

Postal Regulatory Commission	Postal Regulatory Commission 901 New York Avenue, NW Suite 200 Washington, DC 20001 www.prc.gov	Phone: 202-789-6800 Fax: 202-789-6886
		Contact: Nanci Langley Nanci.Langley@prc.gov

Press Release
March 27, 2008

Commission Issues First Annual Compliance Determination

Washington, DC – The Postal Regulatory Commission today issued its first *Annual Compliance Determination (ADC) of the U.S. Postal Service Performance*, which details the financial and service performance of the Service for fiscal year 2007. The Postal Accountability and Enhancement Act of 2006 requires this determination annually (39 U.S.C § 3653).

The Commission's report was prepared after a 90-day review of the Postal Service's 2007 Annual Compliance Report (ACR) and supplemental material, evaluation of public comments, and an assessment of data and information provided in several technical conferences.

Chairman Dan G. Blair said, "Our determination gives a clear picture of Postal Service financial data. While revenue was up, volume was down. The Service reported a \$1.6 billion profit on operations; however, statutory funding requirements for retiree health benefits resulted in a net loss of \$5.1 billion.

"This assessment discusses service and performance in detail. We note that the Postal Service published new service standards for market dominant postal products, which resulted from formal consultation between the Postal Service and the Commission. The standards will serve as a benchmark for assessing Postal Service performance in future years. The Fiscal Year 2007 data reported service performance for less than 20 percent of the mail. The Commission looks forward to more robust performance measurement reporting by the Service in the future," Blair said.

Attached to this release are Chairman Blair's *Message on the ACD*, Principle Findings, and three charts illustrating the Commission's Determination of Financial Results for Fiscal Year 2007, Operating Expense and Consumer Price Index, and Total Factor Productivity 1970-2007.

The full report is available at the Commission's website, www.prc.gov, along with related documents under Docket No. ACR2007.

-- 30 --

The Postal Regulatory Commission is an independent federal agency comprised of five Presidentially-appointed and Senate-confirmed Commissioners, each serving terms of six years. The Chairman is designated by the President. In addition to Chairman Blair, the other Commissioners are Ruth Goldway, Tony Hammond, and Mark Acton.



MARCH 27, 2008

Dan G. Blair
Chairman

On behalf of the Postal Regulatory Commission, I am pleased to present the first Annual Compliance Determination (ACD) of the performance of the U.S. Postal Service for Fiscal Year 2007, pursuant to the Postal Accountability and Enhancement Act (PAEA). This ACD represents the first effort of the Commission to assess the Postal Service's activities under the framework of the PAEA. This assessment represents an important part of the Commission's mission to bring transparency and accountability to the U.S. Postal Service's performance and finances, and provides a status report using data submitted by the Postal Service on December 28, 2007.

Fiscal Year 2007 was an eventful year. R2006-1 was the last litigated omnibus rate case under the former cost-of-service structure of the Postal Reorganization Act of 1970. The Commission issued its new ratemaking rules in October 2007, setting forth a new structure for rate adjustments under the PAEA. An important aspect of future ACDs will be to gauge postal product pricing for compliance against this framework.

We commend the Postal Service for this effort in compiling essential cost and volume data required for this report. This will be an evolving process, and we look forward to working with the Service to improve the quality and timeliness of the data. Our determination and future reports will serve as action-forcing mechanisms in shedding light on postal operations and finances. These reports will provide customers, stakeholders, and the Postal Service with valuable information on which to assess annual performance.

Future ACDs will benefit from formal Commission rules that will govern Postal Service compliance submissions. Those rules will be forthcoming and the content will reflect the experiences of this first compliance proceeding. It is important to point out that the findings contained in this report reflect the criteria as established by the PAEA. Importantly, this report does not contain any formal direction to change or adjust postal rates or pending increase requests.

In closing, I wish to thank Vice Chairman Mark Acton, and Commissioners Goldway and Hammond for their valuable work and input in preparation of this report. On behalf of my fellow Commissioners, I want to acknowledge the Commission's dedicated and committed staff for the timely completion of this analysis while reviewing and analyzing the rate adjustments proposed by the Service in February and March of this year. Our efforts to perform our new tasks as required by the PAEA could not be accomplished without the significant and substantial contributions of the Commission's staff.

A handwritten signature in black ink that reads "Dan G. Blair". The signature is written in a cursive, slightly slanted style.



Principal Findings

This report is issued pursuant to 39 U.S.C. § 3653 of the Postal Accountability and Enhancement Act (PAEA). It is a written determination that analyzes and evaluates the Postal Service's financial and service performance based on its FY 2007 Annual Compliance Report (ACR). The Commission findings are summarized here and discussed in greater detail in later sections.

