



Office of Utility Regulation

Guernsey Post's Proposed Tariff Changes

Consultation Paper

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Office of Utility Regulation
Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey, GY1 2NH
Tel: (0)1481 711120, Fax: (0)1481 711140, Web: www.regutil.gg

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1. Summary

The Director General of Utility Regulation has received an application for tariff changes from Guernsey Post Limited (“GPL”). GPL has applied to revise its postal tariffs with effect from 1st June 2004. Full details of GPL’s proposed tariff changes are presented in Section 3 of this document.

The principal drivers for the company’s request for tariff changes stem from changes to a number of its core costs including:

- Royal Mail’s decision to renegotiate the contractual arrangements between Royal Mail and some Crown Dependencies, including Guernsey;
- increases in the costs of the company’s other suppliers particularly airlines and shipping companies; and
- changes in the company’s cost base following mechanisation.

The most significant driver is the increased charges required by Royal Mail to deliver Guernsey post in the UK and onward. Until recently the arrangement between Royal Mail and GPL has been that whilst GPL delivered all mail received from Royal Mail and Royal Mail in turn delivered all mail received from GPL, the companies did not in fact charge each other but assumed that the costs “balanced out”. This contractual arrangement was based on the assumption that the same amount of mail flows in each direction. Historically Royal Mail operated on this basis with the three postal operators in Guernsey, Jersey and the Isle of Man. However, there is in fact significantly more mail going from Guernsey to the UK than vice versa. The Royal Mail move to charge for the actual volumes of mail in each direction therefore results in significant increases in charges to GPL for the services provided by Royal Mail.

The effect of this has already been seen in Jersey who also has a similar imbalance of mail with Royal Mail. On March 31st 2003 Jersey Post introduced new postage rates comprising local mail increasing from 23p to 29p, Jersey to UK increasing from 29p to 30p and with the first weight step for all international destinations increasing by 1p. Jersey Post attributed this directly to the new contractual arrangements with Royal Mail. However GPL is subject to a different regulatory regime and any price increases for its postal services have to be assessed by the OUR.

In an industry where the incumbent is currently a monopoly and is likely to maintain a dominant position for some time, explicit price regulation is often needed in order to protect consumers’ interests. For example, in a monopoly market it is possible for the monopoly firm to act against the consumers’ interests through a variety of actions including inter alia:

- absorbing their operational inefficiencies by passing them onto consumers in the form of excessive prices in that there is no incentive to minimize costs;
- Setting prices at excessive levels in order, for example to recoup losses made through poor investment or in order to incur monopoly profits.

In the postal sector it is common practice in other jurisdictions across the world for an operator to be granted a monopoly in what is know as the “reserved area” in order to fund the provision of the universal service. Hence as a result of an explicit policy objective there is typically a segment of the postal market in which there is no competition.

In such circumstances regulators have traditionally introduced price controls to ensure that the monopolist/dominant incumbent is not passing unnecessary costs onto consumers and that certain services will continue to be delivered at affordable rates to all sectors of the community. A price control can also ensure that the regulated firm earns an adequate return on its licensed activities and those areas where there is no competition but that, at the same time, it is not unfairly cross subsidising its other activities in competitive markets from the revenue derived in areas where there is no competition

Given the status of the Guernsey postal market, the Director General believes that for the legislative and regulatory environment to sufficiently protect consumers' interests, some degree of explicit price regulation and scrutiny of GPL's activities is required.

The Director General considers that the principal criteria for determining the scope of any price control on GPL should include:

- **Protecting consumer's interests by encouraging efficiency and promoting competition wherever possible in the postal sector.** By constraining prices, GPL would be incentivised to search for efficiency improvements in order to satisfy shareholder expectations and earn a reasonable return. In this way a price control can mimic competition and both eliminate excess profits and inefficient practices.
- **Ensuring the provision of the universal service at geographically uniform and affordable tariff throughout the Bailiwick.** By constraining the prices GPL can charge or the revenues it can earn the Director General will need to consider whether doing so would adversely affect GPL's ability to provide such a universal service. The requirement of a uniform tariff may require postal services to be provided at a price below their efficient costs while the same services are provided to other customers at a price above their efficient costs.

While there are many forms of price control that can be put in place, ranging from incentive regulation such as that used in Guernsey's telecommunications market, to Profit Sharing and Rate of Return regulation as have been used in the US, the Director General is conscious that these mechanisms do not yet have a significant track record in postal services. This is due in part to the complexity of the product range and the early stage of experience in the application of price controls to postal services.

In addition, these mechanisms are designed to address a time horizon of several years and provide a smoothing of price changes. However, the Director General is conscious that GPL's postal business is facing a significant step change in its cost base arising from the new contract with Royal Mail, rather than a gradual adjustment of its cost base. Therefore the Director General considers it is more appropriate in the first instance to consider GPL's proposed tariff change application on a case by case basis.

2. Introduction

This document includes a summary of GPL's proposed tariff changes which has been received by this Office together with a description of the methodology the OUR intends to adopt in reviewing GPL's tariff change submission. The OUR is therefore inviting comments from all interested parties on both:

- GPL's proposed price changes; and
- the OUR's methodology for assessing the reasonableness of the tariff changes sought by the company.

The OUR would particularly welcome quantitative responses from interested parties that demonstrate how GPL's price changes would affect them (either as businesses or private individuals) in order to assess the impact of GPL's proposals. The Director General would therefore encourage respondents to respond fully to the issues raised by GPL's proposed tariff changes and that any material that is confidential should be put in a separate Annex and clearly marked so that it can be kept confidential.

This consultative document does not constitute legal, commercial or technical advice. The Director General is not bound by it. The consultation is without prejudice to the legal position of the Director General or her rights and duties to regulate the market generally.

