



Office of Utility Regulation

Guernsey Post's Tariff Changes

Report on the Consultation and Decision Notice

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1. Introduction

In August 2005, The Director General of Utility Regulation (“DG”) received an application for tariff changes from Guernsey Post Limited (“GPL”). GPL applied to revise its postal tariffs with effect from 1st April 2006. Its proposals sought to change tariffs across a variety of products and services including letter, parcels and for charges applied to Bulk Mail services. In September 2005, the OUR published a consultation on the company’s proposals (OUR 05/22) and invited comments from interested parties on the proposals. In addition, GPL published on its website details of the proposals.

In assessing the application for tariff changes, the DG is mindful of number of external changes that are currently taking place in the UK which, given the importance of the relationship with the UK for handling of the Bailiwick’s mail, have the potential to impact significantly upon postal services in Guernsey. Included among those changes are the accelerated introduction of full competition to the UK market which will now be fully opened from 2006 and the proposed changes to the charging structure which Royal Mail intends to apply from August 2006 (known as Pricing in Proportion –“PiP”).

Since the submission of the tariff application by GPL and the consultation on the proposed tariff changes, GPL and RM have continued their discussions on a number of important elements of the commercial contract between the two parties which impact particularly upon Bulk Mailers. GPL has submitted additional material to the OUR including amended pricing proposals. In light of this, the OUR is continuing its review of this information and is therefore delaying its decision on Bulk Mail tariffs at this time. As a result the DG is not at this time in a position to make a final decision on the price control for bulk mail services. However work is continuing with GPL with a view to finalizing this element of the price control at the earliest possible opportunity.

Therefore this decision sets out the DG’s position on:

- Letter and parcel tariffs; and
- the level of service that constitutes the USO and the possible review by the States of its Direction to the OUR on this issue.

In arriving at this determination the DG has looked to achieve a balance between a range of competing interests. Among those are ordinary postal users who mainly purchase stamps and or send one-off parcels through the post, business users, Bulk Mailers – for whom the postal service is a very important component of their business – and GPL itself which needs to ensure that it remains financially sustainable to meet the islands’ needs now and in the future.

The DG would like to thank all parties who have responded to this consultation but in particular the Bulk Mail sector, many of whom have provided significant amount of information and time to the OUR in assisting the Office with our assessment of the company’s proposals. As mentioned already Bulk Mail tariffs will now be dealt with separate to this decision.

This decision highlights that further consideration may now need to be given to the level of service that the States expects from its postal service provider. Among the issues highlighted by the work on this tariff application is the need to consider the scope of the Universal Service Obligation (“USO”). The USO is defined by the States of Guernsey and it sets out the level and range of services GPL is required to provide. This issue is addressed in more detail in Section 8.

This level of the USO was determined in September 2001 prior to the commercialisation of GPL. It had always been intended that it might be appropriate to review the USO after a period of experience with it in operation. Significant changes have occurred to the finances of GPL since then, with the introduction of a more commercial relationship between GPL and Royal Mail. This has significantly impacted upon GPL’s ability to provide the local mail services at the rates which have historically been experienced.

The OUR believes that it is now the correct time to consider the USO and whether it remains appropriate for Guernsey and whether the costs associated with its provision at its current levels can still be met while protecting postal users from higher tariffs. The OUR intends to commence discussions with interested parties on these issues at the earliest opportunity to enable the States to consider whether it wishes to make any change to the current USO. Any revision of the USO will then be incorporated into the OUR’s consideration of any future price control.

The new tariffs determined in this decision will take effect from 1st April 2006.

2. Structure and Comments

2.1. Structure of the Decision Notice

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: provides some background information on developments in GPL's commercial environment;
- Section 5: summarises the responses received from interested parties to the consultation and the DG's consideration of the points raised;
- Section 6 describes the DG's position on certain issues in coming to a decision on GPL's tariff application;
- Section 7 sets out the DG's decision on GPL's price controlled services;
- Section 8 raises some of the key issues relating to the Bailiwick's universal postal service; and
- Section 9 sets out the next steps in finalising the remaining price control work.
- Annex A contains the DG's determination of GPL's price control.

2.2. Comments

The invitation to comment on the tariff proposals set out in 05/22 was taken up by thirteen parties:

Mr R Bisson
EA Carey (Europe) Ltd ("EA Carey");
Guernsey Bulk Mailers Association ("GBMA");
Guernsey Colour Laboratories Ltd ("GCL");
Guernsey Flowers Limited ("GFL");
Guernsey Post Ltd ("GPL");
Healthspan;
HealthyDirect;
MX2;
PostWatch Guernsey;
Rainbow Flowers;
Regency Fulfilment; and
Thompson & Morgan (Young Plants) Limited; and

The DG wishes to thank those who have responded to this consultation paper for their contributions. In accordance with the OUR's policy on consultation set out in Document OUR 04/01 – "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 Offices during normal working hours.