FINANCIAL RESULTS

- The Postal Service had a \$1.6 billion profit on operations, however statutory funding requirements for retiree health benefits resulted in a net loss of \$5.1 billion.
- Total First-Class Mail volume declined by 1.6 percent and First-Class single piece volume dropped 4.5 percent to continue a nine-year decline.
- Total factor productivity improved by 1.7 percent, exceeding the Postal Service goal of a 1.0 percent improvement. Five market dominant postal services did not cover their attributable costs.
 - Periodicals;
 - Single-Piece Parcel Post;
 - Media/Library Mail;
 - Registered Mail; and
 - First-Class Mail International (inbound).

Rate increases and rate design improvements were implemented during the second half of the year to eliminate such deficiencies in the future.

Principal Findings

- Two competitive postal services did not cover their attributable costs.
 - Parcel Return Service; and
 - International Surface Parcel Post at non-UPU rates (inbound).
- Competitive Products as a group slightly exceeded the requirement that they contribute at least 5.5 percent of Postal Service institutional costs.
- Negotiated service agreements provided a \$2.5 million net benefit, largely through reduced forwarding and return costs.

SERVICE PERFORMANCE

- First-Class single piece service exceeded the Postal Service plan, but future compliance reports should provide annual performance results without exclusionary periods.
- Delivery performance information is available for approximately one fifth of the mail. Establishing reliable service measurement systems for all mail should be a high priority goal.
- The Postal Service should provide more information on the “tail of the mail.” It also should provide narrative information regarding new initiatives to improve service performance.
- The customer satisfaction data provided by the Postal Service with its ACR is limited.
- The Postal Service goal of fostering a more “customer-focused culture” is measured by employee survey results, employee safety records, and equal employee opportunity performance. While these may be good indicators of employee satisfaction, they are not appropriate indicators of customer relations.

DATA SUFFICIENCY

- The Postal Service made a good first effort to provide the Commission with essential cost and volume data. Improvements are needed, especially in the area of International Mail, where reliable data are still unavailable.
- A number of workshare discounts exceeded avoided costs. The Postal Service should have addressed whether and how specific statutory exceptions may have justified such situations.
- In future reports the Postal Service must provide additional information to explain anomalies in data, and how its operations and rate designs are intended to advance statutory policies.
- Future presentations must be timely, accurate, self-explanatory, and not rely on undocumented calculations.

