Domestic Ancillary Services.

International Ancillary Services -- Includes identifiable costs for certificate of mailing, outbound registered mail, inbound registered mail, outbound return receipt, inbound return receipt, outbound restricted delivery, inbound restricted delivery, outbound insurance, inbound insurance and customs clearance and delivery fees. These are fees for additional services related to mail products that have been already counted in other sections of this report.

Negotiated Service Agreement Mail (NSA) - Where there are negotiated service agreements, their costs are shown in separate rows within each class. Details for both domestic and international NSAs are provided in the Annual Compliance Report.

Miscellaneous Items - Includes philatelic sales, fees, fines, unclaimed money from dead letters, sales of services performed for government agencies and private contractors. Not included is the \$1.2 million of interest earned from money order float, which is included in domestic and international money orders.

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.

Standard Mail “Letters, Flats, and Not Flat-Machinables and Parcels” contains Standard Mail Nonprofit and Standard Mail Regular mail.

Standard Mail Enhanced Carrier Route “High Density and Saturation Letters, High Density and Saturation Flats & Parcels and Carrier Route” contains Standard Mail Nonprofit Enhanced Carrier Route and Standard Mail Regular Enhanced Carrier Route mail.

“Media and Library Mail” contains Library Rate and Media Mail (formerly known as Special Standard).

3. Cards

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

4. Credit Card Authentication

Revenue for Credit Card Authentication represents the total revenue from Credit Card Authentication service, and the Expenses include credit card fees, payment switch fees, and call center support. Cost coverage does not equal Revenue divided by Expense because third-party agreement reduces both Revenues and Expenses.

5. Miscellaneous Adjustments

A) Interest on money order float is included with interest income in the 2013 Annual Report (Form 10-K) but is distributed to money order products in the CRA.

	(in millions)		
Operating Revenue per Annual Report	\$67,318		
Interest Income	<u>24</u>		
Annual Report Revenue	<u>\$67,342</u>	PCRA Report Revenue	<u>\$67,342</u>

B) Interest expense on borrowings, shown separately in the 2013 Annual Report, is reported as part of the total CRA Report Expenses.

	(in millions)		
Operating Expenses per Annual Report	\$72,128		
Interest expense on borrowings	<u>191</u>		
Annual Report Expenses	<u>\$72,319</u>	PCRA Report Expense	<u>\$72,318.9</u>

6. Other

All amounts in the CRA are rounded and may not add to totals. Percents are rounded to the nearest decimal.

- A) -- Denotes zero values.
- B) () Denotes negative values.

7. Miscellaneous Items

Includes \$1.3 billion related to a decrease in the Forever Stamps deferred liability due to a change in accounting.