3. Legislative and Licensing Background

3.1. 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 DG 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 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.

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 (“USO”) 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 service, and shall review and revise the reserved

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

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

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”.

3.2. Regulatory Framework

In exercising his functions and powers, the DG 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 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 to the DG also require him:

- 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.

3.3. Licence Conditions

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

Condition 18 of GPL’s licence was amended in 2005 to allow for the DG to price control GPL’s USO services (outside the reserved area) where it has been found by the DG to be dominant.

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.

Therefore 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. USO postal services provided at a price of more than £1.35 are not reserved exclusively to GPL and therefore other operators can compete and provide such services.

3.4. Findings of Dominance

In November 2005, following a consultation on dominance in the postal sector in Guernsey, the DG issued a determination finding GPL dominant in the following markets:

- The market for regular letter and parcel postal services
- The market for priority (SD) letter and parcel services
- The market for outbound bulk mail services

The DG intends to therefore control the prices charged for services in these markets for so long as GPL is the dominant operator.

4. The Postal Market

In OUR 05/22 the DG set out in some detail the commercial and regulatory developments that are currently taking place, in particular in the UK. Among the changes which will impact upon the postal market in Guernsey are changes by Royal Mail to its pricing structure (it plans to move to Pricing in Proportion (“PiP”) from August 2006) and the decision by Postcomm (the UK postal regulator) to accelerate the liberalization of the market in full in the UK which will now take effect from 1st January 2006.

For the current price control period, it is unlikely that GPL will be in a position to take advantage of the new competitors to Royal Mail, it is envisaged that for future years GPL will have realistic alternatives for the onward handling of the Bailiwick’s post.

The original consultation paper contained more detailed information on the commercial and regulatory changes taking place in order to help interested parties more fully understand the impact of those changes on GPL.

Figure 1 Developments in the UK Postal Market



5. Summary of Responses

The DG is grateful for the efforts of respondents in providing detailed information to assist the OUR in undertaking this assessment of GPL's tariff application. The list of respondents is published in section 2 of this decision. Responses essentially fell into two broad categories; those representing ordinary postal users and those representing bulk mail users.

5.1. *Bulk Mail service users*

Comments received from bulk mailers can chiefly be divided into seven categories:

- **Tariff levels.** The proposed price increases are too high for Guernsey bulk mailers to afford. As they stand, the proposed price increases will make Guernsey bulk mail businesses much less competitive and will prevent them from expanding into other markets.
- **Cost basis.** The proposed price increases do not reflect either the cost to GPL of providing the service or the price increases proposed by Royal Mail for mail from Guernsey. Tariffs should be transparently cost-based, and this should include appropriate discounts for pre-sorting.
- **Cross-subsidisation of other services.** It was suggested that GPL should not use bulk-mail revenues to cross-subsidise its letter and parcel services. It was felt that the proposed bulk-mail tariffs would further exacerbate the current (and, it was felt, unjustified) situation in which respondents believe USO prices are kept artificially low to the detriment of bulk mailers.
- **GPL efficiency.** GPL should improve its own efficiency in order to mitigate the effects of any price rises enforced by Royal Mail. Several bulk mailers suggested that GPL itself could improve its performance, both through efficiency savings and through offering more appropriate services, to mitigate the impact of the revenue increases sought by Royal Mail.
- **GPL discount structure.** The discount bands proposed by GPL do not properly reflect the cost savings brought by either high-spend or high-throughput customers. Furthermore, the new tariffs offer discounts for pre-sorted mail but no facilities for those bulk mailers who have no capacity for doing this themselves.
- **Service levels,** including those from the Royal Mail, are currently too variable and this needs to be addressed through properly-negotiated service level agreements. This would also help some bulk mailers reduce their costs through offering a choice of service levels to bulk mailers with non-time-dependent products.
- **GPL-Royal Mail contract.** The incomplete negotiations between GPL and Royal Mail are a source of uncertainty. It was suggested that GPL could not

reasonably propose to set bulk-mail prices before these negotiations are concluded. Furthermore, it was suggested that GPL should be adopting Pricing-in-Proportion, to reflect the proposed future tariff basis to be introduced by Royal Mail. It was also suggested that GPL's proposed prices do not reflect analogous Royal Mail prices in the UK

While the DG notes that certain of the issues raised by bulk mail users impact on the level of tariffs for stamp prices, the DG proposes to consider these in more depth when a decision on Bulk Mail tariffs is made. The DG is also grateful for the large volume of confidential information which Bulk Mailers have provided to assist the DG more fully consider GPL's tariff application.