3. Structure and Comments

3.1. Structure of the Consultation Paper

The rest of this paper is structured as follows:

- Section 4: Legislative and licensing background;
- Section 5: Summary of GPL's proposed tariff changes extracted from GPL's Finance Plan Tariff Submission; and
- Section 6: OUR's approach to reviewing GPL's proposals.

3.2. Comments

Interested parties are invited to submit comments in writing on the matters set out in this paper 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 19th December 2003.

All comments are welcome, but it would make the task of analysing responses easier if comments reference the relevant question numbers from this document. In line with the policy set out in Document OUR01/01 – "Regulation in Guernsey; the OUR Approach", responses will be available for inspection and, as noted in section 2, any material that is confidential should be put in a separate Annex and clearly marked so that it can be kept confidential.

The Director General regrets that she is not in a position to respond individually to the responses to this consultation, but she proposes to issue a response to the consultation early in 2004.

4. Legislative and Licensing Background

4.1. Legislation and States Directions

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 instruments¹. 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 Director General in accordance with section 9 of the Postal Law².

The Regulation of Utilities (Bailiwick of Guernsey) Law 2001 provides for the States of Guernsey to issue States Directions to the Director General 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.

In September 2001, the States issued Directions to the Director General that required the Director General 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.”*

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

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

² The Post Office (Reserved Postal Services) Order, 2001

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”.

This legislative structure provides the Director General, GPL and the States of Guernsey with a framework similar to that in neighbouring jurisdictions, within which:

- States policy can be articulated in more detail in the form of States Directions; and
- Licence conditions can be developed to provide more detail on the operation of the market.

4.2. Regulatory Framework

In exercising her functions and powers, the Director General has a duty to promote (and, where they conflict, to balance) the following objectives³:

- 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 Director General 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 to the Director General also require her:

- 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 prices⁴; 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.

4.3. Licence Conditions

GPL was awarded a licence on 1st October 2001 in accordance with States Directions and was designated by the Director General as being dominant in the market for reserved services in the Bailiwick of Guernsey⁵.

In accordance with these provisions, GPL’s Postal Licence includes the following condition 18.3:

³ The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001

⁴ States Resolutions 2001, pages 78-80 (item no 14)

⁵ Document OUR 01/16 Decisions under the Post Office (Bailiwick of Guernsey) Law 2001 – Decision Notice and Report on the Consultation Paper.

“The Director General may determine the maximum level of charges the Licensee may apply for Licensed 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 or categories of Licensed Services or any combination of Licensed 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 the determination applies.”

This condition allows the Director General to regulate the prices that a licensee charges for its licensed postal services in a way and for a time that she deems appropriate, provided the licensee has a dominant position in the relevant market.

When evaluating the scope of any price control on GPL’s activities the Director General must take into account the set of statutory objectives set out in the Regulation Law and listed in section 4.1 above.

5. GPL Summary of Proposed Tariff Changes

This section is a non-confidential extract from GPL's Tariff Application which has not been assessed by the OUR, but is included in this consultation paper as background information in order to inform interested parties of the company's rationale for seeking price increases at this time. This section also includes details of the price changes for postal services that the company is seeking to introduce in June 2004. Respondents are invited to comment on the proposed price changes in the light of the rationale provided by GPL.

INTRODUCTION

Guernsey Post has put forward a proposal to revise its postal tariffs from 1st June 2004. This will be the first review of the tariffs since 2001 (since 2000 for parcels) and follows a period of substantial increasing cost for Guernsey Post.

This tariff revision is intended to reflect:

- the impact of the significant and on-going increases of the charges from Royal Mail to Guernsey Post;
- the increase in the cost of other suppliers especially the airlines and shipping companies;
- the need to ensure sufficient funds are available to continue to invest in the maintenance and development of the postal infrastructure of the Bailiwick that underpins the social and economic prosperity and status of the islands.

At the same time Guernsey Post proposes to remove certain tariff options in a process of both:

- simplifying the range of tariffs;
- aligning the available tariffs with the underlying costs.

An explanation of the logic of the tariffs, the factors that have driven up the costs and the details of the proposed changes are detailed below.

