

Guernsey Post Limited

Response to Consultation Paper OUR 05/10: Reviewing Guernsey Post's Quality of Service Targets

1.0 Introduction

Guernsey Post is responding formally to the Office of Utility Regulation's (OUR) consultation document OUR 05/10 to assist in its determination of the appropriate measures and targets for the Company's performance where it has a monopoly as the only postal operator holding a postal licence. Confidential information is annexed to this report at Appendices 1-3.

This feedback is based on the premise that Royal Mail will remain the main provider of services for Guernsey Post in the UK as it will take some considerable time for effective competition in mainstream services to establish itself after the liberalisation of the market in January 2006.

The Board has debated the merit of the existing measurements and targets and considered those proposed up to 2008/09 by the OUR. Additionally it has reviewed the substantial improvements made to date by the Company and has consulted with its key service provider partners.

Significant improvement in the quality of service provided by the Company has been achieved in a relatively short timeframe, as demonstrated in its 6-monthly reports submitted to the OUR and published on www.guernseypost.com since April 2004. The changes in operation that remain open for consideration now can only deliver small improvements in service and in some instances will have to be considered on a cost vs benefit basis, particularly with regard to the UK services.

2.0 Executive Summary

As the consultation document itself highlights, it was noted within the consultation on the terms of the postal provider's licence that because of the geographical constraints and the small size of the Bailiwick, a high proportion of the mail service is reliant on the input of operators outside Guernsey Post's control and consequently this factor should be borne in mind when developing service levels; a situation that is controlled by the Director General of the OUR through Postal Licence condition 14.8.

In considering the particular indicators that are relevant for Guernsey, the Director General is of the view that as over 70% of mail handled by Guernsey Post either originates or is delivered in other postal networks (primarily the Royal Mail in the UK), it is important for there to be delivery service targets for mail entering and leaving Guernsey. He adds that targets for mail to the UK are important to all business and residential users in the Bailiwick, in particular the bulk mail sector whose primary market is the UK. For these companies, reliable and timely postal services are essential requirements to allow them to compete in what is a competitive market.

The Director General also advocates that it is important, across all indicators, that Guernsey Post has incentives to ensure that it takes all reasonable steps to meet these targets.

Guernsey Post believes that it is its responsibility to give the best service possible consonant with prudent commercial practice. Thus in respect of matters over which it has complete control, it will accept, and indeed recommends, more stretching targets whilst recognising that 100% can never be achieved because of force majeure issues such as inclement weather.

Clearly, however, the situation is different in respect of the involvement of several jurisdictions. The Director General states his understanding of this position, believing it appropriate to retain the requirement for Guernsey Post to measure its performance for cross-border mail against targets. Any issues arising with respect to compliance with these targets, he says he will consider on a case-by-case basis.

As already stated, Guernsey Post is prepared to meet the highest possible standards consonant with best commercial practice. But it has to be drawn to the attention of the OUR that Royal Mail, like its Regulator Postcomm, will neither recognise nor accept targets set by a foreign Regulator. Although Guernsey Post will strive to attain whatever standards may be imposed by the Director General, it notes for the record the difficulty it has experienced in respect of the transmission and delivery of postal packets by service partners. Indeed it must be remembered that inward mail is in the control of partners until it reaches the island. Guernsey Post has no influence on the transmission of this mail, which has been collected by its partners, Royal Mail and Jersey Post, from their customers who selected their services with their service standards.

Without formal recognition of Guernsey Post's targets by its partners and their regulatory authorities, it is difficult for the Company to apply pressure for improvement successfully. Guernsey Post contends that this is an important matter that regulatory bodies themselves must resolve.

Additionally, given the anticipated changes in the postal markets both in the UK and Jersey in the next two to three years, Guernsey Post advocates that targets as appropriate are set to 2007/08 only and reviewed in that year, concurrent with the proposed tariff review, to determine if there continues to be opportunity for improvement or if the ceiling on the maximum for the network has been consistently achieved. The Company is undertaking further work on this latter point.

Finally, and further exploring the matter of network potential, the Company stresses that it measures actual customer experience rather than a percentage achievement of the theoretical maximum potential that a network can provide. In other words, a higher percentage figure can be achieved by measuring success against actual network potential but this does not reflect the customer experience, which is the reason that these targets and procedures for measuring them exist. Guernsey Post does not recommend a change in the measurement system but would support improved co-ordinated publicity with the OUR to ensure that postal users understand that 100% is not achievable as there is fall back due to network limitations.