5.2. Residential Users

There were two submissions in response to the consultation made on behalf of ordinary postal users, one from PostWatch Guernsey and the other from Mr Roy Bisson. Among the points raised in these two responses were the following:

- GPL should be ensured that the separate components of its business should be self-financing. This should include the provision of the USO service in the Bailiwick.
- GPL should seek to agree well-enforced service levels with Royal Mail. In addition, GPL's own service quality should be improved if stamp prices are to go up. In order to mitigate the effects of price rises in the letter and parcel services, GPL should also provide a second-class service (including one to the UK, negotiated with Royal Mail).
- Business customers should be provided with a PPI metered mail option.
- GPL should look to new revenue-generating opportunities.
- Concessions, such as Christmas discounts, are increasingly important in the light of price rises.

The DG has considered the points raised above. The OUR agrees that the discounted Christmas tariff is indeed a very important issue for ordinary postal users. The OUR is aware from research undertaken in the UK that nearly 50% of post sent by ordinary postal users is sent at this time. The DG has no reason to believe that the use of the postal service in Guernsey varies to any great extent from the UK and therefore any initiatives which helps reduce the cost to postal user at this time has a significant effect in mitigating the impact on postal users total spend on post in any one year. The OUR estimates that the discounted Christmas Post in 2003 and 2004 resulted in savings of approximately £120,000 for GPL customers. The DG notes that while this is a commercial decision for the company, he understands that the impact at an operational level has also been very positive for GPL and the DG would welcome its retention.

The issue of the financing of the various parts of GPL's business is a concern shared by bulk mail customers. The more normal commercial relationship that now exists

between GPL and Royal Mail has focused attention on this issue much more than perhaps in the past and the continuing change to this commercial relationship makes the need for cost-reflective tariffs all the more important.

However there is a trade-off to be made here. Currently the Postal Law makes provision for a level of cross-subsidy to exist to ensure that postal users in all geographic areas are provided with the same level of service at a standard uniform tariff (this is essentially the USO). The Reserved Area – within which GPL has a monopoly – is designed to provide GPL with the resources to enable it to provide this service. It is likely that in the absence of such a requirement a postal operator with a commercial mandate would seek to adjust the service level to allow it cover the costs associated with such a service. Therefore the issues identified in section 8 on the USO will have a bearing on the degree to which the level of the USO continues to be correct for Guernsey.

The issue of quality of service (QoS) has been an area where the OUR has been heavily involved since 2003. The OUR imposed a number of quality of service targets on GPL at that time for a range of services, both for local and off-island mail. Again, as with the USO, there is an issue of cost which is directly linked to the quality of service that is provided.

The OUR has set targets which are, in the DG's view, reflective of the levels of service that should be provided but which do not unduly impact upon the tariffs that customers are required to pay. An increase in the level of quality of service required may result in higher costs being incurred in order to achieve those targets. The most recent quality of service information provided by GPL to the OUR shows that the level of service continues to improve and targets are now being met in 18 of 23 areas (increased from 16 out of 23 in 2004). GPL's QoS report will be available in full from the company shortly.

Linked to QoS for GPL is clearly the level of service it gets from Royal Mail and Jersey Post. The OUR is aware that GPL is discussing these issues with both operators and will continue to monitor the level of service being provided going forward.

The provision of new services by GPL is in the first instance a matter for the Management and Board of GPL. This includes such services as PPI metered mail, second class mail and new revenue-generating opportunities. The DG is aware that postal operators in other jurisdictions are increasingly looking to consider new services, outside of the traditional postal service, in order to help finance the overall postal operation. In particular services which can help increase foot-traffic through post offices or maximize counter space are all increasingly being considered by postal operators.

The only regulatory issues which may arise from such use would only occur if the postal operator was seeking to use postal tariffs to fund what essentially may be non-core activities. However the DG does not believe that this should deter GPL from investigating such services where it believes a business case exists for the service.

6. GPL Price Control

The following section looks in detail at the DG's determination of the price control for standard retail prices that will apply to GPL from 1st April 2006.

6.1. Rationale, Form and Structure of Price control

The DG believed setting prices for a one year period as requested by GPL to be appropriate. The introduction of competition from 1st January 2006 in the UK should, in time, present GPL with realistic alternatives to Royal Mail for the provision of postal services in the UK and to international destinations. Therefore, the tariff changes now being approved by the DG will commence on 1st April 2006 and will remain in place until a further review of pricing is undertaken. At this time it is proposed that a further review of pricing will be undertaken in late 2006 with a view to confirming any revisions to it for implementation in April 2007.

The consultation paper (OUR 05/22) set out the DG's rationale for a price control on GPL, the proposed form and structure of that price control and the OUR's proposed approach to assessing GPL's tariff application. Respondents were generally supportive of the DG's approach on these issues.

Accordingly, the DG will control GPL's tariffs as provided for in this decision for a further period from 1st April 2006. The maximum tariffs that GPL can charge for the services listed is set out in Annex A.

6.2. Assessment of the proposed prices

The OUR has looked at the costs estimated by GPL for its letter and parcel services, using a comparison of GPL's business plan models for both the 2004 and 2006 price control exercises.