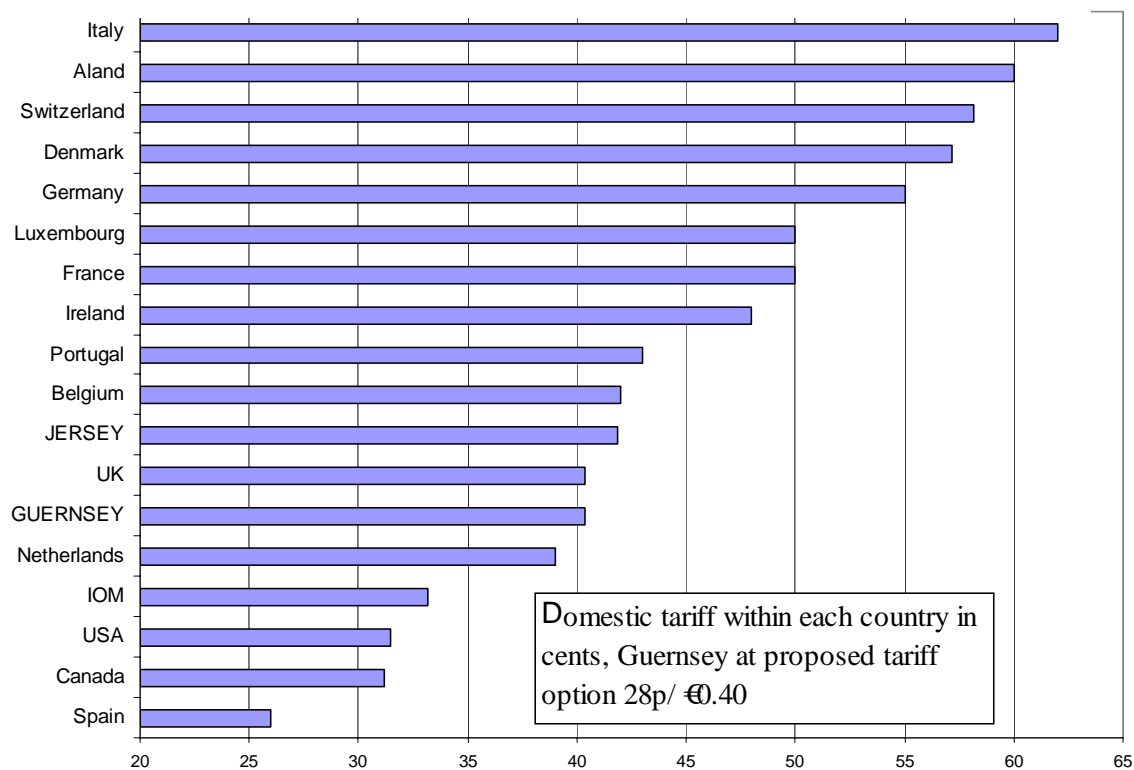
THE LOGIC OF THE TARIFF PROPOSALS

The key factors that have informed the Guernsey Post tariff structure and timing have been:

- a simplification and consistency across tariff choices that reflects the main underlying costs, which are Royal Mail's weight-based charging regime, the conveyance charges of air or sea and the cost of sorting and handling the mail by the postal staff;
- a tariff to the domestic customer that remains affordable but reflects some of the real costs of the postal service on Guernsey and increases the costs of the local operation that can be recharged to Royal Mail (the mechanism of this is explained in the section below covering the Royal Mail contract);
- maintaining a net tariff for the very high volume packet mailers (bulk mailers), who contribute significantly to the running of the services Guernsey Post provides as part of its postal operating licence;

- a tariff for the service sector business that is comparable with Jersey and UK prices.
- A comparative graph of headline standard postal tariffs demonstrates that both with Guernsey Post's main competitors but also across the major European postal administrations the proposed tariffs are competitively priced.

Graph of comparative local-to-local postal rates for basic weight priority tariff (1st class)



Currently Guernsey Post provides a range of tariffs for mailers to consider. The basis for this range derives from an accident of history and no longer has any relationship to the underlying cost implications. Furthermore such a variety of options brings confusion to the postal interface. Guernsey Post has proposed the removal of the outlying tariffs. This does not reduce the opportunity to post or service standards but does align tariffs more realistically with costs. Given that these options did provide a discount against the standard rates, their removal will create an additional increase in the postal tariff for those customers who had been both able to use them and aware of their existence.

Flower Boxes

The previous Royal Mail contract for handling and delivering Guernsey's mail posted to the UK was on a per item basis. This non-weight based charge allowed Guernsey Post to create a special volume-based tariff for the horticultural industry. However with the ending of the old contract and its replacement with a weight-based charge this 'Flower Box' tariff is no longer viable. The option now available is using the standard tariff regime and whether this results in an increase or decrease in the postal charge is entirely dependent on the weight of the contents.

International Tariffs

The simplification of tariffs for international services is intended to provide a less confusing offering to the mailer as well as addressing the non-alignment of tariffs with underlying costs. Such a simplification of tariffs has been the approach adopted across most European postal administrations in recent years.

The standard options of Airmail and Surface Mail will remain but the current Small Packet and Printed Paper tariffs will be discontinued. These options were not heavily used but provided a reduced rate to those mailers who used the service. However this price reduction did not correspond to a reduction in costs for Guernsey Post, either in handling by Guernsey Post or through international terminal dues charges from our international mails contracts.

Newspaper and periodical rates

On the same basis that the 'Flower Box' and international tariffs discounted rate are no longer reflecting costs or reduced charges for Guernsey Post, the special discount for newspapers and periodicals is planned to be discontinued as part of the revised tariff proposals.

Others

The discounts currently available for pre-sortation below 100,000 items, pre-payments of postage and exports are proposed to be discontinued as they do not reflect Guernsey Post's costs and have been subject to very little use.

The free transmission of items for the blind will not be changed by this tariff revision submission.

THE INCREASED COSTS

Royal Mail contract

Historically Guernsey Post, Jersey Post and their customer base have been the recipients of trading arrangements that have been very favorable for the Channel Islands. However that arrangement ended in April 2003 and Royal Mail has moved the terms available to the Channel Islands postal operators to a regime based on normal international postal arrangements between modern industrialised countries.

This regime is based on a charging mechanism devised by the Universal Postal Union (UPU) and is intended to provide an arrangement between posting countries that is based on the cost of delivering the mail in the recipient country at its priority rate:

- the key charging basis for handling and delivering the mail sent to country B from country A is 60% of the domestic tariff for that item in country B;
- this is subject to some detailed refining mechanisms to reflect the number of items per kilogram and minimum and maximum charges and is calculated in SDR (a weighted basket of currencies' exchange rates).

The charge that Royal Mail makes to Guernsey Post for handling and delivering the mail sent from the Bailiwick has seen a large increase because of this change:

- prior to the new arrangements Guernsey Post paid Royal Mail a low charge for each item sent to the UK and this charge did not increase with weight. The benefit of this was passed on to Guernsey Post's customers in a low local tariff and very favourable rates under the discount regimes offered;
- the new regime is more expensive because it reflects Royal Mail's domestic tariff for first class mail at 28p as its start point and then additional weight based charges apply.