Fiscal Year 2007 Volume, Cost, Revenue, and Cost Coverage by Class

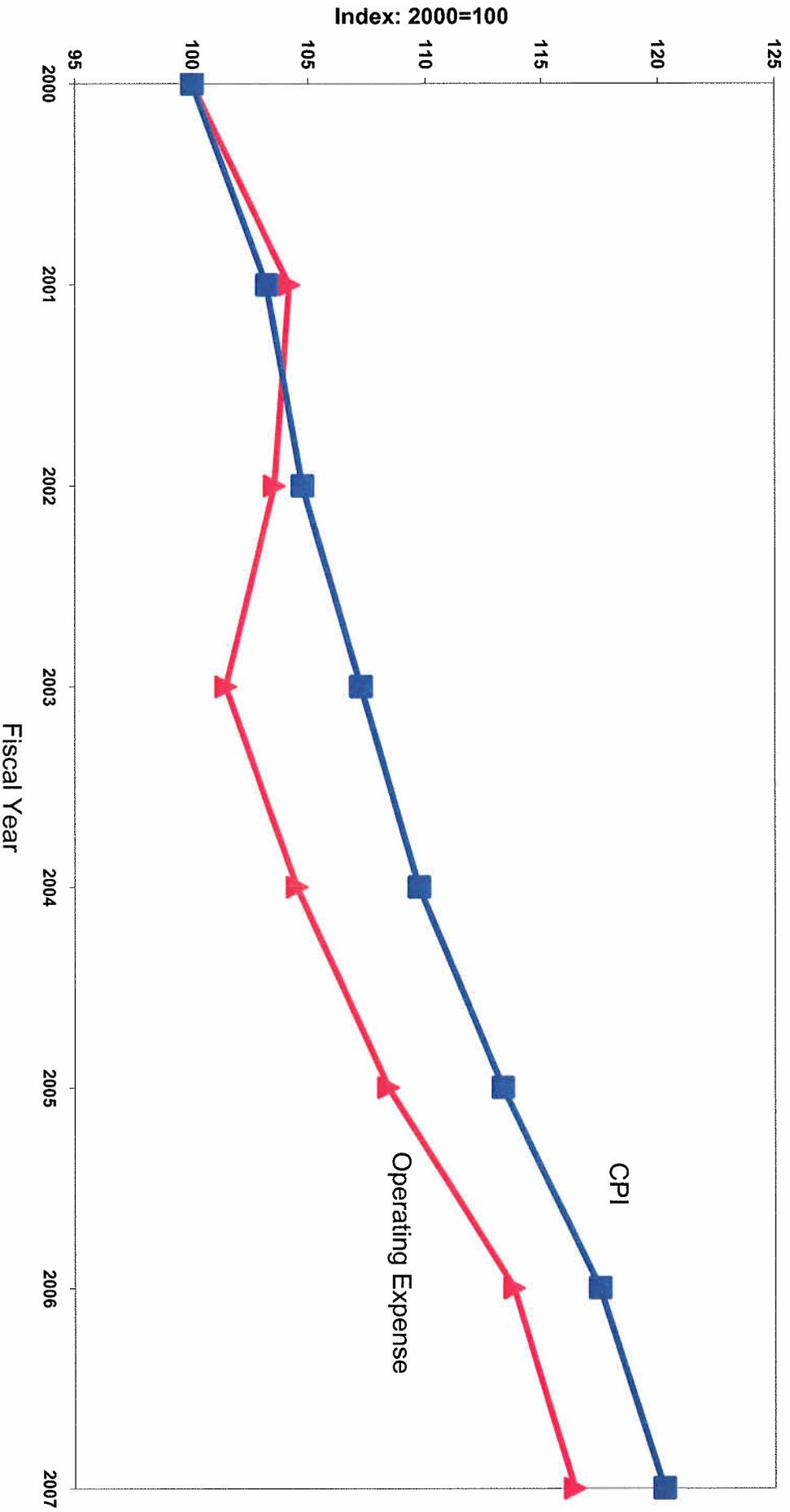
	Volume (\$ 000)	Revenue (\$ 000)	Attributable		Contribution to		Contribution to			
			Cost (\$ 000)	Cost (\$ 000)	Institutional Cost (\$ 000)	Rev./Pc. (Cents)	Cost/Pc. (Cents)	Institutional Cost/Pc. (Cents)	Cost Coverage	
COMPETITIVE MAIL										
Priority Mail	896,865	5,233,793	4,059,098	1,174,696	583,566	452,588	130,978	128.9%		
Express Mail	54,764	950,570	608,230	342,340	1,735,771	1,110,648	625,123	156.3%		
Competitive Parcel Post	248,329	506,726	458,239	48,487	204,054	184,529	19,525	110.6%		
Competitive International Mail	430,958	1,217,812	997,465	220,347	282,582	231,453	51,130	122.1%		
Total Competitive Mail	1,630,916	7,908,902	6,123,032	1,785,870	484,936	375,435	109,501	129.2%		
Percent of Institutional Cost Paid by Competitive Mail 5.66%										

MARKET DOMINANT MAIL

First-Class Mail									
Letters	90,100,184	36,279,353	18,324,235	17,955,118	40,266	20,338	19,928	198.0%	
Cards	5,797,959	1,281,904	791,920	489,984	22,110	13,659	8,451	161.9%	
Periodicals									
Within County	736,458	73,423	85,556	(12,132)	9,970	11,617	(1,647)	85.8%	
Outside County	8,059,373	2,114,512	2,550,327	(435,814)	26,237	31,644	(5,408)	82.9%	
Standard Mail									
Regular and Nonprofit	68,668,917	14,707,268	9,964,963	4,742,306	21,418	14,512	6,906	147.6%	
ECR and NECR	34,847,195	6,073,062	3,188,202	2,884,859	17,428	9,149	8,279	190.5%	
Package Services									
Parcel Post	100,299	701,422	710,732	(9,309)	699,334	708,615	(9,282)	98.7%	
Bound Printed Matter	637,595	690,563	602,111	88,452	108,308	94,435	13,873	114.7%	
Media and Library	176,615	406,909	445,319	(38,410)	230,393	252,141	(21,748)	91.4%	
USPS Penalty Mail	1,008,380								
Free-for-the-Blind Mail	68,501		61,168	(61,168)		89,295			
Market Dominant International Mail	401,629	817,982	782,252	35,730	203,666	194,770	8,896	104.6%	
Total Market Dominant Mail	210,603,104	63,146,400	37,506,784	25,639,615	29,984	17,809	12,174	168.4%	
Total All Mail	212,234,020	71,055,302	43,629,817	27,425,485	33,480	20,557	12,922	162.9%	
Special Services		2,710,351	1,949,798	760,553					
Other Income		949,351		949,351					
Total Mail & Services	212,234,020	74,715,005	45,579,615	29,135,390	35,204	21,476	13,728	163.9%	
Institutional Costs				31,577,171					
Escrow Funding Reconciliation				2,958,427					
Appropriations		63,075							
Investment Income		194,734							
Total Revenues		74,972,813							
Total Costs			80,115,213						
Net Income (Loss)		(5,142,399)							