The comparison looked at expected revenues (including the effect that a change in the mix of letters and parcels between the two models); and operating and capital costs (including GPL's attribution methodology and the change in Royal Mail charges). The assessment (which is commercially sensitive) concluded that, on balance, the prices suggested in their tariff submission are reasonably in line with these costs. For this reason, the DG believes that it is appropriate to allow the full proposed increases in stamp tariffs on regular letter and parcel services.

6.3. Review of Bulk Mail tariffs

GPL has yet to conclude its contract negotiations with Royal Mail for the handling of the Bailiwick's Mail in the UK. In addition, the OUR understands that the basis on which the terms in this contract are to be calculated has changed since GPL's original price control submission. For these reasons, the DG believes that a number of important components that impact upon the tariffs for Bulk Mailers remain too unresolved at this time for it to be possible to set prices for these services for customers in the Bailiwick.

The DG proposes, therefore, to conclude his review of stamp prices and to continue his review of bulk mail tariffs separately with GPL. While the DG regrets that this results in continuing uncertainty for such businesses, he believes it is in the best interest of the sector at this time. He proposes to commence discussions with GPL at the earliest opportunity with a view to finalising the remaining parts of the price control.

7. Prices for Guernsey Postal Services

7.1. Standard Retail Stamp Prices

As has already been mentioned in this document, this Decision concentrates only on tariff proposals for standard letter and parcel service.

As noted earlier, GPL and Royal Mail have not yet concluded negotiations on the contract to apply from April 2006. While it is envisaged that some changes may be made to GPL's cost base from the work that remains outstanding, the DG is of the view that these issues are unlikely, given the costs associated with the provision of the normal mail service, to impact upon the decision now being made on stamp tariffs.

On the basis of the analysis described in section 6 the DG has therefore decided to approve GPL's proposed price changes for local to:

- Local letter rates (section 7.3);
- Jersey and UK letter rates (section 7.4);
- Local parcel and Jersey / UK parcel rates (see section 7.5);
- Recorded Delivery rates (see section 7.6)
- Europe, Rest of World Zones 1 & 2 airmail and all surface mail (outside Europe) rates (see section 7.7);
- Europe (outside UK) and world wide postcard rates (see section 7.8);
- International Signed For rates (see 0)
- Airsure rates (see section 7.10);
- International Standard Parcels rates (see section 7.11); and
- International Economy Parcel rates (see section 7.12).

7.2. Bulk Mail Tariffs

As explained earlier the charges GPL wish to apply to its Bulk Mail products remain under review as the DG believes a number of key issues remain outstanding at this time. The DG is however anxious to finalise this work so that Bulk Mail customers have certainty on their postal charges in order that they may plan their business accordingly. The DG intends to complete this outstanding part of the company's application and address the points raised during the consultation process at the earliest opportunity.

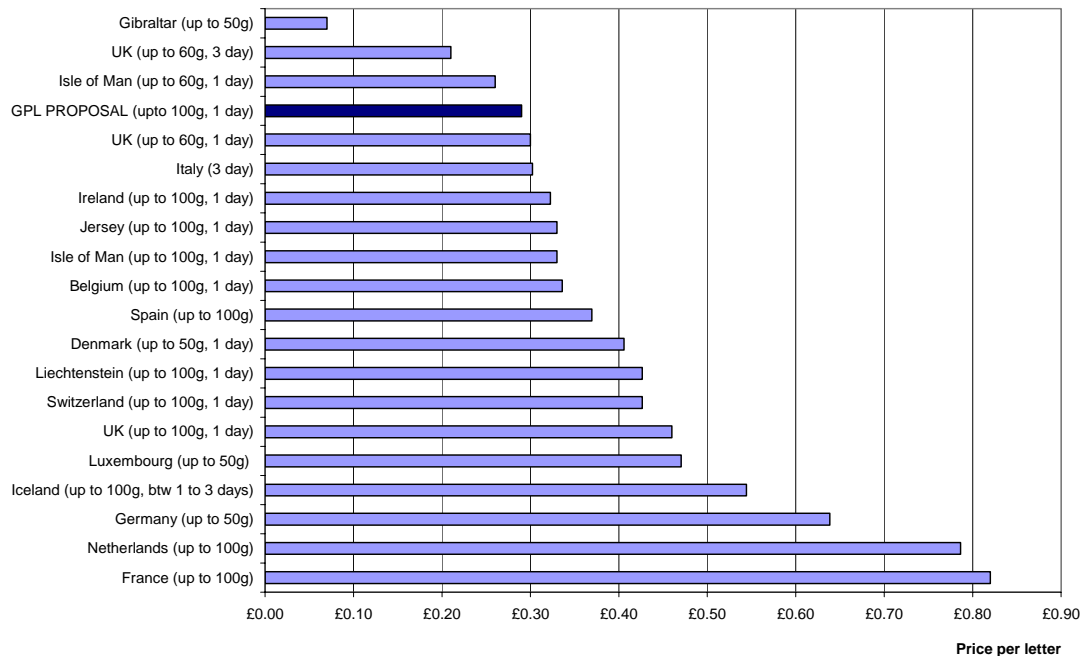
7.3. Local Letter Rates

GPL applied for an increase in the local stamp price for a 60g letter from 26p to 29p. This compares with local letter prices in the UK (30p for mail up to 60g)⁶ and Jersey (33p, although increasing to 34p from April 2006).