Because the impact of these increases is so significant Royal Mail has agreed to move to them over a four year period, a 'glide path' of 25% from April 2003, to 50% in April 2004, to 65% in April 2005 and finally the full 100% in April 2006.

The timing of the proposed tariff increase will reflect Guernsey Post having borne 12 months of the 25% factor and 2 months at 50% which will be partially compensated by moving to 65% 10 months early.

Guernsey Post has been able to offer a subsidised low domestic tariff to the people of Guernsey. However, under the new contract the charges that could be passed on to Royal Mail for handling and delivering its post to Guernsey was restricted, to the extent that, in effect, Guernsey Post would be subsidising Royal Mail. Hence Guernsey Post has had to take the unpopular but necessary decision to propose a significant increase in the domestic tariff to avoid this subsidisation position.

Other significant cost movements

Guernsey Post has not raised its letter prices since 2001 (parcels since 2000) and in that time the inflation rate in the Bailiwick has exceeded 10%. As well as the Royal Mail charge (an increase in cost to Guernsey post of 30% in year one of the new agreement), there have been significant other elements of the cost base, outside the control of Guernsey Post, that have increased

- transportation of mail to UK, up 27%
- transportation of mail between Guernsey, Sark, Herm and Alderney, up 47%
- additional funding required into the States Pension scheme to cover actuarial funding gap

The postal operation has also seen an increase in its costs as it has undertaken the required improvements in its performance standards to meet the conditions of its licence, as the postal Universal Service operator in the Bailiwick. This has included additional postal staff resource to ensure achievement of:

- completion of all the delivery rounds before 1pm;
- quality of service standards regarding the percentages of mail reaching their destination within defined time limits.
- customer service standards

LETTERS

| weight (g) | Local to local letter rates | | Local to UK letter rates | |
|------------|-----------------------------|-----------------|--------------------------|-----------------|
| | Proposed 2004 | Current 2003 | Proposed 2004 | Current 2003 |
| | £ | £ | £ | £ |
| 60 | 0.28 | 0.22 | 0.32 | 0.27 |
| 100 | 0.28 | 0.22 | 0.46 | 0.39 |
| 150 | 0.40 | 0.32 | 0.60 | 0.51 |
| 200 | 0.52 | 0.42 | 0.74 | 0.63 |
| 250 | 0.64 | 0.52 | 0.88 | 0.75 |
| 300 | 0.76 | 0.62 | 1.02 | 0.87 |
| 350 | 0.88 | 0.72 | 1.16 | 0.99 |
| 400 | 1.00 | 0.82 | 1.30 | 1.11 |
| 450 | 1.12 | 0.92 | 1.44 | 1.23 |
| 500 | 1.24 | 1.02 | 1.58 | 1.35 |
| 550 | 1.36 | 1.12 | 1.72 | 1.47 |
| 600 | 1.48 | 1.22 | 1.86 | 1.59 |
| 650 | 1.60 | 1.32 | 2.00 | 1.71 |
| 700 | 1.72 | 1.42 | 2.14 | 1.83 |
| 750 | 1.84 | 1.52 | 2.28 | 1.95 |
| 800 | 1.96 | 1.62 | 2.42 | 2.07 |
| 850 | 2.08 | 1.72 | 2.56 | 2.19 |
| 900 | 2.20 | 1.82 | 2.70 | 2.31 |
| 950 | 2.32 | 1.92 | 2.84 | 2.43 |
| 1000 | 2.44 | 2.02 | 2.98 | 2.55 |
| per 50 g | 0.12 | 0.10 | 0.14 | 0.12 |

Straight-line pricing

The straight-line pricing mechanism, that benefits the large scale mailers by overcoming the penalty imposed by the normal pricing system where exceeding a weight-step by only a small amount can make a substantial difference in the mailing cost of thousands of items, will remain. However it will be revised to exactly align with the proposed tariff revisions at weight step of 100g and above. It will continue to provide a price paid that always is at, or below, the standard step-rate tariff for that weight.

PARCELS

| weight not over kilos | Local to local parcel rates | | Local to UK parcel rates | |
|-----------------------|-----------------------------|--------------|--------------------------|--------------|
| | Proposed 2004 | Current 2003 | Proposed 2004 | Current 2003 |
| | £ | £ | £ | £ |
| 1 | 2.40 | 2.00 | 4.10 | 3.40 |
| 2 | 2.80 | 2.30 | 5.00 | 4.10 |
| 4 | 3.50 | 2.70 | 6.80 | 6.10 |
| 6 | 4.00 | 3.30 | 8.20 | 6.80 |
| 8 | 4.50 | 3.80 | 9.50 | 7.80 |
| 10 | 5.00 | 4.50 | 10.80 | 9.00 |
| 15 | 8.25 | 6.90 | 12.60 | 10.50 |
| 20 | 10.00 | 8.30 | 14.00 | 10.50 |
| 30 (max) | 12.00 | 10.00 | 15.00 | 10.50 |
| | | | | |

SPECIAL DELIVERY TO UK

| Compensation up to £250 | Compensation up to £1,000 | Compensation up to £2,500 |
|-------------------------|---------------------------|---------------------------|
| | | |

| weight | Proposed 2004 | Current 2003 | Proposed 2004 | Current 2003 | Proposed 2004 | Current 2003 |
|-------------|---------------|--------------|---------------|--------------|---------------|--------------|
| | £ | £ | £ | £ | £ | £ |
| 100 g | 4.00 | 3.50 | 4.55 | 3.95 | 5.60 | 4.85 |
| 500 g | 4.35 | 3.80 | 4.90 | 4.25 | 5.90 | 5.15 |
| 1 kg | 5.70 | 4.95 | 6.20 | 5.40 | 7.25 | 6.30 |
| 2 kg | 7.15 | 6.20 | 7.65 | 6.65 | 8.70 | 7.55 |
| 5 kg | 13.80 | n/a | 14.33 | n/a | 15.35 | n/a |
| 10 kg (max) | 20.45 | 17.80 | 21.00 | 18.25 | 22.00 | 19.15 |

