Office of Utility Regulation

Guernsey Post's Proposed Tariff Changes

Draft Decision

Document No: OUR 09/20 **October 2009**

Office of Utility Regulation
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1. Introduction

In August 2009, the Director General of Utility Regulation ("DG") published his consultation on the Guernsey Post Limited ("GPL") application to change both the level and structure of its tariffs for the period April 2010 to April 2011. GPL requested a one year rather than the normal three year price control determination. The OUR had granted this request.

GPL applied to the OUR to:

- revise its postal tariffs with effect from 1st April 2010;
- implement Pricing in Proportion ("PiP") from April 2010 onwards for all posting customers; and
- increase the Reserved Area, where GPL has the exclusive right to provide postal services, from the current £1.35 to £2.15.

The August 2009 consultation focused on the principles behind PiP and the Reserved Area. It also indicated the nature of the changes GPL was proposing to the level of tariffs with effect from 1st April 2010.

The DG received 17 responses to this consultation of which three were confidential. A list of the respondents can be found in Appendix A.

This draft decision focuses on:

- the responses to the August 2009 consultation;
- the efficiency review of GPL;
- the scope for Downstream Access (DSA);
- the DG's views on PiP;
- the DG's views on the appropriate level of the Reserved Area; and
- the DG's proposed postal tariffs with effect from 1st April 2010.

The DG would welcome comments on the proposals contained within this draft decision which he will then take account before finalising his decision in December 2009.

2. Structure and Comments

2.1. Structure of the Consultation Paper

The rest of this paper is structured as follows:

Section 3: describes the legislative framework and licensing arrangements which give the DG power to price control certain areas of GPL's postal activities;

Section 4: describes the main findings of the efficiency review of GPL and the implications of this on the proposed tariffs;

Section 5: deals with issues in relation to either GPL providing access through DSA rather than through GPL's contract with Royal Mail;

Section 6: deals with the proposed introduction of PiP, including respondents' views and sets out the DG's draft decision on PiP;

Section 7: summarises respondents' views in relation to the Reserved Area and the DG's current view on these issues;

Section 8: contains the DG's proposed postal tariffs from 1st April 2010;

Section 9: sets out the final steps in the process which will culminate in the introduction of new prices in April 2010;

Annex A: Lists the respondents to the consultation;

Annex B: Sets out GPL's proposed tariffs following this review; and

Annex C: Sets out the full Brockley Consulting report on GPL's Efficiency Review. This is provided in confidence to GPL.

2.2. Comments

Interested parties are invited to submit comments in writing on the matters set out in this consultation to the following address:

Office of Utility Regulation
Suites B1& B2
Hirzel Court
St Peter Port
Guernsey
GY1 2NH

Email: info@regutil.gg

All comments should be clearly marked "**Comments on Guernsey Post's Proposed Tariff Changes**" and should arrive before **5pm on 20th November 2009**.

In accordance with the OUR's policy on consultation set out in Document OUR 05/28 – "Regulation in Guernsey; the OUR Approach and Consultation Procedures", non-confidential responses to the consultation are available on the OUR's website (www.regutil.gg) and for inspection at the OUR's Office during normal working hours. Any material that is confidential should be put in a separate annex and clearly marked so that it can be kept confidential. The DG regrets that he is not in a position to respond individually to the responses to this consultation.

3. Legislative and Licensing Background

3.1. Legislation and States Directions

The Post Office (Bailiwick of Guernsey) Law, 2001 (the "Postal Law") provides that a range of postal activities do not require licensing, ranging from personal private delivery to the delivery of court documents and banking instruments[1]. In addition, any postal services that are provided for a price greater than £1.35 (the "non-reserved services") can also be provided by any person or business without a licence. All services that are provided for a price of less than £1.35 are deemed to be reserved services and this is set out in an Order made by the DG in accordance with section 9 of the Postal Law[2].

The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 (the "Regulation Law") provides for the States of Guernsey to issue States Directions to the DG in relation to:

- the scope of the universal service that should be provided in the postal sector in the Bailiwick;
- the extent of any exclusive privileges or rights in the postal sector;
- the identity of the first licensee in the postal sector; and
- any obligations arising from international agreements.

3.2. The Universal Service Obligation

In September 2001, the States issued Directions to the DG that required the DG to issue the first licence to provide universal services to GPL. At the same time the States set out the universal service obligation that should be imposed on GPL which is:

> *"… throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:*
>
> - *One collection from access points on six days each week;*
> - *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;*
> - *Collections shall be for all postal items up to a weight of 20Kg;*
> - *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;*
> - *Services for registered and insured mail."*

[1] Section 1(2) of the Post Office (Bailiwick of Guernsey) Law, 2001
[2] The Post Office (Reserved Postal Services) Order, 2001

Having defined the universal service, the States directed that GPL should be provided with the exclusive right to provide *reserved services* insofar as this is needed to enable and ensure the universal postal service is delivered. The relevant States Direction states:

> *"The Regulator shall reserve services to be exclusively provided by the Universal Service Provider to the extent necessary only to ensure the maintenance of universal service, and shall review and revise the reserved services from time to time with a view to opening up the Guernsey postal market to competition consistent with the need to maintain the Universal Service".*

3.3. The DG's remit to change the Reserved Area

Under the Regulation Law, one of the objectives that both the States and the DG have a duty to promote is to introduce, maintain and promote effective and sustainable competition in the provision of utility services, subject to any special or exclusive rights awarded to a licensee by the DG pursuant to States' Directions (section 2(d)).

Section 3 of the Regulation Law gives the States the discretion to give directions to the DG, including in respect of special or exclusive rights to be awarded to any licensee (section 3(1)(b)). The DG is required to comply with States' Directions when exercising his functions and powers, unless to do so would contravene a duty imposed by section 2 or any of his functions and powers. Under section 5 of the Regulation Law, the DG has the power, having regard to his duties and functions and subject to the provisions of States' Directions, to determine which universal service obligations may be imposed on a licensee and on what conditions and how and by whom such obligations should be funded (section 5(1)(d)).

In September 2001, the States issued Directions to the DG directing that exclusive rights to provide postal services in Guernsey be awarded to GPL to the extent they are necessary to ensure the maintenance of the universal service. It should be noted that the States itself did not determine what level this exclusive right should apply to as this was a matter for determination by the DG. The States further noted that such rights are to be reviewed and revised from time to time by the DG with a view to the introduction of competition, provided that this would not prejudice the continued provision of the universal service.

Section 9(1) of the Postal Law provides that the DG may, by Order, designate a Reserved Area provided he believes that (i) it is necessary to enable the provision of a universal service or (ii) to comply with the States' Directions (section 9(2)). Section 9(3) of the Postal Law provides that such an Order may be amended or revoked by a subsequent Order.

The DG made an Order under section 9 of the Postal Law on 1 October 2001, designating all postal services that are provided for a price of £1.35 or less as the Reserved Area. GPL faces competition for postal services that are not covered by the Reserved Area, i.e. those priced above £1.35. Despite increases in postal tariffs this level has not been revised and effectively has amounted to a gradual reduction in the size of the Reserved Area.

The DG notes that two respondents, the Commerce & Employment Department and GPL has raised a question over whether the DG can reduce the Reserved Area to zero, as proposed in the consultation document. Those comments are published in full separately and interested parties should refer to those documents for more information.

The DG has considered the comments of the respondents very carefully and has sought expert legal advice on this issue. His view, and that of his legal advisors, is that the States has devolved responsibility for assessing and amending the Reserved Area and that it is, under the States Directions given to the DG in September 2001, his responsibility alone to make such a decision, including setting the Reserved Area at zero.

However given the position now being adopted by the DG in Section 7 of this draft decision, the DG believes the issues raised by GPL and C&E, even if accepted (which for the avoidance of doubt the DG does not), are not an issue.

3.4. Statutory Functions and Powers

In exercising his functions and powers, the DG has a duty to promote (and, where they conflict, to balance) the following objectives[3]:

a. protect the interests of consumers and other users in the Bailiwick in respect of the prices charged for, and the quality, service levels, permanence and variety of, utility services;
b. secure, so far as practicable, the provision of utility services that satisfy all reasonable demands for such services within the Bailiwick, whether those services are supplied from, within or to the Bailiwick;
c. ensure that utility activities are carried out in such a way as best to serve and contribute to the economic and social development and well-being of the Bailiwick;
d. introduce, maintain and promote effective and sustainable competition in the provision of utility services in the Bailiwick, subject to any special or exclusive rights awarded to a licensee by the DG pursuant to States' Directions;
e. improve the quality and coverage of utility services and to facilitate the availability of new utility services within the Bailiwick; and
f. to lessen, where practicable, any adverse impact of utility activities on the environment;

States Directions[4] to the DG also require him:

[3] The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001
[4] States Resolutions 2001, pages 78-80 (item no 14)

- to ensure that the licensee (i.e. GPL) charged with providing the universal service in the postal sector does so throughout the Bailiwick of Guernsey at uniform and affordable prices; and
- to award the exclusive right to provide postal services in the Bailiwick to the extent that such exclusive right is necessary to ensure the maintenance of the universal postal service.

3.5. Licence Conditions

3.5.1. Non-reserved services

Any postal services that are provided for a price *greater than £1.35* (the "non-reserved services") can be provided by *any person or business without a licence*.

In addition, The Post Office (Bailiwick of Guernsey) Law, 2001 provides that a range of postal activities do not require licensing, ranging from personal private delivery to the delivery of court documents and banking instruments[5].

3.5.2. USO services outside the reserved area

Condition 18 of GPL's licence was amended in 2005 to allow the DG to price control GPL's USO services (outside the reserved area) where it has been found by the DG to be dominant. In accordance with Condition 18.3 of GPL's postal licence, the DG may regulate the prices of a postal licensee where GPL is dominant. The relevant licence condition states:

> *"The Director General may determine the maximum level of charges the Licensee may apply for Licensed Services and/or Universal Services within a Relevant Market in which the Licensee has been found to be dominant. A determination may:*
>
> *(a) provide for the overall limit to apply to such Licensed Services and/or Universal Services or categories of Licensed Services and/or Universal Services or any combination of Licensed Services and/or Universal Services;*
>
> *(b) restrict increases in any such charges or to require reductions in them whether by reference to any formula or otherwise; or*
> *(c) provide for different limits to apply in relation to different periods of time falling within the periods to which any determination applies.*

In conclusion the DG has the power to directly regulate the prices that GPL charges for services provided within its USO.