⁶ Postcomm's decision on Royal Mail's price controls is due to be published during the week beginning 5th December.

The DG believes that this price compares favourably with a range of European jurisdictions and other island jurisdictions where data is available and puts Guernsey near the bottom of those countries as can be seen from the figure below.⁷

Figure 2: Comparison of Standard Local Mail⁸



Note: UK Royal Mail and Jersey Post price will increase as of 1st April 2006.
Source: OUR research

The final prices that will be in place are set out in Table 7.3 below:

Table 7.1: Local to local letter rates from 1st April 2006

Weight (g)	1 st April 2006 £
60	0.29
100	0.29
150	0.43
200	0.57
per 50 g	+0.14

⁷ Note the figure shows comparative prices for local mail up to 100g which is comparable with the Guernsey mail category. However, in some cases prices are shown for 50g or 60g items and these jurisdictions are highlighted separately, Guernsey's 60g price is the same as its 100g price.

⁸ Source; OUR research

7.4. Local to UK & Jersey Letter Rates

GPL applied to increase the first weight step for UK stamps from 32p to 34p. This compares to 29p for the Isle of Man and 34p for Jersey (increasing to 37p from April 2006). The DG has reviewed the costs and revenues associated with UK Mail and concluded that these price changes are reasonable to cover the costs of the service and will therefore allow these the prices set out in Table 7.2 with effect from 1st April 2006.

Table 7.2: Local to UK & Jersey letter rates from 1st April 2006

weight (g)	1 st April 2006
	£
60	0.34
100	0.50
150	0.66
200	0.82
per 50 g	0.16

Some PPI customers will be eligible for Standard Straight Line Prices (“SLP”) and these customers are entitled to prices based on the actual weight of the mail items:

Table 7.3 Standard SLP Formula.

Weight	SLP Prices
	£
Price per item up to 60 grams	0.34
Price per item at 60 grams	0.372
Price per gram for each gram above 60 grams (to be added to the price per item above to achieve the price per item)	0.0032

For items with an average weight below 60g, the SLP price is £0.34 per item. For items with an average weight of 60g the SLP price is £0.372. For items with an average weight in excess of 60g the SLP item charge is derived using the following formula:

$$P_{\text{item}} + P_g \times (W - 60)$$

Where:

$$P_{\text{item}} = \text{price per item at 60g};$$

$$P_g = \text{price per gram above 60g}$$

To illustrate the price per item for a customer with an average weight of 125g the charge per item would be calculated as follows:

Item Charge	+	Weight Price	x	(Weight - 60g)
P item	+	Pg	x	(W - 60)
£0.372	+	£0.0032	x	(125 - 60)

Total Item Charge £0.58

7.5. *Parcels*

GPL proposed increasing local parcels from £2.40 to £2.65 per item and UK parcels from £4.10 per item to £4.30. The new prices that will come into effect on 1st April 2006 are shown in Table 7.4.

Table 7.4: Parcel Local and to UK / Jersey from 1st April 2006

weight not over kilos	Local to local parcel rates	Local to UK & Jersey parcel rates
	1st April 2006	1st April 2006
	£	£
1	2.65	4.30
2	3.10	5.25
4	3.85	7.15
6	4.40	8.60
8	4.95	10.00
10	5.50	11.35
15	9.10	13.25
20	11.00	14.70
30 (max)	13.20	15.75

7.6. *Recorded Delivery*

The charge for Recorded Delivery services will remain at £1.00 item. This charge is in addition to the appropriate postage.

7.7. *Air Mail and Surface Mail*

The air mail rates that will apply from 1st April 2006 are set out in Table 7.5 below.

Table 7.5: Airmail Rates from 1st April 2006

Weight (not over grams)	Europe (incl.Eire) £	Rest of the World Zone 1 £	Rest of the World Zone 2 £
10	0.42	0.47	0.47
20	0.42	0.68	0.68
40	0.60	1.05	1.12

Each add. 20g	0.18	0.37	0.44
Maximum weight	2 kg	2 kg	2 kg

GPL's surface mail rates that will apply from 1st April 2006 are set out in Table 7.6 below.

Table 7.6: Surface Mail Rates from 1st April 2006

Weight (not over grams)	All mail (outside Europe only) 1st April 2006 £
20	0.38
60	0.61
100	0.88
150	1.23
200	1.58
Each add. 20g	0.35
Maximum weight	5 kg

7.8. Postcards

The postcard rates that will apply from 1st April 2006 are set out in Table 7.7 below.