RECORDED DELIVERY

| | Proposed 2004 | Current 2003 |
|--|---------------|--------------|
| The fee for Recorded Delivery in addition to the appropriate postage | £1.00 | £0.70 |

SURFACE MAIL

| Weight (not over grams) | Proposed 2004 | Current 2003 | |
|--|--|---------------------------------------|--------------------------------------|
| | All mail (outside Europe only) £ | Letters (outside Europe only) £ | Small packets Printed papers £ |
| 20 | 0.36 | 0.36 | 0.57 |
| 60 | 0.58 | 0.58 | 0.57 |
| 100 | 0.83 | 0.83 | 0.57 |
| 150 | 1.16 | 1.16 | 0.76 |
| 200 | 1.49 | 1.49 | 0.95 |
| 250 | 1.89 | 1.89 | 1.14 |
| 300 | 2.15 | 2.15 | 1.33 |
| 350 | 2.48 | 2.48 | 1.52 |
| 400 | 2.81 | 2.81 | 1.71 |
| 450 | 3.14 | 3.14 | 1.90 |
| 500 | 3.47 | 3.47 | 2.09 |
| 550 | 3.80 | 3.80 | 2.28 |
| 600 | 4.13 | 4.13 | 2.47 |
| 650 | 4.46 | 4.46 | 2.66 |
| 700 | 4.79 | 4.79 | 2.85 |
| 750 | 5.12 | 5.12 | 3.04 |
| 800 | 5.45 | 5.45 | 3.23 |
| 850 | 5.78 | 5.78 | 3.42 |
| 900 | 6.11 | 6.11 | 3.61 |
| 950 | 6.44 | 6.44 | 3.80 |
| 1000 | 6.77 | 6.77 | 3.99 |
| Each add. 20g | 0.33 | 0.33 | 0.19 |
| Maximum weight | 5 kg | 5 kg | 5 kg |

AIRMAIL

| Weight (not over grams) | Proposed 2004 | | | Current 2003 | | |
|-------------------------------|----------------------------|-------------------------------------|-------------------------------------|----------------------------|-------------------------------------|-------------------------------------|
| | Europe (incl.Eire) £ | Rest of the World Zone 1 £ | Rest of the World Zone 2 £ | Europe (incl.Eire) £ | Rest of the World Zone 1 £ | Rest of the World Zone 2 £ |
| 10 | - | 0.45 | 0.45 | - | 0.45 | 0.45 |
| 20 | 0.36 | 0.65 | 0.65 | 0.36 | 0.65 | 0.65 |
| 40 | 0.50 | 1.00 | 1.07 | 0.50 | 1.00 | 1.07 |
| 60 | 0.65 | 1.35 | 1.49 | 0.65 | 1.35 | 1.49 |
| 80 | 0.80 | 1.70 | 1.91 | 0.80 | 1.70 | 1.91 |
| 100 | 0.95 | 2.05 | 2.33 | 0.95 | 2.05 | 2.33 |
| 120 | 1.10 | 2.40 | 2.75 | 1.10 | 2.40 | 2.75 |
| 140 | 1.25 | 2.75 | 3.17 | 1.25 | 2.75 | 3.17 |
| 160 | 1.40 | 3.10 | 3.59 | 1.40 | 3.10 | 3.59 |
| 180 | 1.55 | 3.45 | 4.01 | 1.55 | 3.45 | 4.01 |
| 200 | 1.70 | 3.80 | 4.43 | 1.70 | 3.80 | 4.43 |
| 220 | 1.85 | 4.15 | 4.85 | 1.85 | 4.15 | 4.85 |
| 240 | 2.00 | 4.50 | 5.27 | 2.00 | 4.50 | 5.27 |
| 260 | 2.15 | 4.85 | 5.69 | 2.15 | 4.85 | 5.69 |
| 280 | 2.30 | 5.20 | 6.11 | 2.30 | 5.20 | 6.11 |
| 300 | 2.45 | 5.55 | 6.53 | 2.45 | 5.55 | 6.53 |
| 320 | 2.60 | 5.90 | 6.95 | 2.60 | 5.90 | 6.95 |
| 340 | 2.75 | 6.25 | 7.37 | 2.75 | 6.25 | 7.37 |
| 360 | 2.90 | 6.60 | 7.79 | 2.90 | 6.60 | 7.79 |
| 380 | 3.05 | 6.95 | 8.21 | 3.05 | 6.95 | 8.21 |
| 400 | 3.20 | 7.30 | 8.63 | 3.20 | 7.30 | 8.63 |
| 420 | 3.35 | 7.65 | 9.05 | 3.35 | 7.65 | 9.05 |
| 440 | 3.50 | 8.00 | 9.47 | 3.50 | 8.00 | 9.47 |
| 460 | 3.65 | 8.35 | 9.89 | 3.65 | 8.35 | 9.89 |
| 480 | 3.80 | 8.70 | 10.31 | 3.80 | 8.70 | 10.31 |
| 500 | 3.95 | 9.05 | 10.73 | 3.95 | 9.05 | 10.73 |
| Each add. 20g | 0.15 | 0.35 | 0.42 | 0.15 | 0.35 | 0.42 |
| Maximum weight | 2 kg | 2 kg | 2 kg | 2 kg | 2 kg | 2 kg |

TARIFF OPTIONS NO LONGER AVAILABLE AS PART OF THE AIM TO PROVIDE A MORE SIMPLIFIED RANGE OF TARIFFS TO CUSTOMERS.