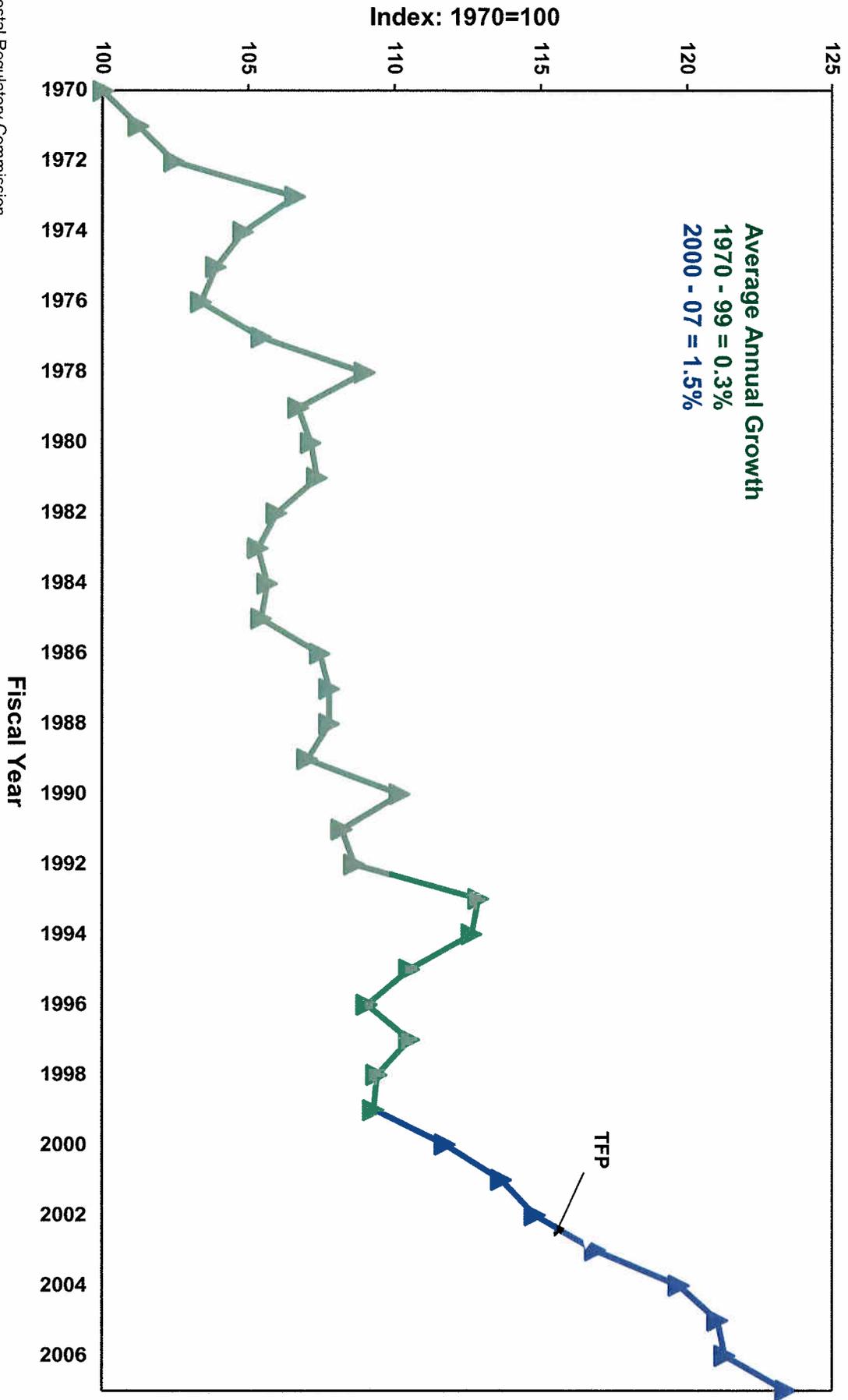
Postal Regulatory Commission,
Annual Compliance Determination
March 27, 2008

Operating Expense and Consumer Price Index 2000 to 2007



Source: USPS Cost and Revenue Analysis Reports and Bureau of Labor Statistics.
Postal Regulatory Commission
Annual Compliance Determination
March 27, 2008

U.S. Postal Service Total Factor Productivity (TFP) 1970-2007



Postal Regulatory Commission
Annual Compliance Determination
March 27, 2008