Table 7.7: Postcard Rates from 1st April 2006

Location	Postcards
	£
Europe (outside UK)	0.42
Worldwide	0.45

7.9. International Signed For

The rates applying to International Signed For services applying from 1st April 2006 are:

Table 7.8: International Signed For Rates from 1st April 2006

	International Signed for 1 April 2006
The fee for International Signed For service in addition to the appropriate postage	£3.30

7.10. *Airsure*

Rates for Airsure services applying from 1st April 2006 are set out in Table 7.9 below:

Table 7.9: Airsure Rates from 1st April 2006

	Airsure 1 April 2006
The fee for Airsure service in addition to the appropriate postage	£4.00

7.11. *International Standard Parcels*

The rates applying to International Standard Parcel services from 1st April 2006 are:

Table 7.10: International Standard Parcel services from 1st April 2006

Weight in kgs	Zone 5	Zone 6	Zone 7	Zone 8	Zone 9	Zone 10	Zone 11	Zone 12
0.5	5.65	17.00	17.00	17.00	18.90	15.75	21.75	21.75
1.0	6.90	18.60	18.60	18.60	21.20	19.65	25.55	26.90
1.5	8.10	20.15	20.15	20.15	23.55	23.55	29.40	32.10
2.0	9.25	21.75	21.75	21.75	25.90	27.45	33.30	37.20
2.5	10.45	23.30	23.30	23.30	28.25	31.40	37.10	42.40
3.0	11.55	24.45	24.45	24.45	30.35	35.05	40.55	47.30
3.5	12.60	25.55	25.55	25.55	32.50	38.80	43.90	52.25
4.0	13.65	26.70	26.70	26.70	34.65	42.50	47.30	57.10
4.5	14.75	27.85	27.85	27.85	36.80	46.25	50.70	62.05
5.0	15.80	29.00	29.00	29.00	38.95	50.00	54.15	67.00
5.5	16.45	29.95	29.95	29.95	40.45	52.90	56.95	71.50
6.0	17.05	30.85	30.85	30.85	41.95	55.85	59.80	76.00
6.5	17.70	31.80	31.80	31.80	43.45	58.85	62.65	80.60
7.0	18.30	32.75	32.75	32.75	45.00	61.80	65.45	85.10
7.5	18.95	33.70	33.70	33.70	46.50	64.80	68.30	89.65
8.0	19.60	34.65	34.65	34.65	48.00	67.75	71.15	94.20
8.5	20.20	35.60	35.60	35.60	49.50	70.65	73.95	98.70
9.0	20.85	36.55	36.55	36.55	51.05	73.65	76.80	103.25
9.5	21.45	37.50	37.50	37.50	52.55	76.60	79.65	107.80
10.0	22.10	38.45	38.45	38.45	54.10	79.60	82.50	112.35
10.5	22.80	39.05	39.05	39.05	55.25	81.85	85.25	116.15
11.0	23.50	39.70	39.70	39.70	56.45	84.10	88.00	119.90
11.5	24.20	40.30	40.30	40.30	57.65	86.35	90.75	123.70
12.0	24.90	40.95	40.95	40.95	58.85	88.60	93.55	127.45
12.5	25.55	41.60	41.60	41.60	60.05	90.95	96.35	131.25
13.0	26.25	42.20	42.20	42.20	61.20	93.20	99.10	135.05
13.5	27.00	42.85	42.85	42.85	62.40	95.45	101.85	138.80
14.0	27.65	43.45	43.45	43.45	63.65	97.70	104.65	142.60
14.5	28.35	44.10	44.10	44.10	64.85	99.95	107.40	146.35
15.0	29.05	44.75	44.75	44.75	66.05	102.25	110.20	150.15
per 0.5kg	0.55	0.35	0.35	0.35	0.90	1.80	2.65	3.25

7.12. *International Economy Parcels*

The rates to apply to International economy Parcels from 1st April 2006 are set out below:

Table 7.11: International Economy Parcel from 1st April 2006

Weight in kgs	Zone 9	Zone 10	Zone 11	Zone 12
(£)				
0.5	15.70	14.10	19.65	15.25
1.0	17.30	16.65	22.75	17.60
1.5	18.95	19.15	25.85	19.90
2.0	20.60	21.70	28.95	22.25
2.5	22.25	24.20	32.00	24.55
3.0	23.70	26.40	34.65	26.90
3.5	25.15	28.60	37.25	29.25
4.0	26.55	30.80	39.95	31.55
4.5	28.05	33.00	42.60	33.90
5.0	29.50	35.25	45.25	36.25
5.5	30.80	37.40	47.65	38.20
6.0	32.15	39.50	50.15	40.25
6.5	33.45	41.65	52.60	42.25
7.0	34.75	43.80	55.05	44.30
7.5	36.10	45.95	57.55	46.30
8.0	37.45	48.10	59.95	48.30
8.5	38.75	50.20	62.40	50.35
9.0	40.05	52.35	64.90	52.35
9.5	41.35	54.50	67.35	54.40
10.0	42.75	56.65	69.85	56.40
10.5	44.00	58.60	71.85	58.50
11.0	45.25	60.55	73.95	60.55
11.5	46.50	62.50	76.00	62.65
12.0	47.75	64.45	78.10	64.70
12.5	49.05	66.40	80.20	66.80
13.0	50.30	68.35	82.25	68.90
13.5	51.55	70.30	84.35	70.95
14.0	52.80	72.25	86.40	73.05
14.5	54.10	74.25	88.50	75.10
15.0	55.35	76.20	90.60	77.15
per 0.5kg	1.05	1.90	2.00	2.00