Newspapers and periodicals to UK.

Volumetric schemes to UK (i.e. Flower Boxes). These will now adopt weight based tariffs.

Airmail small packets and Airmail printed paper. These will now adopt the standard Airmail tariffs.

Surface Mail small packets and printed paper. These will now adopt the standard Surface Mail tariff.

Discounts for pre-sortation below 100,000 items, pre-payments and export will no longer be available

INTERNATIONAL PARCELS Proposed Prices 2004

| | Zone 5 | Zone 6 | Zone 7 | Zone 8 | Zone 9 | | Zone 10 | | Zone 11 | | Zone 12 | |
|----------------------|------------------------|----------------------------------|--------------------------|--------------------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | Republic of Ireland | Belgium, Netherlands, Luxembourg | France, Denmark, Germany | Italy, Spain, Portugal, Greece | Rest of Europe | | USA, Canada | | Far East, Australia | | Rest of World | |
| weight not over (kg) | International Standard | International Standard | International Standard | International Standard | International Standard | International Economy | International Standard | International Economy | International Standard | International Economy | International Standard | International Economy |
| 0.5 | 5.40 | 16.20 | 16.20 | 16.20 | 18.00 | 14.95 | 15.00 | 13.45 | 20.70 | 18.70 | 20.70 | 14.50 |
| 1.0 | 6.55 | 17.70 | 17.70 | 17.70 | 20.20 | 16.50 | 18.70 | 15.85 | 24.35 | 21.65 | 25.60 | 16.75 |
| 1.5 | 7.70 | 19.20 | 19.20 | 19.20 | 22.45 | 18.05 | 22.45 | 18.25 | 28.00 | 24.60 | 30.55 | 18.95 |
| 2.0 | 8.80 | 20.70 | 20.70 | 20.70 | 24.65 | 19.60 | 26.15 | 20.65 | 31.70 | 27.55 | 35.45 | 21.20 |
| 2.5 | 9.95 | 22.20 | 22.20 | 22.20 | 26.90 | 21.20 | 29.90 | 23.05 | 35.35 | 30.50 | 40.40 | 23.40 |
| 3.0 | 11.00 | 23.30 | 23.30 | 23.30 | 28.90 | 22.55 | 33.40 | 25.15 | 38.60 | 33.00 | 45.05 | 25.60 |
| 3.5 | 12.00 | 24.35 | 24.35 | 24.35 | 30.95 | 23.95 | 36.95 | 27.25 | 41.80 | 35.50 | 49.75 | 27.85 |
| 4.0 | 13.00 | 25.45 | 25.45 | 25.45 | 33.00 | 25.30 | 40.50 | 29.35 | 45.05 | 38.05 | 54.40 | 30.05 |
| 4.5 | 14.05 | 26.50 | 26.50 | 26.50 | 35.05 | 26.70 | 44.05 | 31.45 | 48.30 | 40.55 | 59.10 | 32.30 |
| 5.0 | 15.05 | 27.60 | 27.60 | 27.60 | 37.10 | 28.10 | 47.60 | 33.55 | 51.55 | 43.10 | 63.80 | 34.50 |
| 5.5 | 15.65 | 28.50 | 28.50 | 28.50 | 38.50 | 29.35 | 50.40 | 35.60 | 54.25 | 45.40 | 68.10 | 36.40 |
| 6.0 | 16.25 | 29.40 | 29.40 | 29.40 | 39.95 | 30.60 | 53.20 | 37.60 | 56.95 | 47.75 | 72.40 | 38.35 |
| 6.5 | 16.85 | 30.30 | 30.30 | 30.30 | 41.40 | 31.85 | 56.05 | 39.65 | 59.65 | 50.10 | 76.75 | 40.25 |
| 7.0 | 17.45 | 31.20 | 31.20 | 31.20 | 42.85 | 33.10 | 58.85 | 41.70 | 62.35 | 52.45 | 81.05 | 42.20 |
| 7.5 | 18.05 | 32.10 | 32.10 | 32.10 | 44.30 | 34.40 | 61.70 | 43.75 | 65.05 | 54.80 | 85.40 | 44.10 |
| 8.0 | 18.65 | 33.00 | 33.00 | 33.00 | 45.70 | 35.65 | 64.50 | 45.80 | 67.75 | 57.10 | 89.70 | 46.00 |
| 8.5 | 19.25 | 33.90 | 33.90 | 33.90 | 47.15 | 36.90 | 67.30 | 47.80 | 70.45 | 59.45 | 94.00 | 47.95 |
| 9.0 | 19.85 | 34.80 | 34.80 | 34.80 | 48.60 | 38.15 | 70.15 | 49.85 | 73.15 | 61.80 | 98.35 | 49.85 |
| 9.5 | 20.45 | 35.70 | 35.70 | 35.70 | 50.05 | 39.40 | 72.95 | 51.90 | 75.85 | 64.15 | 102.65 | 51.80 |
| 10.0 | 21.05 | 36.60 | 36.60 | 36.60 | 51.50 | 40.70 | 75.80 | 53.95 | 78.55 | 66.50 | 107.00 | 53.70 |
| 10.5 | 21.70 | 37.20 | 37.20 | 37.20 | 52.60 | 41.90 | 77.95 | 55.80 | 81.20 | 68.45 | 110.60 | 55.70 |
| 11.0 | 22.40 | 37.80 | 37.80 | 37.80 | 53.75 | 43.10 | 80.10 | 57.65 | 83.80 | 70.45 | 114.20 | 57.65 |
| 11.5 | 23.05 | 38.40 | 38.40 | 38.40 | 54.90 | 44.30 | 82.25 | 59.50 | 86.45 | 72.40 | 117.80 | 59.65 |
| 12.0 | 23.70 | 39.00 | 39.00 | 39.00 | 56.05 | 45.50 | 84.40 | 61.40 | 89.10 | 74.40 | 121.40 | 61.60 |
| 12.5 | 24.35 | 39.60 | 39.60 | 39.60 | 57.20 | 46.70 | 86.60 | 63.25 | 91.75 | 76.40 | 125.00 | 63.60 |
| 13.0 | 25.00 | 40.20 | 40.20 | 40.20 | 58.30 | 47.90 | 88.75 | 65.10 | 94.40 | 78.35 | 128.60 | 65.60 |
| 13.5 | 25.70 | 40.80 | 40.80 | 40.80 | 59.45 | 49.10 | 90.90 | 66.95 | 97.00 | 80.35 | 132.20 | 67.55 |
| 14.0 | 26.35 | 41.40 | 41.40 | 41.40 | 60.60 | 50.30 | 93.05 | 68.80 | 99.65 | 82.30 | 135.80 | 69.55 |
| 14.5 | 27.00 | 42.00 | 42.00 | 42.00 | 61.75 | 51.50 | 95.20 | 70.70 | 102.30 | 84.30 | 139.40 | 71.50 |
| 15.0 | 27.65 | 42.60 | 42.60 | 42.60 | 62.90 | 52.70 | 97.40 | 72.55 | 104.95 | 86.30 | 143.00 | 73.50 |
| per 0.5kg | n/a | 0.35 | 0.35 | 0.35 | 0.85 | 1.00 | 1.70 | 1.80 | 2.50 | 1.90 | 3.10 | 1.90 |