In summary, Guernsey Post advocates as key principles in the determination of targets that:

- it must continue to measure and report actual customer experience rather than a percentage achieved against the maximum potential of a network, but should also strive, with the OUR, to inform customers of the difference;
- measures and targets should be determined up to 2007/08 only;
- it will accept cross-border targets against which to report performance but cannot accept the logic of imposing sanctions, as it cannot achieve recognition of the targets by the partner service providers or their regulators;
- Regulators should agree and set cross border targets that their licensees must recognise through their individual licence conditions.

Summary Table

Guernsey Post's proposed targets for 2005-08

Target	2005/06	2006/07	2007/08	2008/09
Intra Bailiwick J+1	94%	95%	95%	95%
Intra Bailiwick J+3	99%	99%	99%	99%
Jsy to Bailiwick mail J+1	80%	82%	82%	82%
Jsy to Bailiwick mail J+4	99%	99%	99%	99%
UK to Bailiwick mail J+1	75%	78%	80%	80%
UK to Bailiwick mail J+4	99%	99%	99%	99%
Bailiwick to Jsy mail J+1	80%	80%	80%	80%
Bailiwick to Jsy mail J+4	99%	99%	99%	99%
Bailiwick to UK mail J+1	75%	78%	80%	80%
Bailiwick to UK mail J+4	99%	99%	99%	99%
Bulk mail	individual	targets	per mailer	in SLA
Inward Mail				
1st Class mail (D_i+0)	97%	98%	99%	99%
1st Class mail (D_i+1)	99%	99%	99%	99%
2nd Class mail (D_i+0)	97%	98%	99%	99%
Mailsort 1 & Presstream 1 (D_i+0)	97%	98%	99%	99%
Mailsort 2 and Presstream 2 (D_i+3)	99%	99%	99%	99%
Mailsort 3 (D_i+7)	99%	99%	99%	99%
Outward Mail *				
All mail (D_o+0)	97%	98%	99%	99%
Customer KPIs				
Monitored numerically but not targeted				

* remains as an internal measure of transit to harbour or airport and not the network measure of its departure from that point which is reflected in the end-to-end measures and targets.

3.0 QoS 1 End-to-end

3.1 Intra-Bailiwick

OUR Proposed Intra Bailiwick Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	93%	94%	95%	95%
J+3	99%	99%	99%	99%

Whilst the Company cannot accept unrealistic targets for cross-border mail, it does demand very high standards of itself. It therefore believes it should challenge itself further with regard to intra-bailiwick quality.

Achievement of this target is affected by both inclement weather in the case of Alderney and Sark and also the relatively small sample size upon which the figures are produced, which can lead to significant monthly deviation. The performance has improved steadily from around 80% at commercialisation to monthly peaks of around 95% recently.

This mail is all within the responsibility and control of Guernsey Post and its transport providers contracted to provide specific services. It believes that the improvement in performance over the last year is supported by a reliable and robust operation. The Company therefore recommends an increase in the target for 2005/6 to 94% with a ceiling at 95% from 2006/07 given the limitations of the network described above.

Whilst stretching, a tail of the mail target of 99% J+3 is considered appropriate but Guernsey Post stresses that this is subject to the correct presentation and addressing of mail.

GPL Proposed Intra Bailiwick Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	94%	95%	95%	95%
J+3	99%	99%	99%	99%

3.2 Jersey to Bailiwick mail

OUR Proposed Jersey to Bailiwick Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	80%	82%	84%	85%
J+4	99%	99%	99%	99%

Whilst supporting the use of targets to drive improvement there will be a recurring theme in these comments, namely the limitations on the ability of Guernsey Post to affect improvements in other postal authorities' networks (thre mail is not in Guernsey Post's control until it is in the island) and the reasonableness of sanctions for failure on cross-border mail.

Jersey, although a very small partner in terms of flow of mail (ie: 1% of total mail in each direction), has a natural prominence in customers' minds.

It is Guernsey Post's view that there is no reason that a target in the region of 85% or even 90% (taking into account fog etc) should not be achievable in both directions by 2008/09.

Jersey Post adopted for 2004/5 the Guernsey Post regulatory quality targets for 2003/04. In effect it means that Jersey Post's target for 2004/5 is 60% compared with the Guernsey Post target of 75%. Whilst demonstrating the difficulties in cross-border target harmonisation, this is a positive move and should help improve the performance of this mail flow (given that Jersey Post had no targets previously).