8. Universal Service Obligation

8.1. What is the USO?

One central objective of the postal regulatory regime established in 2001 by the States was a desire to ensure that all consumers in the Bailiwick continue to receive a minimum level of services of a defined quality, independent of geographical location, at an affordable price. This level of service is known as a “universal service” (and the regulatory requirement to provide it is a “universal service obligation” (“USO”). A means of ensuring that it will be delivered is to require at least one licensee to deliver it throughout the Bailiwick.

In September 2001, prior to the commercialisation of GPL, the States directed the DG with regard to the minimum level of service that GPL would be expected to provide all customers in the Bailiwick. There are corresponding USOs in both the telecoms and electricity sectors imposed on C&W Guernsey and Guernsey Electricity respectively.

For the Postal sector, the States has provided the following direction to the OUR with regard to the USO for the postal sector:

The States⁹ resolved to give the following direction to the Director General in accordance with section 3(1)(c) of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001:

The following universal postal service shall be provided by at least one licensee 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.*

In providing these services, the licensee shall ensure that the density of access points and contact points shall take account of the needs of users.

“access point” shall include any post boxes or other facility provided by the Licensee for the purpose of receiving postal items for onward transmission in connection with the provision of this universal postal service.

⁹ States Resolutions 2001, pages 78-80 (item no 14)

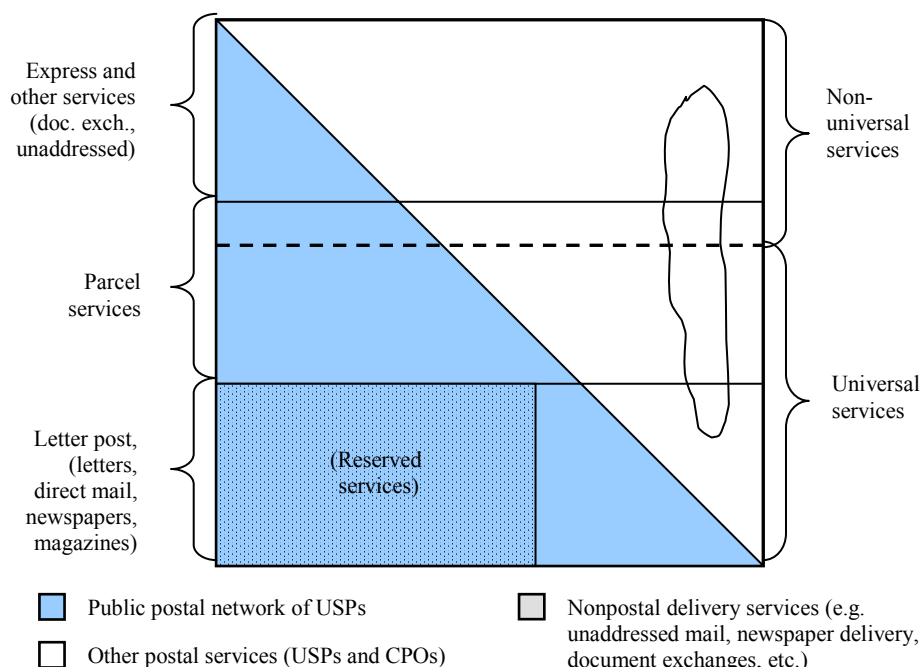
8.2. The Need for a USO

In considering the need for a USO it is important to first look at why a USO is generally considered to be a necessary requirement for postal markets. Throughout the European Union including the UK, postal markets are gradually being opened up to competition to bring the benefits of competitive service provision to consumers generally. The means of doing this is either to licence more postal operators or to reduce the services reserved to one single operator in the postal market.

This opening of the market is balanced with the need to ensure a high quality affordable universal postal service is delivered, and this aim is generally achieved by designating one operator as the universal postal service operator and reserving to that operator the right to provide certain services. This has resulted in Governments and regulators determining what that minimum service requirement should be. As noted above the States determined a position in 2001 that was broadly in line with international practice at that time.

The key issue that arises from imposing this obligation is funding; how does the postal operator ensure that it has sufficient resources to meet this obligation in an environment where external competitive pressures imposes downward pressure on revenues in other parts of its business. The approach taken in most jurisdictions has been the establishment of a 'Reserved Area' within the postal market. This can be best represented by the diagram below.