INTERNATIONAL PARCELS Current Prices 2003

| | Zone 5 | Zone 6 | Zone 7 | Zone 8 | Zone 9 | | Zone 10 | | Zone 11 | | Zone 12 | |
|----------------------|------------------------|----------------------------------|--------------------------|--------------------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | Republic of Ireland | Belgium, Netherlands, Luxembourg | France, Denmark, Germany | Italy, Spain, Portugal, Greece | Rest of Europe | | USA, Canada | | Far East, Australia | | Rest of World | |
| weight not over (kg) | International Standard | International Standard | International Standard | International Standard | International Standard | International Economy | International Standard | International Economy | International Standard | International Economy | International Standard | International Economy |
| 0.5 | 4.50 | 13.50 | 13.50 | 13.50 | 15.00 | 12.45 | 12.50 | 11.20 | 17.25 | 15.60 | 17.25 | 12.10 |
| 1.0 | 5.45 | 14.75 | 14.75 | 14.75 | 16.85 | 13.75 | 15.60 | 13.20 | 20.30 | 18.05 | 21.35 | 13.95 |
| 1.5 | 6.40 | 16.00 | 16.00 | 16.00 | 18.70 | 15.05 | 18.70 | 15.20 | 23.35 | 20.50 | 25.45 | 15.80 |
| 2.0 | 7.35 | 17.25 | 17.25 | 17.25 | 20.55 | 16.35 | 21.80 | 17.20 | 26.40 | 22.95 | 29.55 | 17.65 |
| 2.5 | 8.30 | 18.50 | 18.50 | 18.50 | 22.40 | 17.65 | 24.90 | 19.20 | 29.45 | 25.40 | 33.65 | 19.50 |
| 3.0 | 9.15 | 19.40 | 19.40 | 19.40 | 24.10 | 18.80 | 27.85 | 20.95 | 32.15 | 27.50 | 37.55 | 21.35 |
| 3.5 | 10.00 | 20.30 | 20.30 | 20.30 | 25.80 | 19.95 | 30.80 | 22.70 | 34.85 | 29.60 | 41.45 | 23.20 |
| 4.0 | 10.85 | 21.20 | 21.20 | 21.20 | 27.50 | 21.10 | 33.75 | 24.45 | 37.55 | 31.70 | 45.35 | 25.05 |
| 4.5 | 11.70 | 22.10 | 22.10 | 22.10 | 29.20 | 22.25 | 36.70 | 26.20 | 40.25 | 33.80 | 49.25 | 26.90 |
| 5.0 | 12.55 | 23.00 | 23.00 | 23.00 | 30.90 | 23.40 | 39.65 | 27.95 | 42.95 | 35.90 | 53.15 | 28.75 |
| 5.5 | 13.05 | 23.75 | 23.75 | 23.75 | 32.10 | 24.45 | 42.00 | 29.65 | 45.20 | 37.85 | 56.75 | 30.35 |
| 6.0 | 13.55 | 24.50 | 24.50 | 24.50 | 33.30 | 25.50 | 44.35 | 31.35 | 47.45 | 39.80 | 60.35 | 31.95 |
| 6.5 | 14.05 | 25.25 | 25.25 | 25.25 | 34.50 | 26.55 | 46.70 | 33.05 | 49.70 | 41.75 | 63.95 | 33.55 |
| 7.0 | 14.55 | 26.00 | 26.00 | 26.00 | 35.70 | 27.60 | 49.05 | 34.75 | 51.95 | 43.70 | 67.55 | 35.15 |
| 7.5 | 15.05 | 26.75 | 26.75 | 26.75 | 36.90 | 28.65 | 51.40 | 36.45 | 54.20 | 45.65 | 71.15 | 36.75 |
| 8.0 | 15.55 | 27.50 | 27.50 | 27.50 | 38.10 | 29.70 | 53.75 | 38.15 | 56.45 | 47.60 | 74.75 | 38.35 |
| 8.5 | 16.05 | 28.25 | 28.25 | 28.25 | 39.30 | 30.75 | 56.10 | 39.85 | 58.70 | 49.55 | 78.35 | 39.95 |
| 9.0 | 16.55 | 29.00 | 29.00 | 29.00 | 40.50 | 31.80 | 58.45 | 41.55 | 60.95 | 51.50 | 81.95 | 41.55 |
| 9.5 | 17.05 | 29.75 | 29.75 | 29.75 | 41.70 | 32.85 | 60.80 | 43.25 | 63.20 | 53.45 | 85.55 | 43.15 |
| 10.0 | 17.55 | 30.50 | 30.50 | 30.50 | 42.90 | 33.90 | 63.15 | 44.95 | 65.45 | 55.40 | 89.15 | 44.75 |
| 10.5 | 18.10 | 31.00 | 31.00 | 31.00 | 43.85 | 34.90 | 64.95 | 46.50 | 67.65 | 57.05 | 92.15 | 46.40 |
| 11.0 | 18.65 | 31.50 | 31.50 | 31.50 | 44.80 | 35.90 | 66.75 | 48.05 | 69.85 | 58.70 | 95.15 | 48.05 |
| 11.5 | 19.20 | 32.00 | 32.00 | 32.00 | 45.75 | 36.90 | 68.55 | 49.60 | 72.05 | 60.35 | 98.15 | 49.70 |
| 12.0 | 19.75 | 32.50 | 32.50 | 32.50 | 46.70 | 37.90 | 70.35 | 51.15 | 74.25 | 62.00 | 101.15 | 51.35 |
| 12.5 | 20.30 | 33.00 | 33.00 | 33.00 | 47.65 | 38.90 | 72.15 | 52.70 | 76.45 | 63.65 | 104.15 | 53.00 |
| 13.0 | 20.85 | 33.50 | 33.50 | 33.50 | 48.60 | 39.90 | 73.95 | 54.25 | 78.65 | 65.30 | 107.15 | 54.65 |
| 13.5 | 21.40 | 34.00 | 34.00 | 34.00 | 49.55 | 40.90 | 75.75 | 55.80 | 80.85 | 66.95 | 110.15 | 56.30 |
| 14.0 | 21.95 | 34.50 | 34.50 | 34.50 | 50.50 | 41.90 | 77.55 | 57.35 | 83.05 | 68.60 | 113.15 | 57.95 |
| 14.5 | 22.50 | 35.00 | 35.00 | 35.00 | 51.45 | 42.90 | 79.35 | 58.90 | 85.25 | 70.25 | 116.15 | 59.60 |
| 15.0 | 23.05 | 35.50 | 35.50 | 35.50 | 52.40 | 43.90 | 81.15 | 60.45 | 87.45 | 71.90 | 119.15 | 61.25 |
| per 0.5kg | n/a | 0.30 | 0.30 | 0.30 | 0.70 | 0.85 | 1.40 | 1.50 | 2.10 | 1.60 | 2.60 | 1.60 |