In November 2005 the DG designated GPL as being dominant[6] in the following markets:

[5] Section 1(2) of the Post Office (Bailiwick of Guernsey) Law, 2001

- the market for regular letter and parcel services;
- the market for priority (SD) letter and parcel services; and
- the market for outbound bulk mail services

For the purpose of the current price control the DG will determine the prices for all the above services as GPL has been found dominant in providing these services.

[6] Document OUR 05/26 Review of Market Dominance in the Guernsey Postal Market – Report on the consultation and Decision Notice, November 2005

4. The efficiency review of GPL

A key component of price controls is an assessment of the efficiency of the company being price controlled. This is to ensure that postal users, particularly where they have little or no choice in service provider, are not being asked to fund services that are being provided in an inefficient manner or to fund services not directly linked to the core business.

The OUR commissioned Brockley Consulting to undertake a high level efficiency review of GPL for this one year price control review. The starting point for this efficiency review were the recommendations of the 2006 efficiency review, also undertaken by Brockley Consulting, as part of the 2006 price control review of GPL. The 2006 review identified significant scope for changes to how GPL operated its postal operations and retail business and tariffs for the period 2007-2010 were set to reflect the introduction of measures designed to increases GPL's overall efficiency.

For this one year price review Brockley Consulting were requested to undertake a high level review rather than reviewing each major cost category as at the previous efficiency review. As a result, Brockley Consulting has focused on the following categories for this one year review:

1. Postal operations payroll costs;
2. Royal Mail charges;
3. Conveyance costs;
4. Retail network costs; and
5. Overheads.

There have been extensive discussions between GPL, Brockley Consulting and the OUR on the findings of the efficiency review. The conclusions presented below reflect these discussions. The DG has considered fully GPL's views on the Brockley Consulting findings which have been presented to it at meetings during September 2009. The full Brockley Consulting Report is being provided on a confidential basis to GPL at this time. The following is therefore a summary of the main findings of that review and the DG's assessment of those findings..

To assist with context, it is worth commenting briefly on the previous 2006 efficiency review. Among the recommendations made at that time to GPL was that:

- in many instances there was a poor linkage between the volume of work that existed, and the level of staffing made available to process that work. The result was that staff often faced low volumes of work.
- As a result, inefficiencies from high levels of staff overtime in both processing and delivery were being incurred.
- In the case of processing, the design of duty patterns created an in-built and high dependence on overtime, even before any absence or pressure overtime was incurred.
- Concerns were also raised concerns about the absence of performance measures and standards.

4.1. Postal operations payroll costs

As part of the 2009 review, Brockley Consulting have found a continued positive attitude among staff from that observed in 2006. In addition, they noted an encouraging change in the manner in which staff are managed. It identified that appeared to be a move towards managing by information rather than simply experience. There is a focus on the need to develop the necessary tools to manage the operation, and the DG understands that work is now well under way. Improvements in operations since 2006 include:

- headcount and total hours have been reduced;
- volumes from one of the major mailing customers have been absorbed; and
- quality of service has been maintained.

However, it was found that progress on implementing other recommendations from 2006 has been slow and significant opportunities continue to exist to reduce GPL's cost base.

Pay/Hours mix: Opportunities still remain

The OUR's efficiency review of GPL has found that postal operations payroll costs continue to be too high, primarily due to a much higher level of overtime than forecast. While total operational hours have fallen over recent years, they are still higher than forecast in our 2006 review. Mail volumes are also higher than forecast, although once changes to the mix of mail types and overtime levels are accounted for, it is not clear whether there has been any significant improvement in productivity.

Among the key observations was that over the last three years, overtime levels have nearly doubled in both processing and delivery:

- In the case of processing, overtime levels have risen from 29% in 2006/07 to 54% in 2009/10 (partly as a result of all regular scheduled Saturday processing being paid at overtime rates); and

- in the case of delivery, overtime levels have risen from 7% in 2006/07 to 15% in 2009/10;

However, the DG believes, based on his advisors assessment of GPL's operations, that significant opportunities for further efficiency savings remain.

In processing, opportunities remain with regard to the efficiency of hours at the end of the late shift, matching hours to workload, and inward sorting. Operational management is starting to make progress in this area, and has for example commissioned an Industrial Engineering study. Volumes for a key customer are forecast to continue to grow into 2010/11, and GPL has forecast a 6% increase in processing hours to meet this growth. However, other volumes are forecast to fall, and given the opportunities to make more efficient use of existing hours, GPL ought to be able to absorb this growth without incurring additional processing hours.

In the longer term, there are further opportunities to reduce hours in both processing and delivery, and across postal operations as a whole, building on the Industrial Engineering work commissioned. The DG accepts that the implementation of savings is likely to take time (not withstanding the fact that the opportunities were already identified in 2006), but the DG believes that substantial progress should be achieved for any future price control. Accordingly, only modest savings have been taken account of for the current price control but the DG believes it is reasonable for GPL to achieve greater cost savings going forward.

For the current price control, the DG believes GPL needs to address the levels of overtime in operations. In 2006, this level of costs was highlighted as being inefficient As noted above, that far from falling, staff overtime levels have in fact risen substantially and over the last three years, with overtime levels in processing and delivery having doubled.

For example, a key driver for the overtime levels being incurred appears to be that there are no basic hours scheduled on Saturdays (with the exception of video coding) and all regularly scheduled Saturday processing is performed on overtime. This accounts for nearly a quarter of all processing overtime. GPL has explained that this situation has arisen as a result of putting all staff on a Monday to Friday working week, and consolidating Saturday as the day off. The DG, based on his advisors' assessment, questions the logic of this decision. The background to the introduction of 5 day weeks in the UK was a demand from the staff and unions in Royal Mail to have the opportunity for an extra rest day off each week. It was never intended to create 5 day week duties, with the 6th day covered on overtime, given GPL has a USO which has a requirement for a 6 day service. There is a very clear opportunity here to reduce overtime levels through duty revisions and/or the use of part timers.

In the DG's view, based on the advice available to him, the current levels of overtime are higher than is required to run the postal operation efficiently, and the cost inefficiencies they create in terms of pay mix are unreasonable and not justified. While it is acknowledged that GPL is forecasting some reduction in overtime levels for 2010/11, that reduction proposed by GPL is insufficient. The DG therefore believes a more appropriate target for next year is a reduction to overtime levels achieved in 2006/07.

DG's view:
The DG proposes to require GPL to make savings in payroll costs for the 2010/2011 year in line with the recommendations of the efficiency review and he will take account of this when determining tariff levels.

4.2. Royal Mail charges

Royal Mail ("RM") charges have risen substantially over recent years, and are forecast to increase yet again in 2010/11. This is due largely to increased rates from RM, but is also partly due to increased volumes, particularly in public tariff mail, where the impact of one key customer's volumes are forecast to cause charges to double.

The contract which covers GPL's RM charges expired on 31 March 2009, and GPL has explained that it still does not have even a draft contract which covers 2010/11. However, on 31 March 2009, GPL did agree to an offer from RM covering 2009/10 and 2010/11, and the DG has therefore based his assessment on the charges contained in that offer.

For the purpose of the Efficiency Review, what matters if whether the rates charged by RM are competitive compared with alternatives available to GPL. The DG has asked his advisors to compare RM charges for UK delivery, which account for over 90% of total RM charges, with available benchmarks. The focus has been in particular on RM's inland public tariffs, its bulk retail tariffs and its Downstream Access ("DSA") tariffs.

As in 2006, the RM contract is competitive against all available RM benchmarks for public tariff and bulk air[7] mail. Furthermore, benchmarking suggests that the RM contract is now also competitive across all relevant formats and weights for bulk retail tariffs. The RM 2010/11 contract charges are lower than both RM's 2009/10 first class PPI public tariff and it first class Packetsort Plus bulk retail tariff for both Large Letters and Packets at all weights up to 1,000g. The situation in relation to DSA is discussed in detail in the next chapter.

4.3. Air Conveyance costs

Conveyance costs are forecast to increase by more than 50% in 2010/11 as a result of a forecast increase of more than 100% for UK air conveyance. The principal reason for the increase in current costs has been an increase in the contract price per flight which has added around £300k to air conveyance costs. Nevertheless, GPL's view is that its contract remains relatively good value, because the cost of the return leg is shared 50/50 with RM.

GPL forecasts that UK air conveyance costs will more than double in 2010/11, from £1.4m to £3.2m. GPL's states that this is due to the need for a second aircraft at the start of 2010/11, driven by the anticipated increase in a key customer's volumes. GPL has explained that current flights are already at capacity due to the volume of bags (there is a weight limit, but it is invariably the volume limit that is reached first). Average volume capacity is around 1,000 to 1,100 bags, and that 4 to 5 times a week, some mail (mainly international and over the counter packets) is diverted to sea conveyance due to lack of air capacity. Current capacity issues are understood to be driven primarily by flower traffic, which GPL estimates take up between 40% and 70% of the volume on the aircraft, even though they account for only a small proportion of items and revenues.

The DG notes that there does appear to be a need for additional air conveyance capacity given that already at this moment mail is being diverted to sea conveyance. While the DG intends to allow this cost item, he does expect GPL to explore cost effective solutions, which might include an additional aircraft or increased utilisation of the existing aircraft. For the purpose of the draft decision the DG has adopted

[7] Bulk air is described in GPL's Tariff Application as "Bulk Priority", a J+1 air conveyance service. This differs from the current "Bulk Sea Priority" product, a J+3 sea conveyance service.

GPL's cost figures for a second aircraft without making any adjustments. However, without prejudice to this position, the DG has sought further information from GPL that this is indeed the most cost effective solution before finalising the Final Decision.

4.4. Retail Network costs

GPL anticipates a fall in postal volumes transacted through the retail network. A reduction in costs is therefore expected for 2009/10 as volume reductions result directly in lower costs for the sub offices. However, in the case of the two Crown offices, Smith Street and Envoy House, volume falls will only result in lower costs if management action is taken. The DG notes that the BPM suggests that volumes will fall again in 2010/11.