Jersey Post has helpfully and in confidence shared its proposed J+1 targets for 2005 that have yet to be agreed by its Government Committee (Appendix 1). These are most encouraging for customers across both islands and achieve the OUR proposed targets until 2006/07 although Jersey Post does not propose, at this time, to set itself J+3 or J+4 tail of the mail targets.

Its targets are, however, subject to review and consultation by its Regulator after incorporation and therefore it is difficult to agree robust targets beyond 2006/07 at this time. Notwithstanding this, Guernsey Post has recommended targets for 2007/08.

Guernsey Post therefore accepts the revised 2005/06 and 2006/07 targets as presented by the OUR for J+1 mail and believes that its network and that of its service provider partner Jersey Post can achieve either of the tail of the mail targets.

However, Guernsey Post contends that with measurement systems yet to be independently reviewed by the Jersey Regulator and no publicly available data on quality, there are still significant issues to resolve to support the robust, reliable and consistent measurement and reporting of these cross-border

targets. This is a matter that the OUR should take up with the Jersey Competition and Regulatory Authority (JCRA) as the de facto purchasers of postal services and their quality standards in their respective jurisdictions. Indeed with postal regulation starting formally in Jersey on 1st June 2005, Guernsey Post would support joint regulatory targets, measurement and reporting systems across the operators promoted by the OUR and JCRA.

Jersey Post is responding directly to the OUR consultation in addition to its discussions with Guernsey Post.

GPL Proposed Jersey to Bailiwick Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	80%	82%	82%	82%
J+4	99%	99%	99%	99%

3.3 UK to Bailiwick

OUR Proposed UK to Bailiwick Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	82%	83%	84%	85%
J+4	99%	99%	99%	99%

The network review introduced by Royal Mail in January 2004 showed how difficult it is to influence a major postal authority as a small customer. It is only because Guernsey Post refused to accept the re-timing of its chartered mail plane that the drop in performance was contained and corrective action and mail re-routing allowed Guernsey Post to recover and continue the improvement in quality that it had begun. (Royal Mail had told the contractors to change the timings notwithstanding that the contract was with Guernsey Post and not Royal Mail).

Not all posted mail in the UK can connect to this flight so there is unavoidable failure even if all other connections are achieved. Given that Royal Mail has to assemble all Guernsey-bound traffic from the UK into Bournemouth (at the extreme south of its range) for onward transportation, a 75% J+1 service is about the maximum that currently can be achieved on a 12-month rolling average although it should be highlighted that spot months may achieve higher results.

A quality of service improvement of twelve percentage points year-on-year as required through the proposed glide path for 2004/5 to 2005/6 is not possible without large cost increases. This could only be achieved through the introduction of an additional mail charter entering the Royal Mail network in

northern England that, following a review of the Guernsey Post transport network, would not currently be cost-effective because it would simply be splitting the same load of mail on two planes.

Guernsey Post therefore contends that the targets for 2005/06 and 2006/07 should be 75% and 78% respectively. Current performance would indicate that 80% will be exceptionally stretching for 2007/08.

Again Guernsey Post stresses that it cannot take responsibility for a partner and that these targets should not have sanctions applied for failure by that third party, especially since mail collected by Royal Mail for transmission to the Bailiwick is the responsibility of Royal Mail until it reaches Guernsey, and cannot be directed to a competitor by Guernsey Post. Indeed the OUR is aware of the options in contractual terms available to Guernsey Post and therefore is well informed on this matter.

Furthermore neither Postcomm nor Royal Mail set targets for UK to Bailiwick mail and in response to Guernsey Post's consultation directly with Royal Mail on the OUR consultation OUR05/10, it was again advised in writing that Royal Mail does not recognise any current or future targets set by the OUR. Further it is Royal Mail's view that the OUR does not have the legal powers to set such targets or to impose any sanctions for failure to achieve them (letter attached at Appendix 2).

Royal Mail also indicated that it would respond directly to the OUR on its consultation.

GPL Proposed UK to Bailiwick Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	75%	78%	80%	80%
J+4	99%	99%	99%	99%

3.4 Bailiwick to Jersey

OUR Proposed Bailiwick to Jersey Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	80%	85%	88%	90%
J+4	99%	99%	99%	99%

As set out in paragraph 3.2, Guernsey Post cannot enforce the OUR targets in Jersey.

Notwithstanding that Jersey Post's proposed J+1 targets for 2005 that have yet to be agreed by its Government Committee, they only meet the OUR proposed targets for 2005/06 and Jersey Post does not propose, at this time, to set itself J+3 or J+4 tail of the mail targets.