6. OUR's Approach to Reviewing Tariff Change Application

The OUR is committed to adopting a rigorous approach to assessing GPL's tariff change application, taking into account the statutory objectives set out in the Regulation Law. The OUR intends to perform its own analysis and financial/economic modelling exercise using amongst other information sources, GPL's confidential Business Plan submitted in support of the tariff changes. However in circumstances where the Director General has not been provided with sufficient information or information has not been made available to her, she may need to rely on such other sources as she considers appropriate, such as estimates and benchmarking studies. The Director General reserves the right to take all relevant information into account and to adapt the work required to finalise this matter as necessary.

GPL has developed a set of regulatory accounts which identifies the total costs and revenues attributable to individual products and services. These accounts underpin the base year cost allocations in GPL's Business Plan. As GPL has a large number of products which share common and overhead costs these have had to be apportioned across relevant products. This cost apportionment requires detailed work and in some cases subjective assumptions regarding the allocation of costs to products. Consequently a fundamental task for the OUR will be to review the allocation of these assumptions used in allocating costs across GPL's businesses. The reason for this is to ensure that the company has not disproportionately allocated costs to its monopoly activities (i.e. reserved area) and thereby propose prices that will allow the company access to revenue that can be used to cross-subsidise its products in those postal markets in which it faces competition (e.g. courier services) and its non-postal activities (e.g. fulfillment).

In addition to assessing GPL's underlying cost allocation methodology the other main activities in the review of the submission will comprise:

- establishing robust estimates of GPL's efficient asset base and capital costs in order to ensure that customers are not paying for inefficient past investments;
- assessing GPL's future capital investment programme to ensure that the capital expenditure is economically justifiable;
- reaching an objective decision regarding GPL's cost of capital to ensure that the company earns a reasonable return for its shareholder;
- obtaining the best information possible on GPL's forecast operating costs for its different services and assessing the reasonableness of any forecast efficiency savings, hence ensuring that the company is not passing on inefficient operating costs to consumers in its monopoly markets;

- assessing the reasonableness of the company's postal volume forecasts taking into account how demand may change in response to price changes; and finally
- forming a view on how the evolution of competition will impact on the GPL's revenues, costs and market share; and
- assessing GPL's provision of a universal service at geographically uniform and affordable tariff throughout the Bailiwick

The OUR's methodology therefore entails forecasting efficient operating and capital expenditure, including a reasonable rate of return, and setting prices accordingly. Consequently the OUR's determination on GPL's allowed price changes will then be set such that if GPL is managed efficiently, it can expect to cover all its costs, including the costs of its capital employed, over the period of the control.

ENDS/