In spite of the above, the DG notes that 2009/10 retail costs are more than 50% higher than forecast in the OUR 2006 Review, and 24% higher than forecast by GPL itself in the 2006 BPM. In 2006 GPL acknowledged in its Tariff Application that Smith Street was over-specified, and that that "*it would not, on a commercial basis, choose to occupy the space in full*" [8].

GPL forecasted that, following the creation of the new Sub Office ("SO") at the Market, it would seek to relocate and lower the cost of Smith Street, to a level of £277k by 2009/10. The 2006 Efficiency Review concluded that the planned new office remain over-specified, and that the cost could be reduced to £124k if the office was run as an SO, or £157k if it were to remain as a Crown Office ("CO").

Since 2006, the office has been relocated to the other side of Smith Street. However, instead of lowering the cost as planned, GPL has since increased the cost of Smith Street, from £394k in 2005/06 to £438k in 2009/10. This is nearly 60% above GPL's own planned cost level, and nearly three times the cost level arrived at in the 2006 Review.

GPL has been asked to comment on the current situation. GPL's response appears to confirm that a substantial portion of costs are unrelated to postal services, and centre instead on GPL's efforts in foreign exchange, other services, and other non-postal retailing. It has stated that:

"*We believe that a branch in St Peter Port is essential. Especially given our diversification plans into financial services, we also believe that having a directly managed operation allows us to control what products and services are offered to the consumer, in this important location.*"

And

"*There is a further 1 FTE dedicated to the retail shop, which has a proportionate area dedicated to selling stationery and gifts. This is a much greater offering than we had previously and will continue to grow.*"

[8] GPL 2006 Tariff Application

The objective of the DG's efficiency review is to assess the efficient cost of a retail network from the perspective of postal services alone. To the extent that GPL's emphasis on other services causes the cost of Smith Street to be higher than it otherwise would be, this need not be an issue as long as these costs are not being allocated to postal activities. The OUR has to ensure that postal users are not bearing the costs of these non-postal activities.

To a large extent, GPL has acknowledged this issue by revising the way in which Smith Street costs are allocated. The 2006 BPM allocated 87% of costs to postal services; this has now reduced to 44% in the 2009 BPM. Nevertheless, the DG considers that a 44% allocation is still substantial, equating to around £198k in 2010/11. The question remains whether this is consistent with a cost effective approach to delivering postal services on a more focused basis.

The DG believes that it is appropriate to assess what level of costs may be reasonable to allow GPL recover for this activity. In order to assess this issue the DG has focused on the cost of the principal postal activity at Smith Street: i.e. selling postage. The allocated cost of that activity in 2010/11 is £123k, equal to nearly two-thirds of the total allocation to postal services. He has compared the 2010/11 forecast allocated cost of selling postage with the latest data on the value of postage sold in each retail outlet, in order to calculate an effective rate of commission paid to the retail outlet for the sale of postage. The comparison indicates that the effective commission at Smith Street is still 21%, compared with an average of 13% for the rest of the retail network on the island of Guernsey. The DG has therefore reduced the cost allocation to all postal services at Smith Street proportionately to reflect this and will take account of this lower cost when determining GPL's tariffs.

DG's view:
The DG proposes to reduce the cost allocation to all postal services at Smith Street to bring it in line with the rest of the retail network.

4.5. Overheads

The 2006 Price Control Review considered that in overall terms, GPL appeared to be controlling its overheads quite well. Such control is much less evident now as the following table indicates:

Table 1 Costs of overheads over time

Overheads (£000)	04/05	05/06	06/07	07/08	08/09	09/10	10/11
Directors	464	345	420	935	916	804	846
Admin	336	386	782	949	373	695	553
Finance	350	308	425	440	690	788	790
HR	295	251	302	488	818	676	696
IT	242	216	265	258	274	563	517
Facilities	799	833	911	945	1,256	1,418	1,453
Commercial	259	278	298	197	394	697	622
Customer Services	286	273	238	241	251	274	282
Total	3,031	2,890	3,642	4,451	4,971	5,916	5,759
Increase in							
Directors		(25.8%)	21.9%	122.7%	(2.0%)	(12.3%)	5.3%
Admin		14.8%	102.8%	21.3%	(60.7%)	86.2%	(20.4%)
Finance		(11.9%)	38.2%	3.3%	56.8%	14.3%	0.3%
HR		(14.9%)	20.4%	61.6%	67.6%	(17.4%)	2.9%
IT		(10.9%)	22.5%	(2.6%)	6.1%	105.8%	(8.2%)
Facilities		4.3%	9.5%	3.7%	32.9%	12.9%	2.5%
Commercial		7.6%	7.1%	(34.1%)	100.2%	77.2%	(10.9%)
Customer Services		(4.4%)	(12.9%)	1.1%	4.4%	9.0%	2.9%
Total		(4.6%)	26.0%	22.2%	11.7%	19.0%	(2.6%)

Over the course of the last four years, overhead costs have more than doubled, from £2.9m in 2005/06 to £5.9m in 2009/10.

At the time of the 2006 Price Control Review, GPL envisaged some increase in overheads from 2005/06 levels. However, the scale of the anticipated increase was far more modest than that actually experienced. In particular, current overhead costs are £2.2m higher than that forecast at the time of the 2006 Price Control Review by GPL management for the current year.

Examples of cost increases within overheads

Specific examples of cost increases include:

- average pay per employee has risen by 49% in the five years between 2005/06 and 2009/10, 18% above the pay forecast by GPL in 2006 for the current year;
- administration non-payroll costs for 2009/10 are more than three times the amount forecast by GPL in 2006 for the current year;
- the finance function has increased by over 50% since 2005/06 compared to a very minor increased forecast by GPL in 2006;
- HR non-payroll costs for 2009/10 have nearly double compared with GPL's 2006 forecast for the current year, and more than double the forecast by the 2006 Price Control Review for the current year, and more than three times the annual average spend over the last five years[9];

[9] Calculation excludes one-off redundancy costs booked to this category in 2007/08 and 2008/09

- IT non-payroll costs for 2009/10 are budgeted at four and a half times of GPL's own forecast in 2006 for the current year, and nearly five times the annual average spend over the last five years;

- the commercial function has increased by 4.9 FTEs from 4.7 FTEs in 2005/06 to 9.6 FTEs in 2009/10, compared with GPL's 2006 forecast of an increase of only 1.3 FTEs; and

- commercial non-payroll costs for 2009/10 are budgeted at 66% above the GPL's own forecast in 2006 for the current year, and more than three times the annual average spend over the last five years.

There have been some cost decreases, notably in customer services, where headcount has fallen from 12.5 FTEs in 2005/06 to 6.7 FTEs in 2009/10. However, these are very much against the general trend.

Approach to assessing overhead costs

Given the very significant increases in overheads and the major impact this could ultimately have on postal users and the postal market, the OUR and its advisors have considered a number of different approaches to assessing overhead costs for the purpose of this one year price control review.

(1) Detailed bottom up approach

GPL has provided a number of detailed bottom up explanations of the nature of some of its increased costs, including expenditure incurred on legal advice, building maintenance, risk management, HR initiatives and product development.

Having considered these explanations, the DG believes a detailed bottom up approach is not appropriate in this instance. Firstly a detailed bottom up approach would be very time and resource intensive and would not be proportionate for a one year price control. Further a detailed bottom up approach fails to take account of how one might expect an efficient operator to manage such costs.

(2) Benchmarking

The DG has, in conjunction with his advisors, considered a number of ways in which overhead costs could be benchmarked to determine what might be considered an 'efficient' level.

Outsourced costs form a greater and greater share of GPL's total cost base (over 50% by 2010/11). Given this, it is increasingly inappropriate to compare overhead costs with total costs, because the reality is that overheads are driven to an overwhelming degree by local direct activities alone. The DG notes that this has been explicitly acknowledged by GPL in its suggested approach to cost allocation. There, it has suggested that since overheads are driven by direct costs, the overwhelming majority of them should be allocated according to the incidence of those costs alone, and not according to the incidence of total costs including RM charges and air conveyance.

The DG believes therefore that given the increased proportion of outsourced activities, overheads are more appropriately compared with direct costs, not total costs. Such a comparison suggests that overheads have risen significantly, from around 30% at the time of the 2006 Efficiency Review to around 50% now. This suggests that overheads are now at unreasonably high levels. It also compares unfavourably with the benchmarks cited in the 2006 Efficiency Review, which suggest ratios, when calculated on the same basis and assuming minimal outsourced costs for major postal operators, of between 12% and 23%, suggesting a level of GPL overheads of between £1,401k and £2,686k for 2009/10. Nevertheless, the DG accepts that many of the comparators benefit from economies of scale not available to GPL.

A further alternative benchmarking approach would be to rely on the level of overheads forecast by GPL management in 2006. This benefits from being able to reflect some of the specifics of GPL's circumstances. This approach would suggest overheads of £3,759k in 2009/10. These figures make no allowance for the implementation of savings, as have been made in the case of postal operations. In light of the above, the DG therefore intends to adopt a top down approach using a number of specific criteria which are discussed below.

Criteria for a top down approach

Under a top down benchmarking approach, increases in overhead levels would not be prohibited, but they would need to be justified by reference to a small set of narrowly defined criteria:

- expenditure which leads to a demonstrable improvement in the service quality of postal services;
- expenditure which leads to a demonstrable improvement in the cost effectiveness of front line postal operations; and
- expenditure which is forced on GPL due to factors entirely beyond its control.

Under such an approach, any expenditure that fits these criteria would be considered 'efficient' and hence would have to be paid for by postal users.

Assessment of overhead costs against the above criteria

As part of the Efficiency Review there has been extensive dialogue with GPL. During meetings with GPL, the company has claimed that the level of overheads experienced and forecast in the 2006 Review was simply inadequate for the sustainable functioning of an efficient and effective postal operator providing a high quality of service. It claimed that in 2006, many vital functions were in a state of neglect, and in particular that industrial relations with postal workers were in a critically poor condition and it was suggested that in 2006 there was less experienced personnel in place who would have been able to identify such concerns.