These targets are also subject to review and consultation by its Regulator after incorporation although its published work programme does not indicate that this work will commence this calendar year. Guernsey Post again urges the OUR to raise the matter of harmonised cross-border targets with the JCRA and to encourage it to expedite its review of service targets.

Guernsey Post accepts the revised OUR 2005/06 target for J+1 mail which at this time it contends must remain in force for 2007/08. It believes that its network and that of its service provider partner, Jersey Post, can achieve either of the tail of the mail targets.

Jersey Post is responding directly to the OUR consultation in addition to its discussions with Guernsey Post.

GPL Proposed Bailiwick to Jersey Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	80%	80%	80%	80%
J+4	99%	99%	99%	99%

3.5 Bailiwick to UK

OUR Proposed Bailiwick to UK Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	80%	82%	84%	85%
J+4	99%	99%	99%	99%

The Company is currently investigating the maximum quality of service potential from the existing network for mail to the UK and will provide further information on this to the OURT shortly.

For the present, Guernsey Post proposes that 75% is a more reasonable target on a 12-month rolling average for 2005/06 based on current performance and 78% will be demanding for 2006/07. Current performance would also indicate that 80% will be exceptionally stretching for 2007/08. However the UK network study now in progress will provide much needed current, accurate information in this regard for both Guernsey Post and the OUR.

Again the Company re-inforces that neither Postcomm nor Royal Mail set or accept targets for Bailiwick to UK mail.

As regards the tail of the mail measure, given the size and complexity of the Royal Mail network Guernsey Post believes that it is in the best interests of the customers that the actual J+4 measurement of customer experience is monitored. In either case, J+3 or J+4, the Company does not accept sanctions for failure of the targets and therefore contends that it is of greater benefit for the customer to ensure compliance with a higher target for J+4 than a lower target for J+3.

GPL Proposed Bailiwick to UK Mail Targets

J+n	2005/06	2006/07	2007/08	2008/09
J+1	75%	78%	80%	78%
J+4	99%	99%	99%	99%

3.6 Bulk mail

The OUR has not specified targets for this sector of Guernsey Post business, instead it provided three options on the way forward and invited the Company and its key customers to comment. The options as specified in the consultation document are:

- ◆ Option 1 - continuation of the existing targets (i.e. a single measure for sorted and unsorted mail) modified to reflect the mix of unsorted and sorted mail;

- ◆ Option 2 – the introduction of two new generic targets for sorted and unsorted mail; and
- ◆ Option 3 – the introduction of individual QoS targets for each bulk mailer in the form of Service Level Agreements reflecting the degree of sortation by the bulk mailer.

Royal Mail and Guernsey Post continue to discuss presentation and sortation issues. Until an agreed and stable network is in place it is very difficult to calculate to any degree of accuracy what a fair and stretching target regime should be, particularly as Royal Mail's office closure programme keeps changing.

The OUR has already determined the target for this segment (unweighted, unsorted and sorted mail) until 30th September 2005. Guernsey Post has advised Royal Mail in writing of the details of the Direction and is formally seeking details of what improvements it is implementing to restore service for this traffic. Copies of these communications are at Appendix 3.

However from October 2005 the matter becomes more complex. Guernsey Post has already highlighted the need to review the sector to meet customer needs for a mix of pre-sorted and unsorted mail products.

The Company has already indicated to the OUR and its key customers that it is working to improve the quality of service measurement system that supports this target and to improve its transparency through weighting the sampling and presenting the data for pre-sorted and un-sorted mail separately.

Setting targets for these two segments is not readily achievable at this time with negotiations on-going with potential suppliers, new options on the table with regard to independent quality measurement systems and compensation linked to targets also under consideration.

From April 2006, however, the situation is complicated yet further by the possible introduction of new products as a result of the tariff submission and determination process later this year. These products are being developed to satisfy the needs of the growing customer base and seek to best utilise the expanding market of suppliers in the UK. The product specifications with service standards, proposed tariffs and quality targets should all be available within the tariff submission to be made by 1st August 2005 and until this work is complete Guernsey Post cannot inform the quality of service consultation process more fully.

In light of this, the Company believes that the best course of action is option 3 within the OUR proposals as it can easily be incorporated into the supplier/customer contracts that Guernsey Post is currently finalising. These will be introduced no later than 1 April 2006 in support of new tariffs and terms and conditions of trade.