Although there have been many changes to the GPL Board and management team over the last three years, the DG does not accept this representation of GPL at the time of the last review. In particular the DG would note there has been significant continuity at Board level and in the operations area. More importantly, this characterisation of the state of affairs in 2006 does not accord with Brockley Consulting's direct experience of the business at that time when conducting the 2006 Efficiency Review.

Postal quality of service was strong in the year to September 2006, with GPL meeting or exceeding 23 of the OUR's 25 quality of service targets. The only targets which were missed were that for the delivery speed of Economy Bulk Sea mail by 1%, a product which GPL no longer proposes to offer from 2010/11, and that for the delivery speed of inward mail from Jersey by 3%, which has no obvious link to overheads.

GPL's management in 2006 was highly experienced and raised no major concerns over the inadequacy of support functions, nor did the OUR review find evidence of any major issues in this area. In particular, having spent time with staff, operational management and the union representative, the DG's advisors found no evidence at all to support the contention that industrial relations were critically poor. Indeed, it drew attention to the positive attitude of operations staff in our 2006 Draft Decision, noting that "*The consultants were impressed with the performance of postal operations staff who show a positive attitude, knowledge and willingness to get the job done*".

Other than this general claim, GPL has not provided the DG with any information to support its view that its increased expenditure on overheads has improved the service quality of postal services. Similarly, GPL has not provided information to support its view that its increased expenditure on overheads has improved the cost effectiveness of front line operations.

GPL claims that a number of the cost increases have been forced upon it due to factors beyond its control, most notably property rates and an internal audit function. Property rates for 2009/10 are over four times the amount forecast by GPL in 2006 for the current year. The DG notes that the introduction of TRP (Tax on Real Property) as an approach to setting rates has led to an increase in rates for commercial properties and therefore accepts that this cost increase is beyond GPL's control.

GPL also claims that three of the five additional staff in the finance function (Head of Internal Audit, Health and Safety Manager, and Revenue Control Officer) were recruited to comply with the corporate governance requirements of GPL's shareholder representative, Treasury and Resources Department ("T&R"), and should therefore be allowed as expenditure beyond GPL's control.

In the DG's view, it is questionable whether the cost of meeting requirements placed upon GPL by its shareholder should automatically be passed through to the cost of price controlled services. The DG believes that in principle, any requirements incremental to those required of an efficient postal operator should be financed by other means. The DG notes that the Memorandum of Understanding ("MoU") which contains these specific requirements was signed at around the same time that GPL embarked on a diversification plan which its own management acknowledged as risky.

Impact of diversification on overheads

It appears to the DG that diversification, rather than the postal business, is driving such cost increases, a view shared by the OUR's advisors. The DG believes that at least part of the increase in overheads may be attributable to GPL's continuing programme of diversification beyond postal services. Its intentions in this area are clear from previous annual reports of the company and GPL's business plan which stated:

> "*the only sensible strategic option was to diversify the business into new areas which could be managed and conveniently combined with core. The first of these moves has been completed with the acquisition and integration of the Batif foreign exchange business. Securing the future of the company through this strategy is critical and potentially costly...*"

It is equally clear that this has entailed significant investment, some of which will have been incurred at head office overhead level.

During the 2009 Efficiency Review, GPL confirmed that it was planning a significant further diversification of its business by the end of 2009. The nature of these plans clearly indicated a very significant level of expenditure. GPL confirmed that this expenditure is not included in the 2009/10 budget. On the other hand, the August 2009 management accounts show that current year expenditure is generally running below budget. If overheads are budgeted at an efficient level, it is not clear how GPL can incur significant additional expenditure and still remain below the budgeted level. In this context, the DG has been requested by the Commerce & Employment Department to specifically provide reassurance to it that postal customers will not be asked to pay for the costs of GPL's diversification plans. The DG understands that GPL has already incurred expenditure of £860,000 on this non-core area.

As previously set out in relation to the costs of Smith Street, the DG's interest in this price control is ensuring the efficiency review assesses the efficient cost of providing postal services. To the extent that GPL's emphasis on other services causes its costs to be higher than it otherwise would be, should not be an issue as long as these costs are not being allocated to postal activities (with postal users bearing the costs of non-postal activities).

The DG therefore does not need to express any opinion on the specifics of GPL's diversification strategy other than to note that the strategy is likely to continue to impact on the level of overheads incurred by GPL as a business. In principle this is perfectly compatible with an efficient level of overheads for postal services, as long as the way in which overheads are allocated between postal and non-postal services is adjusted accordingly. However, there is no evidence of any such adjustment having been made in the BPM. The BPM submitted by GPL in 2006 forecast total overheads of over £3.7m in 2009/10, of which £3.33m or 88% was allocated to postal services. The current BPM shows total overheads of £5.75m in 2009/10, of which just over £5m or 87% remains allocated to postal services.

The DG believes that that the level of overheads currently allocated by GPL to postal and price controlled services is significantly above an efficient level. This appears partly due to a loss of control over the management of overhead levels, and partly to the use of cost allocations which are out of date and fail to reflect GPL's diversification strategy.

The DG believes significant scope exists to reduce the level of overheads costs or at a minimum to minimise the level of overheads attributable to the postal business and as such funded by postal prices. The DG, having considered GPL's justification for its projected costs and his assessment of the current position, intends to amend the level of overheads to be funded by postal prices in line with the recommendations of Brockley Consulting.

DG's view:
The DG proposes to take account of the recommendations of his advisors with regard to the level of overheads that should be allowed for 2010/11 which will inform the costs he allows when determining postal charges

5. Down Stream Access

The 2006 Draft Decision identified the potential for savings by GPL through exploring in more detail the opportunity to use the Downstream Access ("DSA") service offered by Royal Mail ("RM"), either directly or via alternative operators, instead of using the service offered by Royal Mail's contract with GPL. Due to the relationship between DSA and contract prices, such opportunities exist were focussed primarily on Bulk Mailer ("BM") products.

In the period since, DSA in the UK has grown in popularity, with certain large postal customers in the UK utilising alternative operators to access DSA on an increasing basis. As an aside, the recently announced proposed disruption to RM from industrial action has given rise to an increased awareness for the public of alternative operators more generally (whether they use DSA or not). Announcements by popular companies, such as Amazon, Argos, House of Fraser and John Lewis, that they are considering alternatives to RM indicates the degree to which alternative operators are increasingly gaining market share (although, apart from DSA, still at relatively small levels in overall terms).

5.1. Opportunities for DSA in Guernsey

Brockley Consulting has commented in some detail on DSA and its assessment of the implications it would have for GPL's costs but also on the likely quality of service impact on GPL's customers (as it is a key issue of concern to postal users and a key part of GPL's rationale for not exploring it more quickly as an option). It is not intended to repeat all of that assessment here. However it is worth considering first of all GPL's arguments as to why it has not made greater progress with DSA. Its view is that:

- DSA does not offer the level of service BMs require in Guernsey;
- It questions the cost savings that would actually materialise for customers once account is taken of the operational changes BM may have to make to work with a DSA provider; and
- DSA may create problems with HMRC as such operators would not be covered by the Memorandum of Understanding ("MoU") relating to processing of VAT payments (of which GPL is a signatory).

Dealing with each of these in turn, the DG would make the following observations:

(a) DSA does not offer the level of service bulk mailers in Guernsey require

The DG accepts that there are differences between the product GPL offers customers currently through RM with that available through DSA. However, based on the data provided to the DG, he is not convinced that the difference is as significant as might first appear – or indeed so significant that it might be unattractive to certain BMs. The DG acknowledges that for certain BMs, speed of service to the customer is critical and in such cases the BM is prepared to accept a higher cost for that better quality. However for other BMs certainty of delivery is as important.

The DG has considered Brockley Consulting's assessment of the comparative quality of service of the current GPL offering compared with DSA services in the UK.

In terms of delivery speed, in principle DSA allows delivery on J+3, which is the same speed as that currently advertised for the main existing bulk sea product. However, GPL claims that although it advertises J+3, the bulk sea product is better characterised as J+2, because that is the speed that is generally achieved in practice. Indeed, GPL proposes to advertise the bulk sea product as J+2 from 2010/11.

However, this contrasts quite sharply with GPL's views in 2006. At that time, GPL proposed to change the advertised level of service for bulk sea from the J+2 that had been used historically to J+3, which GPL management made clear at the time was on the grounds of the performance actually being achieved.

The DG has compared the quality of service in 2006 with the quality of service currently reported by GPL in Table 2.

Table 2 Comparison of Quality of Service 2006 and 2009

Day	QoS 2006	QoS 2009
J+2	67.2%	71%
J+3	88.7%	91%

This shows that since the 2006 Review, J+2 quality of service has increased from 67% to 71%, while J+3 quality of service has increased by 2%, from 89% to 91%. While these are certainly improvements, they do not seem large enough to entirely transform the nature of the quality of service since 2006. Given the misgivings expressed by GPL's own management in 2006, the DG does not at this time share GPL's confidence that the product provided by the RM contract is clearly a J+2 rather than a J+3 product.

Another point worth noting in the current environment is that it would seem that since DSA is injected relatively late into RM's pipeline, it might be more resilient to periods of industrial action. During 2008, RM's DSA quality of service was on average 4.4% higher than its bulk first class quality of service. However, during the last period of industrial action in the third and fourth quarters of 2007, that premium widened to 11.6%, with DSA quality of service falling to 87.4% and bulk falling to 75.8%. This might be particularly important over the coming months, given the current state of industrial relations at RM.

(b) Cost to BMs of complying with DSA requirements

DSA requires relatively detailed volume forecasting and posting data. GPL has claimed that customers have to incur costly incremental pre-work and data summarisation and provision in order to enjoy any DSA savings. The DG notes this view and accepts that some additional work is likely to be required on the part of customers; however it is not clear to him that the costs of this work are likely to be prohibitive. Further from the discussions the OUR has had with some BMs, it is the DG's view that GPL has not been as proactive in seeking to work with them to address such issues. Customers have characterised to the OUR that GPL has had to be encouraged by customers to seek opportunities for savings rather than GPL proactively looking to see how it can reduce its customers costs.

Finally the DG would note that it is for customers to determine whether such costs are prohibitive or not. It is not until such time as they are offered a properly negotiated price for a DSA based product that they will be in a position to make that assessment for themselves.

(c) Challenges created by HMRC for BMs

GPL has suggested that DSA might create customs problems if HMRC does not allow the current MoU to be extended to shipments of mail bound for DSA operators instead of RM, and that any alternative procedures are likely to be inconvenient for mailing customers.

However, the DG understands from the consultation response of one DSA operator that it has already met with HMRC and has received agreement on "*fast and effective*" customs clearance procedures. Further the OUR has had an indication from one bulk mailer that DSA customs arrangements are likely to be manageable and that it has satisfied itself that such an issue is not a significant concern for it.

5.2. GPL's assessment of DSA

The 2006 Review identified that the opportunity for significant savings were available from DSA. Three years later, it would appear that this remains the case. While DSA would result in some differences in terms of quality of service and operational administration, these differences seem small enough to warrant a more serious examination.

The DG has therefore sought information from GPL on the degree to which it has examined DSA on behalf of its customers as a lower cost alternative to the RM contract, either in its entirety or with respect to specific BMs. In view of the fact that DSA has been a likely alternative for some time, the DG would expect an efficient operator to have examined the cost of DSA thoroughly before agreeing to the prices in the RM contract, and where appropriate to have used its examination in support its contract negotiations. As highlighted in the 2006 Review, the DG would also expect an efficient operator to give serious consideration to offering its mailing customers a DSA-based product.

The information provided by GPL indicates only a limited analysis by it of DSA before accepting RM's proposed prices in March 2009. GPL told the OUR in November 2008 that it had approached six DSA operators in the UK for quotations, and had received responses from those operators that were interested. However the OUR has received no evidence of any of these quotations. GPL has advised the OUR it has no details available of any of these quotations, and that the adviser helping GPL with that process is no longer working for GPL. The DG has received no other evidence of any offers sought from DSA operators before March 2009.

GPL has been asked for details of any quantitative analysis performed of the potential savings available from alternatives to RM, including through DSA, before agreeing to the terms of the contract in March 2009. The only contemporaneous analysis that GPL was able to provide appeared to cover only the 2009/10 tariff year. However, as negotiated by GPL, many of the cost increases associated with the new RM contract come in the second year of that contract, 2010/11. It is therefore in respect of the second year of the contract that exploring the potential cost savings from DSA seems most important.

It is not clear from the information provided that GPL performed a thorough examination of the savings available from DSA before accepting RM's proposed prices. It has provided no evidence that it sought or received any firm offers from DSA operators; nor is there any evidence that it analysed the savings available in the second year of the contract, 2010/11.

It is also not clear, from the information provided to the DG, that GPL has been giving sufficiently rigorous or timely consideration to offering its BMs a DSA based product. GPL has stated that it has had regular and extensive discussions with its BMs, and that with regard to one BM it has recently obtained specific offers from two DSA operators. GPL has also told us that "*We are looking at these but there does not at present seem to be any customer prepared to sacrifice a day's service in exchange for a lower price – it's lack of demand rather than lack of an offering*".

However, the DG has a number of concerns about the nature of these discussions.

Firstly it is not clear that GPL is giving BMs a realistic view of the savings available from DSA. Further discussion on this is contained in the Brockley Consulting Report given the commercial nature of that information. However in summary the report identifies a number of issues with GPL's approach and adjusts GPL's calculations to address those issues. The adjusted calculations suggest available savings are between twice and over three times GPL's estimate.

Further the DG has concerns relating to the way in which the non-price characteristics of DSA are explained to BMs. For example, as discussed above, it appears that GPL may not be giving a balanced view of:

- any delay in delivery associated with moving to DSA;
- the customs implications of a move to DSA; and
- the scale and cost of the incremental procedures required to comply with DSA requirements.

Further there was also a concern that GPL has not shown enough engagement with DSA operators. GPL has only secured offers from two DSA operators, but it is clear from responses to the OUR's consultation that other operators are interested in bidding for this business. Even in the case of those two offers, the extent of GPL's negotiation appears to be relatively limited.

Finally the DG is very concerned about the pace at which GPL is exploring DSA opportunities. Despite the fact that DSA was raised as an opportunity to achieve significant savings for BMs three years ago in the 2006 Review, and the significant opportunity that still exists from BMs to reduce their costs (or mitigate increases) GPL explained, in late September 2009, that it was still only in "*the early stages of developing a DSA product*".

5.3. Respondents' views on DSA

A number of DSA operators responded to the consultation and their responses indicated an interest in serving Guernsey based customers or working with GPL to offer alternatives to the existing RM contract based service. One BM noted that the removal of the Reserved Area would remove a significant barrier to competition which could be effective in reducing its costs.

5.4. DG's view

The DG continues to believe that there are opportunities available through DSA for GPL to reduce its costs. He is concerned about the pace at which GPL has approached this issue since 2006 and by BMs' views that GPL is less engaged on this issue than might be expected.

The DG has noted the potential savings that could be made by GPL (even after taking account of its reservations). Such savings remain significant. The DG notes that this is a one year price control and that further progress may be made by GPL (or by individual BMs directly) in the period before any further review. The DG would urge GPL to take a more active, leading role in this work for the benefit of its customers.

Given the DG's proposed decision on the Reserved Area (discussed in section 7) he does not propose to make any adjustment to tariffs for the potential savings at this time. However GPL should note that in any future price control the DG does expect to give much greater consideration to such opportunities when framing any determination on tariffs.

6. The proposed introduction of PiP

6.1. Background

The August 2009 consultation noted that Size Based Pricing has been introduced in a number of countries such as the UK (including Isle of Man), Denmark, Germany, Ireland, Australia, Japan and the United States. In the UK, size based pricing was adopted in August 2006 and is known as Pricing in Proportion ("PiP"). For the purposes of this review, and to assist GPL's marketing and consumer awareness campaign, all future references to the proposed change shall be referred to as PiP.

In its tariff application to the OUR, GPL indicated that it wished to implement PiP for all mail, including intra Bailiwick mail by 1st April 2010. GPL stated that the main driver for wanting to adopt PiP is the change in structure and scale of the RM contract charges for UK and international mail. According to GPL, based on the existing format profile of postings the expected cost increase in 2010/2011 as a result of this new contract could amount to approximately £8.2m (an increase of about 18% on GPL's 2009/2010 total budgeted operating expenditure). However, GPL anticipates that, if it were to introduce PiP for all postal customers in the Bailiwick, some customers might switch the profile of their postings to minimise the impact of the price rises and in that case the increase would amount to £3.8m.

6.2. Proposals to introduce PiP

The majority of the respondents considered that given that PiP forms the basis for RM's charging structure there would be a need to adopt PiP. One respondent observed that if PiP was not introduced the customer would face a penalty in the form of higher charges. Another respondent agreed with the need to introduce PiP given the need for cost reflective prices.

However, it was also pointed out that the introduction of PiP would result in greater complexity. For example, a web-based business would need to be able to calculate weights and dimensions from multiple goods shipped in the same package.

Also, one respondent was surprised that GPL had not prepared itself more for the introduction of PiP given that it had already raised this with GPL in 2006.

DG's current view on PiP

In the August consultation the DG pointed out that the adoption of PiP would have a number of possible advantages and disadvantages and interested parties may wish to refer to that document for more information. The DG believes on balance allowing the introduction of PiP from April 2010 is in postal users' interests and he therefore proposes to allow its introduction.

*DG's **draft** decision:*

The DG proposes to allow GPL to introduce PiP both for social and business customers with effect from 1st April 2010.

6.3. Scope of PiP

Several respondents commented on the fact that GPL proposed to intend PiP for all mail, given that at present PiP had not been extended to International Mail in the UK.

As pointed out by the DG in the August Consultation, GPL is proposing to adopt an adaptation of PiP for International Mail which reduces the maximum thickness of Large Letters from 25mm to 20mm. GPL gives as reason that the maximum thickness of 20mm is the international standard for that format. In addition, the DG pointed out that GPL wants to reduce both the length and width dimensions for both International Letters and Large Letters. GPL argued that this is to ensure consistency with the UK formats.

The DG considers that if GPL wants to introduce PiP and be consistent with UK formats it should adopt these formats (and weight steps, which is dealt with in the next section). The DG also notes that Postcomm until now has not allowed RM to introduce PiP for International Mail. However, given that GPL has informed the DG that RM has imposed PiP for international mail on GPL, the DG is currently minded to allow GPL to introduce PiP for International Mail.

*DG's **draft** decision:*
The DG proposes to allow GPL to implement PiP for International Mail in line with the current UK dimensions for PiP, e.g. maximum thickness of 25mm for Large Letters.

6.4. Number of weight steps under PiP

As pointed out in the August Consultation GPL is proposing to introduce significantly more weight steps compared with RM. The DG considers the number of weight steps to be an integral part of PiP.

Several respondents agreed that fewer weight steps may be more appropriate as it would reduce complexity. GPL argues in its response that the number of weight steps is linked to what it describes as the linear nature of conveyance costs and the RM contract costs and that reducing the number of weight steps "would mean a greater element of cross subsidy between customers". However, the DG notes some anomalies in GPL's proposed prices which suggest that the proposed prices may not be fully cost reflective for reasons unconnected with the chosen weight step structure. For example, a significant number of the proposed tariffs are resulting in very high margins (up to 60%) whereas a number of other proposed tariffs result in negative margins.

The DG notes that for example for intra Bailiwick and UK/Jersey/IoM GPL is proposing 50g weight steps. This means that for Large Letters (which can have a maximum weight of 750g) GPL is proposing to introduce 14 weight steps whereas RM's retail prices have only four weight steps. Similarly, for packets up to 1000g, GPL is proposing to introduce 19 weight steps with further weight steps of 50g after 1000g. RM retail prices have only 5 weight steps up to 1000g and from 1000g onwards applies 250g weight steps. Generally it seems that for every five weight steps GPL proposes RM has adopted only one weight step.