4.0 QoS2 Internal Measures

Guernsey Post has established systems to record against a range of internal measures and is performing to a very high standard. These measures and the reporting against them will continue regardless of their regulatory status.

The new internal targets proposed by the OUR are detailed below and are accepted by Guernsey Post with the exception of the outward mail target.

Inward Mail	2005/06	2006/07	2007/08	2008/09
1st Class mail (D_i+0)	97%	98%	99%	99%
1st Class mail (D_i+1)	99%	99%	99%	99%
2nd Class mail (D_i+0)	97%	98%	99%	99%
Mailsort 1 & Presstream 1 (D_i+0)	97%	98%	99%	99%
Mailsort 2 and Presstream 2 (D_i+3)	99%	99%	99%	99%
Mailsort 3 (D_i+7)	99%	99%	99%	99%
Outward Mail				
All mail (D_o+0)	97%	98%	99%	99%

As stated in the OUR consultation document, the internal efficiency measures that are based on Guernsey Post's internal management information systems are useful in identifying where any delays in inter jurisdiction mail traffic are occurring. The Director General therefore considers it appropriate to maintain internal efficiency measures which are based on the Company's internal management information systems.

However Guernsey Post contends that on transfer at either the airport or harbour, the mail is now within the network. The proposed change in this measure removes it from an internal efficiency measure concentrating on "under roof" activity, to a network measure where failure is reflected through a drop in the end-to-end measurements identified in QoS1 (section 3.0). Effectively Guernsey Post is penalised twice. This cannot be reasonable.

Guernsey Post does however recognise the need to report these incidents. It therefore advocates that the measure remain unchanged, the more stretching target introduced and that it should report such incidents in its 6-monthly quality reports, which are published on www.guernseypost.com.

It would also remind the Director General that as he indicated in his consultation document, the Company is very open about such failures and makes the information easily available in real time by telephone or internet for any customer wishing to monitor the transportation of mail.

5.0 QoS 3 Customer KPIs

Again Guernsey Post has established systems to record against a range of customer KPIs as described in detail in its Customer Charter and it is performing to a very high standard. These measures and the public reporting against them will continue regardless of their regulatory status.

Guernsey Post believes that the reporting requirements through its Customer Charter ensures that its customers are kept well informed on the Company's performance on such key indicators.

The nature of some of the measures, such as acknowledgements of letters etc, results in misleading statistics; a single one-day delay to one acknowledgement can adversely and unreasonably affect the monthly result because the level of complaints received now is very much lower than when the targets and reporting mechanisms were introduced in 2003. For example, in March 2005 only 39 written complaints were received and just one was not acknowledged within 2 working days. On a percentage basis, this translates to 2.6% failure rate: such disproportionate presentation of the data is unreasonable and this should be addressed now at a time of general review.

The Director General is aware that these KPI measures are actively used within the Company to stimulate the correct 'behaviours' through a balanced scorecard approach to business monitoring and staff motivation and Guernsey Post believes that the end game is being achieved as illustrated above. These KPIs are valuable measures but the statistics must keep their validity, they must make sense and they must represent the data accurately. Clearly this is not the case currently.

As the Director General has the power through the Postal Licence to take action on Guernsey Post should there be significant failure, the Company contends that as the Director General is monitoring specific customer KPIs without targets, he should be prepared to monitor them all in the same fashion, that is numerically and without targets, particularly now that service standards have improved significantly and corresponding complaint levels have fallen.

6.0 Conclusion

Guernsey Post concurs with the Director General's comments with regard to the importance of being able to demonstrate the level of quality customers receive, but especially so in a market where there is a monopoly operator and upon whom most customers are solely relying. In almost all cases quality of service has now improved since the introduction of targets in 2003. And importantly, Guernsey Post is now positioned to demonstrate the degree to which it is in compliance with its USO requirements.

The Company recognises that the competitiveness of the Bailiwick is in part dependant upon the reliability of the postal service and furthermore that customers are entitled to know that they are getting what they pay for.

However this has to be balanced with an understanding of what is achievable and in the knowledge of its cost.

Guernsey Post advocates as key principles in the determination of targets that:

- it must continue to measure and report actual customer experience rather than a percentage achieved against the maximum potential of a network, but should also strive, with the OUR, to inform customers of the difference;
- measures and targets should be determined up to 2007/08 only;
- it will accept cross-border targets against which to report performance but cannot accept the logic of imposing sanctions, as it cannot achieve recognition of the targets by the partner service providers or their regulators;
- Regulators should agree and set cross border targets that their licensees must recognise through their individual licence conditions.

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