The DG considers that it is important that prices reflect underlying costs, and are fair, transparent and understandable to customers and that the tariff structure should not create an unnecessary burden due to its complexity. The DG has therefore amended the weight steps in line with the RM retail price weight steps under PiP. This has been done through adopting the GPL tariff for the bottom end of each new weight step. Table 3 shows the results of the new weight steps:

Table 3 Weight steps from April 2010 onwards

		GPL proposed weight steps	**DG's adjusted weight steps**
Intra Bailiwick	Large Letters	First weight step 0-100g then 50g weight steps to 750g (max).	First weight step 0-100g, then 101-250g, 251-500g and 501-750g (max).
Intra Bailiwick	Packets	First weight step 0-100g then 50g weight steps for every 50g thereafter.	First weight step 0-100g, then 101-250g, then 249g weight steps up to 4 kg and 2 kg weights steps from 4 kg onwards
UK/Jersey/ Isle of Man	Large Letters	First weight step 0-100g then 50g weight steps to 750g (max).	First weight step 0-100g, then 101-250g, 251-500g and 501-750g (max).
UK/Jersey/ Isle of Man	Packets	First weight step 0-100g then 50g weight steps for every 50g thereafter.	First weight step 0-100g, then 101-250g, then 249g weight steps up to 4 kg and 2 kg weights steps from 4 kg onwards

The DG is not proposing any changes where GPL's weight steps are in line with PiP, e.g. Intra Bailiwick Letters, UK/Jersey/IoM Letters and International mail.

*DG's **draft** decision:*
The DG proposes to require GPL to adopt the weight steps used by Royal Mail in the UK which are an integral part of PIP in the UK. The DG considers that this would better serve the interests of postal users as it would reduce the complexity associated to PiP and result in more cost reflective prices.

6.5. Timeline to introduce PiP

A number of respondents specifically commented on the timeline given GPL's application to introduce PiP by April 2010.

One respondent considered that a one year notice period for PiP should be introduced. This would give especially older (social) customers the time to get used to the change and it would also give companies who use catalogues the time to make the necessary changes. One BM argued that if PiP is introduced in a matter of months it would potentially be destabilizing for its business. It argued that more time was needed to adapt, e.g. modify packaging, change IT systems, etc. It also noted that PiP would require two separate sorts for Large Letters and Packets.

However, another respondent argued that a three month period for publication of information and education before introducing it was attainable but that it does require a comprehensive promotional campaign by GPL. It was also commented that communication with customers is the key and that this must be wide-ranging and sustained.

GPL responded that the short timescale around the introduction of PiP is driven by the short notice given by RM.

The DG accepts that the timeline is challenging. However, according to GPL postponing PiP would result in significantly higher RM costs for GPL and ultimately postal users. Also, it would remove the potential to mitigate cost increases by those customers who would be able to switch from Packets to Large Letters. The DG expects GPL to commence as a matter of priority an extensive communications campaign with all categories of postal users to ensure they fully understand the proposed changes.

7. The 'Reserved Area'

7.1. Background

On 1st October 2001 the DG made an Order in accordance with section 9(1) of the Postal Law designating certain postal services as reserved postal services. The effect of this Order is to limit competition by granting GPL the exclusive right to provide postal services within the Reserved Area ("RA"). At the time, the DG made an Order defining reserved postal services in Guernsey as those services provided for a consideration of less than £1.35.

It should be noted that the current level of the Reserved Area was not based on any formal assessment of GPL's costs at that time, given it had very underdeveloped costing information available to it. Therefore a pragmatic view was taken to set the RA at £1.35, which was five times the UK stamp price at that time.

In 2001, the States gave a Direction to the DG which requires him to review and revise the award of exclusive rights from time to time with a view to opening up the Bailiwick postal services market to competition, provided that any such opening up does not prejudice the continued provision of the universal postal service. Since 2001 no review of the reserved area has been undertaken. However, the fact that it was not reviewed, whilst stamp prices increased, in effect meant a gradual erosion of the RA.

In the August 2009 consultation, the DG noted that GPL had provided a limited argument in support of its request for an increase in the RA and has provided no supporting cost information to support its proposed rate of £2.15. Given the scale of the tariff increases being proposed, the DG stated that he did not believe that it is in postal users' interests to unnecessarily restrict their choice of service provider. The DG pointed out that he was considering whether in Guernsey the postal market should be liberalised (e.g. not have a RA) in line with other jurisdictions (including Jersey). The DG invited views from stakeholders to enable him to consider this matter further.

7.2. Respondents' views on the RA

Not all respondents commented on the RA, but those who did have a number of very different points of view.

Removal of the RA

Three respondents argued for the removal of the RA. It was argued that the RA seemed a significant barrier to effective competition entering the Guernsey market, which could be effective in reducing postage costs. Another respondent stated that it had been talking to potential other providers but that they would be very restricted due to the presence of the RA. It was also pointed out that in the UK the opening up of the market did not cause the USO to become unsustainable.

GPL argued that if the RA was removed then it would be forced to reduce tariffs for some USO customers, most likely BM, to remain competitive, although in its view the opportunities for this are low. Assuming however that it were to do so, GPL believes it would be required to increase public tariffs in order to fund the USO.

The Commerce & Employment Department suggested that if the DG was to propose to remove the RA in its entirety in a single decision then it would be prudent to obtain a States Decision to that effect. The Department also stated that it expects the DG to fully assess the costs of the USO and the revenue associated with the RA before coming to a decision. Chapter 3 provides a fuller discussion on the DG's remit under the relevant legislation and States' Directions insofar as they relate to the RA.

Maintaining the RA at £1.35

One respondent argued for the RA to be maintained at £1.35.

Increasing the RA

One respondent considered it appropriate to increase the RA to £1.71 and GPL argued to have the RA increased to a level between £1.75 and £1.80 (rather than the previously requested £2.15).

Mail already outside the current RA

One respondent argued that at current prices most BM is already outside the RA and hence is open to competition but that they have nevertheless chosen to remain with GPL.

Potential impact of competition and funding of the USO

Several respondents raised concerns about other operators entering the market and 'cherry picking' the most profitable areas, thereby reducing the volume carried by GPL and therefore leading to an increase in unit price. The CWU argued that if the three largest BMs go to competitors of GPL then GPL would face a £4m revenue shortfall. It argued that this would mean that removing the RA would contravene the Postal Law as it would result in a huge increase for general post. It also pointed to the industrial unrest in the UK which it suggests is in part caused by the removal of a RA in that market. It lists other countries which it argues further supports its view that GPL's RA should not be reduced.

One respondent argued that economies of scale would make Jersey Post charges to businesses in Guernsey very competitive and still give Jersey Post a comfortable profit. However, GPL stated in its response that if an operator was to charge lower tariffs for BM than GPL then it would be likely to be loss-leading or engaging in predatory pricing. GPL also argued that it does not have the economies of scale available in larger jurisdictions and that if competition was introduced and successful in increasing volumes and reducing unit costs, the benefits would go to the UK and its USO and customers and not to Guernsey customers. GPL also argued that competition would be harmful for customers as it would result in an increase in prices for the remaining customers.

The Treasury & Resources Department responded in its capacity as the shareholder representative of GPL. It acknowledged that the OUR has a duty to balance the interests of postal users generally but it believed that it was unclear that removing the RA was in GPL's or the Bailiwick's long term interest. That Department wished to ensure that GPL would not need a public subsidy as a consequence of the introduction of greater competition.

Another respondent argued that until the States remove the USO some RA should remain as it might otherwise result in GPL's bankruptcy.

7.3. The DG's assessment of the appropriate level of the RA

Protecting the interests of postal users

The DG has assessed his duties with regard to the postal market, and in particular the scale of RA allowed to GPL, with careful reference to the States' Direction given to him in 2001. That direction had, in his view, a very clear objective that over time postal customers would be able to have increased choice. The States also indicated the issues it believed the DG should considered when assessing the level of the RA. These include:

- Information on volumes of postal traffic, prices, revenues and costs;
- Guernsey Post's relationship with the UK postal services and any changes to that relationship that might take place given the recent changes in the UK postal sector, and
- Developments in Jersey as to postal services and regulation.

In OUR 09/16 the DG has already commented on these issues.

From a wider perspective, as noted in the consultation, competition is generally accepted to be in postal users long term best interest. While the DG notes the response of the CWU, he does not accept that the removal of the RA in the UK is the key factor in the industrial unrest faced by Royal Mail. It is his view that there are long standing, well documented problems with Royal Mail's efficiency which has been in need of modernisation for some time (as noted by the Hooper Report). The DG has already commented earlier in this paper on GPL's efficiency where he believes there is also scope for improvement.

However unlike the UK, the DG believes the nature of the relationship between GPL and its unions and staff is significantly more developed as has been noted by both GPL management and by Brockley Consulting in its review. In this context it is worth noting the comments of the Hooper Report[10] which noted:

"We believe these risks can be managed in the foreseeable future if the regulator takes a proportionate approach to competition and if Royal Mail is given the

[10]Modernise or decline; Policies to maintain the universal postal service in the United Kingdom (December 2008) http://www.berr.gov.uk/files/file49389.pdf

appropriate incentives and freedom to modernise its business quickly and effectively. Our recommendations on partnership, therefore, are essential if the process of liberalisation is to be consistent over the longer term with sustaining the universal service."

As the DG believes such an environment already exists within GPL, he would expect that as any further change to improve GPL's competitiveness is required this will be undertaken in the spirit of partnership which appears to exist within the company. Therefore the DG does not consider that comparisons with the UK mail market are either appropriate or are a justification not to consider the further liberalisation of the Guernsey postal market.

Scope for competition under the current RA

The DG notes from the responses that on the one hand it is being argued that most of the BM market is already open to competition, given that a large proportion of BM is outside the RA. On the other hand, a number of respondents argue that opening up the RA could result in other operators 'cherry picking' the most profitable services and/or customers (e.g. high volume mailers). These two arguments seem to be at odds with each other and it does raise a question as to why there are no alternative providers entering the market at present.

Indeed, no other provider has entered the Guernsey market for mail outside the RA since 2001. To the DG this might suggest, and this was also noted by one of the respondents, that as long as the RA is set at its current level it may act as a barrier to alternative providers willing to provide services to Guernsey customers. The DG notes that for 2008/09 the current £1.35 RA level gives GPL a monopoly on approximately 95% of postal volumes and accounts for approximately 80% of its revenues[11].

Given the fact that GPL's relationship for outward mail is through its contract with RM, and taking account of the DG's assessment of DSA in chapter 5, the only option to guarantee that customers have appropriate levels of choice is for the DG to consider further reducing the RA. Clearly, in considering this, the DG has to ensure that GPL is able to provide the universal service in the postal sector throughout the Bailiwick of Guernsey at uniform and affordable prices.

GPL's regulatory accounts for 2008/2009 indicate that services outside the RA are significantly more profitable than the services within the RA. GPL has also commented in a meeting with the OUR that it believes it is already in a competitive situation with Jersey. The DG has been told on a number of occasions by Guernsey BMs, that a further deterioration in their competitive position as a result of postage increases would not be acceptable and that these companies may have to consider whether they could continue to operate from Guernsey.

[11]This is a high level indicator and based on some approximations in relation to bulk mail volumes and excludes inward mail.

In its consultation response GPL seems to argue that if a competitor was to offer lower prices than GPL, it would either have to be more efficient or operate at lower margins or even a loss, in essence to predatory price. Predatory pricing by a competitor would only work if the competitor is confident that he can establish a dominant position in the near future. The DG does not believe it is a reasonable business assumption for a new entrant that they could price GPL out of the market (whilst making losses during that period) and then increase prices once they have become the dominant provider, given that a predatory provider would not be able to prevent other new entrants entering the market. The DG would point to developments in the telecoms market where similar concerns were expressed prior to the opening up of that market and none of those fears has been realised. Instead consumers have had more competitive pricing, operators have had to improve their own efficiency, improve how they deal with their customers and be more pro-active in meeting customers needs.

The DG has commented earlier on GPL's own efficiency in chapter 4. The DG accepts that a competitor might enter the market and compete with GPL by offering certain services at a lower cost due to the fact that he is able to provide these services in a more efficient manner. However the DG does not believe that because GPL itself may not yet be as efficient as potential competitors that that is sufficient reason to deny postal customers choice. The DG has noted that a number of the opportunities suggested in this review for improved efficiency within GPL had already been identified in 2006. The DG expects that GPL would respond to competition by improving its efficiency and responsiveness.

The DG considers that one of the benefits of enabling competition is that it would increase the incentives for GPL to accelerate the improvements in the efficiency of its business. This not only benefits customers who receive services at a lower cost but also benefits GPL as it would enable the company to compete more effectively with alternative providers. The DG notes that Jersey Post in recent media comments has argued that competition in the Jersey postal market is a benefit to its business. The DG believes similar benefits can be gained by GPL.

Scope from competition through DSA operators

As noted in Section 5, GPL has argued to the OUR that it is a lack of demand for DSA from GPL customers rather than a lack of offering of DSA services (through GPL) from its side. GPL has argued to the OUR that at present there does not appear to be any customer prepared to sacrifice a day's service in exchange for a lower price. In its consultation response, GPL argues that "*Until very recently all our bulk customers have indicated to GPL that they were not prepared to accept the delay and would find it difficult to provide the information*".

The DG agrees with GPL that a DSA based product would be different in a number of aspects from the product which GPL currently offers through its contract with RM. If GPL is right in how it has assessed its customers' interest in a DSA based product then it is not clear to the DG why GPL would be concerned about other providers entering the Guernsey market and the scope from competition through DSA providers will be very limited even if the RA is reduced.

The DG believes that it is in postal users' interests that at least there are no unnecessary regulatory obstacles put in place to alternative providers offering services to Guernsey customers. It is then a matter for postal users to determine whether they wish to avail of an alternative provider and to make their own assessment of issues such as quality of service and price.

Given the current lack of competition in the non-RA market, the DG believes that the presence of this restriction on the size of the contestable market given that if the RA is maintained at £1.35, GPL will retain a monopoly on 84% of all mail volumes using the adjusted prices. This is likely to continue to act as a barrier to entry in the wider postal market.

Ensuring that GPL is able to maintain universal postal services at affordable and uniform prices

In assessing the scope for competition, the DG must have regard to the need for a sustainable, affordable post office (that is run efficiently) and that the USO as determined by the States is maintained.

In order to ensure that GPL is able to maintain universal postal services at affordable and uniform prices the DG has to establish how much revenue GPL needs for this. The DG's starting point is that each service under the USO should be broadly self-financing. This relies on the fact that the prices paid by postal users for a certain service reflect the costs of providing that service.

The DG has assessed GPL's pricing for individual products relative to other products available. The DG notes that GPL's tariff submission had some very large positive margins for some products and some negative margins for others. The DG has assessed this in determining weight steps and pricing bands, and while the position is improved from that submitted by GPL, it has not been eliminated. He intends to consider this issue in more detail in any future price control.

Once the tariffs had all been calculated, the DG has considered a number of different options on the level of the RA within the range of 0p - £1.80. This assessment has looked at a number of variables, such as volumes, gross revenue and net revenue. In principle, the DG considers that gross revenue is not the most appropriate indicator to assess the impact on GPL. Given that GPL will be able to reduce certain costs straight away (such as sea conveyance and terminal dues (RM charges)) if volumes were lost, the DG considers that net revenue is the better measure as it reflects the costs which GPL will face in the short-run but excludes Short Run avoidable costs (i.e. costs it will be able to avoid if these volumes were lost in the short-run). Table 4 shows different levels of the RA and the corresponding proportion of volumes and revenues covered by the RA at each level.

Table 4: Different levels of the RA

Level of the RA	Total Volumes	Gross (total) revenue	Net revenue
0.65	45m items (69%)	£17.4m (36%)	£10.2m (54%)

0.90	45.6m items (70%)	£17.9m (37%)	£10.4m (55%)
1.00	49.2m items (75%)	£21.3m (44%)	£11.2m (59%)
1.35	55.3m items (84%)	£29.1m (60%)	£13.2m (70%)
1.71	63.2m items (96%)	£40m (82%)	£14.5m (77%)
1.80	63.2m items (96%)	£40.1m (83%)	£14.5m (77%)

The DG's analysis indicates that reducing the level of the RA to for example £0.65 will enable contestability for the vast majority of bulk mail packets. However based on a RA of 65p, GPL still retains 69% of all postal volumes and over 54% of its forecast net revenue.

Given the small size of the Guernsey market, and other potential obstacles to entry, such as the availability of suitable premises, the HRMC MoU etc. this suggests that keeping the RA at its current level will in all likelihood still deter new entrants from entering this market (even with the increased GPL prices) and hence deny postal customers in Guernsey the choice which postal customers in other markets are increasingly gaining the benefits of. In the current economic climate and given the potential major issues with quality of service arising from the RM industrial relations situation, the DG does not believe this would serve the interests of the Bailiwick.

Assessment of the impact if large postal users were to switch providers

The DG believes that it would be prudent to assess whether the current RA could be reduced whilst ensuring that GPL can meet its obligations under the USO.

As previously outlined, the aim of the DG through the last price controls has been to ensure that the tariffs for individual categories of postal products reflect their underlying costs as far as practicable. If tariffs are cost reflective the impact of certain users switching postal provider for certain products might be expected to be limited. However, the DG recognizes that there are some so-called 'shared costs' between services. There is therefore an issue how much of these costs get allocated to each service. This will depend in part on over how many products they are spread.

The main factors which will influence the impact on stamp prices of having to recover those costs will depend on (i) the size of overhead costs; and (ii) the volumes lost. In order to assess the latter, assumptions also have to be made on volume mix, e.g. which proportion of packet mail will be switched to large letters. For example, GPL has recently told us that based on its latest information more traffic will switch from packets to Large Letters than originally estimated.

Given uncertainty on how reducing the RA would impact on GPL's volumes, the DG considers that an approach which involves a forward looking assessment based on a number of different scenarios is most appropriate. The DG recognizes that it is important to take a careful, consistent and systematic approach to the development of the relevant scenarios and to the assessment of the results.

The DG has therefore constructed a number of broad scenarios. The assumptions in these scenarios reflect the OUR's meetings with key stakeholders such as large volume and bulk mailers and GPL. The criteria used by the DG in constructing these scenarios are as follow:

- The scenarios need to be forward looking;
- The scenarios need to be credible;
- The scenarios need to be sufficiently different to enable stress testing; and
- The scenarios need to take into account best available information.

A number of bulk mailers have shared their own demand forecasts with the OUR on a confidential basis and the DG has taken this information into account in constructing the scenarios. The DG has made his assessment of the impact on stamp prices if volumes outside the RA were to be lost by taking into account the likelihood of some of the customers switching to alternative providers if they were given that option. Some mailers indicated to the DG that they would consider switching if there were viable alternatives available whereas other mailers stated that they would focus on switching formats (e.g. from packets to large letters) but would most likely remain with GPL.

The DG has used this information to assess the revenue implications of varying the level of the RA and considered how the changed demand profile would enable GPL to reduce its short-term avoidable costs and then assessed GPL's net revenue under that scenario.

7.4. DG's draft decision on the RA

The DG's view is that in general terms consumers are usually best served where they have a choice of service provider. As mentioned in the August consultation, the EU is currently liberalising postal markets within member states. Indeed the DG's view is that the States of Guernsey also had an expectation that over time, as GPL increased its efficiency, the size of the market over which it would retain a monopoly would reduce. As previously noted, the DG has been phasing out cross-subsidies between different groups of postal users over previous price controls.

The DG is aware from discussions with certain interested parties, that the large changes being proposed in post rates will potentially have a significant impact on certain postal users and that such customers are interested in exploring options that will mitigate these increases. The DG must also have regard to his wider duty to ensure postal services serve the best long term interests of the economy of the Bailiwick. In this regard the DG must take account of the important contribution BMs make not just to GPL but as direct employers, as tax-payers and through the economic support they provide purchasing other goods and services locally and their wider contribution to the community through initiatives such as sponsorship. In the DG's opinion, ensuring such businesses stay in the Bailiwick, providing diversification in the economy is critically important.

The DG also considers that based on his analysis, the current level of the RA is higher than necessary to ensure that GPL is able to fulfil its USO at uniform and affordable prices (based on the company operating efficiently).

Phased approach to removing the RA

While the DG considers that it may be in the longer term interest of postal users to remove the RA completely, the DG considers that for now he will adopt a phased approach. The DG believes this approach balances his duties to ensure postal users start to gain the benefits of competition whilst allowing GPL a further opportunity to make more meaningful progress on improving its efficiency.

Based on his analysis, the DG considers that a RA of £0.65 would enable GPL to maintain universal postal services at affordable and uniform prices, whilst also enabling postal users which use those services which are subject to the largest proposed price increases to mitigate the impact through exploring alternative options. This proposed reduction in the RA would result in approximately 30% of the total mail volumes being contestable (rather than 15% if the current level of the RA was maintained).

*DG's **draft** decision:*
The DG proposes to set the Reserved Area for the 2010-2011 period at £0.65, below which level GPL would be granted the exclusive right to provide postal services subject to the provisions in The Post Office (Bailiwick of Guernsey) Law, 2001

8. The DG's Proposed Tariffs from April 2010 onwards

The DG has taken account of the savings he believes GPL can make based on the findings of the Efficiency Review and the need to simplify the proposed move to PiP. He has therefore used this information to determine postal charges that should apply with effect from April 2010. These are set out in full in Annex B.

Among the tariffs of note are that both the local stamp and the basic UK letter stamp price will remain unchanged at 36p and 43p respectively. There are changes in postal tariffs for large letters and packets.

The DG has not changed the cost of capital assumption (7.1%) for this one year price control review. Also, in setting the tariffs the DG has not made any changes to GPL's inflation assumption, however, the DG will review inflation as part of his final decision in the event more up-to-date information becomes available.

9. Next steps

The DG has to exercise his functions (which have been set out in section 3.3) in the manner in which he considers is best calculated to ensure the provision of the universal service which has been imposed on GPL through its licence. In discharging his duties, the DG believes that it is appropriate for customers to pay prices that reflect, as well as reasonably possible, the efficient costs incurred in conveying their postal items. This will help the DG to discharge his duty in relation to ensuring that utility activities are carried out in such a way as best to serve and contribute to the economic and social development and well-being of the Bailiwick.

Cost reflective pricing should encourage GPL to develop more efficient and reliable mail processes and encourage customers to choose between them and pay a reasonable price depending on the service they choose. It also helps to promote sustainable competition. Given the scale of the tariff changes being proposed, the DG does not believe it is in postal users' long term interests to restrict further their choice of service provider than absolutely necessary to enable GPL to provide the USO at uniform and affordable prices. In his view the proposed reduction in the RA balances his duties to promote competition but ensure a sustainable USO service.

Given the significant changes in Royal Mail costs, the DG believes on balance that the introduction of PiP has the potential to be a positive development for postal users based on the information currently before him. He therefore proposes to allow GPL to introduce PiP based pricing from April 2010. However he believes that the number of weight steps proposed by GPL makes PiP too complicated and that it would therefore be in postal users' interests for GPL to adopt the weight steps used by RM in the UK for similar products.

The DG welcomes feedback on any aspect of this proposed decision and is seeking views from interested parties. Specifically he would welcome information on the impact on the demand for postal services as a result of the proposed tariffs and the reduction in the RA to 65p before making a final decision.

The DG aims to issue a final decision on GPL's proposals in December 2009, which will include his final determination on the Reserved Area and the postal tariffs from April 2010 onwards.

The DG looks forward to receiving feedback from interested parties to assist him with this review of GPL's tariff submission and more specifically any of the issues raised in this document. The deadline for any responses to this document is 20th November 2009.

ENDS/

Annex A - Respondents to the August 2009 Consultation

- H. Brouard
- Channel Islands Plants
- Chamber of Commerce
- CitiPost
- Commerce and Employment
- Communication Workers Union
- Guernsey Post
- Guernsey Postal Flower Association
- IEB Trading Ltd
- ILS Products
- L. Ozanne
- M.J. Bienvenu
- Post Watch
- The Sigma Group
- Thompson and Morgan
- Treasury and Resources
- UK Mail Ltd

Annex B Draft Decision on Tariffs from April 2010

This annex contains the postal tariffs from 1st April 2010 onwards as proposed by the DG. In its tariff submission, GPL also included a large number of other tariffs. As far as they fall within the price control, the DG is minded to accept these proposed tariffs without making any adjustments for the purpose of this one year price control. These tariffs have not been included in this Annex but will be included in the Final Decision.

Table A1 Intra Bailiwick Postal Rates - Letter

g.	1st April 2009	1st April 2010
100 max	£0.36	£0.36

Table A2 Intra Bailiwick Postal Rates – Large Letter

g.	1st April 2009	1st April 2010
0 - 100g	£0.36	£0.48
101 – 250g	£0.50 - £0.78	£0.52
251 - 500g	£0.92 - £1.48	£0.68
501 - 750g max	£1.62 - £2.18	£1.10

Table A3 Intra Bailiwick Postal Rates - Packets

g.	1st April 2009	1st April 2010
0 - 100g	£0.36	£0.70
101 – 250g	£0.50 - £0.78	£0.78
251 - 500g	£0.92 - £1.48	£0.88
501 - 750g	£1.62 - £2.18	£2.40
	£0.14 for each 50g	£0.70 for each 250g

Table A4 UK, Jersey & Isle of Man Postal Rates - Letter

g.	1st April 2009	1st April 2010
100 max	£0.43	£0.43

Table A5 UK, Jersey & Isle of Man Postal Rates – Large Letters

g.	1st April 2009	1st April 2010
0 - 100g	£0.43	£0.58
101 – 250g	£1.09 - £1.39	£0.91
251 - 500g	£1.54 - £2.14	£1.40
501 - 750g max	£2.29 - £2.89	£1.83

Table A6 UK, Jersey & Isle of Man Postal Rates – Packets

g.	1st April 2009	1st April 2010
0 - 100g	£0.43	£0.90
101 – 250g	£1.09 – 1.39	£1.62
251 - 500g	£1.54 – 2.14	£2.11
501 - 750g	£2.29 - £2.89	£3.90
	£0.15 for each 50g after	£0.75 for each 250g after

Table A7 International Postal Rates - Letter

	1st April 2009			1st April 2010	
g.	Europe	World zone 1	World zone 2	Europe	R.O.W.
0 - 10g	£0.51	£0.56	£0.56	£0.51	£0.56
10 – 20g	£0.51	£0.77	£0.77	£0.51	£0.77
20 – 40g	£0.69	£1.14	£1.21	£0.65	£1.06
40 – 60g	£0.87	£1.51	£1.65	£0.79	£1.34
60 – 80g	£1.05	£1.88	£2.09	£0.93	£1.63
80 – 100g	£1.23	£2.25	£2.53	£1.07	£1.91

Table A8 International Postal Rates – Large Letters

	1st April 2009			1st April 2010	
g.	Europe	World zone 1	World zone 2	Europe	R.O.W.
0 - 10g	£0.51	£0.56	£0.56	£0.56	£0.63
10 – 20g	£0.51	£0.77	£0.77	£0.56	£0.84
20 – 40g	£0.69	£1.14	£1.21	£0.70	£1.12
40 – 60g	£0.87	£1.51	£1.65	£0.84	£1.40
60 – 80g	£1.05	£1.88	£2.09	£0.98	£1.68
80 – 100g	£1.23	£2.25	£2.53	£1.12	£1.96
100 -120g	£1.41	£2.62	£2.97	£1.26	£2.24
120 -140g	£1.59	£2.99	£3.41	£1.40	£2.52
Each 20g after	£0.18	£0.37	£0.44	£0.14	£0.28

Table A9 International Postal Rates – Packets

	1st April 2009			1st April 2010	
g.	Europe	World zone 1	World zone 2	Europe	R.O.W.
0 - 10g	£0.51	£0.56	£0.56	£0.86	£0.90
10 – 20g	£0.51	£0.77	£0.77	£0.86	£1.11
20 – 40g	£0.69	£1.14	£1.21	£1.00	£1.39
40 – 60g	£0.87	£1.51	£1.65	£1.14	£1.67
60 – 80g	£1.05	£1.88	£2.09	£1.28	£1.95
80 – 100g	£1.23	£2.25	£2.53	£1.42	£2.23
100 -120g	£1.41	£2.62	£2.97	£1.56	£2.51
120 -140g	£1.59	£2.99	£3.41	£1.70	£2.79
Each 20g after	£0.18	£0.37	£0.44	£0.14	£0.28

Table A10a Bulk UK Products: Priority (by air)

	Price per item at 60g (pence)	
"Priority" (by air)	1st April 2009	1st April 2010
Unsorted Large Letter	n/a	65.4
4 way sorted Large Letter	n/a	62.4
120 way sorted Large Letter	n/a	55.4
Unsorted Packet	88.0	142.0
4 way sorted Packet	n/a	137.1
120 way sorted Packet	72.38	117.1

Table A10b Bulk UK Products: Priority (by air)

	Price per g above 60g (pence)	
"Priority" (by air)	1st April 2009	1st April 2010
Unsorted Large Letter	n/a	0.240
4 way sorted Large Letter	n/a	0.240
120 way sorted Large Letter	n/a	0.240
Unsorted Packet	0.300	0.240
4 way sorted Packet	n/a	0.240
120 way sorted Packet	0.273	0.240

Table A11a Bulk UK Products: Economy (by sea)

	Price per item at 60g (pence)	
"Economy" (by sea)	1st April 2009	1st April 2010
Unsorted Large Letter	n/a	59.3
4 way sorted Large Letter	n/a	56.3
120 way sorted Large Letter	n/a	35.6
Unsorted Packet	42.94 (non-MOU)	133.29
4 way sorted Packet	48.58	128.29
120 way sorted Packet	34.77	80.22

Table A11b Bulk UK Products: Economy (by sea)

	Price per g above 60g (pence)	
"Economy" (by sea)	1st April 2009	1st April 2010
Unsorted Large Letter	n/a	0.165
4 way sorted Large Letter	n/a	0.165
120 way sorted Large Letter	n/a	0.14
Unsorted Packet	0.313 (non-MOU)	0.2048
4 way sorted Packet	0.233	0.2048
120 way sorted Packet	0.233	0.1704

Annex C Brockley Consulting report on GPL's Efficiency Review - Confidential