Figure 8.1: Reserved Area, USO and other postal services



Source: WIK-Consult (2004), Main developments in the European postal sector.

There therefore must be a means of determining what 'size' the reserved area should be. From a regulator's perspective there is a balance to be achieved between ensuring

there is the opportunity for competition to develop, where sustainable, with a competing objective which is the provision of the USO. The approach to defining reserved services that has been adopted in other jurisdictions is to use a value or weight measure to define them.

In 2001, the OUR adopt the price based approach to determining the Reserved Area and in October 2001 an Order¹⁰ was made defining the reserved area as those services provided for a consideration of less than £1.35. This price limit has been arrived at by multiplying the then standard tariff for letters to the UK (27p) by five, in line with the approach taken by other regulators. The standard UK tariff was used as it reflected (and continues to do so) the fact that a significant amount of the Bailiwick's mail is to and from the UK. Although the standard UK tariff has now increased since that original decision, the DG is not at this time considering any change to the level of the Reserved Area.

8.3. The Need to Review the USO

Since 2001 the postal market has been subject to a number of external challenges and this process of change is due to continue for some time to come. As a consequence, the market in which GPL now competes is significantly altered from that in which the USO was first determined in 2001. The DG had in 2001 noted that there may be a need to revisit the provision of the USO and its scope at a future point. The DG believes that it is now appropriate to carry out such a review.

The financial position of GPL has also changed significantly in the period since commercialisation. Previously GPL and Royal Mail had an understanding that mail volumes to and from the UK were roughly equivalent and no charges were imposed by either party for the handling of the other party's mail. In 2003 this approach was dropped¹¹ as GPL send significantly more mail to the UK (and of higher weights) than Royal Mail sends to Guernsey. Consequently GPL now incurs a significant charge from Royal Mail for handling this post.

Since 2002 GPL has experienced increases in Royal Mail terminal dues of over 100%. The payment of terminal dues to Royal Mail has a result become a significant element of GPL's cost base. Royal Mail, as most observers will be aware, is under pressure in the UK to improve its own performance and from January 2006 will be facing full competition across all markets. Already there are competitors to Royal Mail competing for key business accounts and this competition will continue to increase. Therefore GPL would be facing increased charges from Royal Mail whether commercialisation happened or not.

In order for GPL to continue to meet the current USO, there is a need to make choices with regard to the level of charges local customers should pay for their mail service. As an alternative to increasing tariffs to meet the existing defined USO standard, consideration may be given by the States to reviewing the exact level of service it believes should be the minimum GPL is required to provide. The implication of this is that certain elements of the existing USO may change. For example, the number of

¹⁰ The Post Office (Reserved Postal Services) Order, 2001; www.regutil.gg/docs/gsi_2001_no37.pdf

¹¹ In April 2003, Royal Mail changed its trading terms with Guernsey Post to a regime based on normal international postal arrangements between modern industrialised countries.

access points for the mail service may be reduced from their current levels or the number of days upon which GPL is required to make deliveries to all homes might be altered. It will therefore be important for States members, in order that they can make an informed decision on this issue, that they have access to detailed information on the implications associated with any change to the USO.

8.4. Timing of the Review of the USO

The current price control decision being made now is intended to remain in place until March 2007. The DG believes it appropriate that any review of the USO, and as a result any implications for pricing, should be undertaken in the intervening period in order that any new price control work can take account of the USO obligation that the States requires.

As this review will of necessity need to be detailed in nature to enable the States make an informed decision, the OUR will shortly commence discussions with interested parties including GPL, Postwatch Guernsey, key business and consumer groups and with the Commerce & Employment and Treasury & Resources Departments.

9. Next Steps

As this decision has focused solely on stamp prices, there remains a need to complete the review of GPL's tariff application insofar as it relates to the Bulk Mail sector. The DG will now continue discussions with GPL on this element of the tariff application with a view to concluding the review at the earliest possible date.

The DG will also commence discussions on the USO review as outlined in Section 8 and will consult on the options that may exist for amending the current USO requirement so that interested parties are aware of the implications of any such change.

As this price control is intended to set tariffs for one year, further work will be required in 2006 on setting any new price control that will replace this decision now being made. It is intended that this will be a much more detailed assessment of GPL including a detailed review of the efficiency of its operations to assess whether further scope exists for cost savings to be identified. The DG believes, given the review of the USO, further benefit will be gained for undertaking a much more detailed and in-depth assessment in order that any such cost savings are identified and the benefits passed on to customers.

ENDS/

ANNEX A

Determination of the Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of Postal Services in dominant markets

1. The Director General of Utility Regulation in accordance with:
 - condition 18 of the Postal Licence issued to issued to Guernsey Post Limited on 1st October 2001 (as amended); and
 - his duties, powers and functions, under the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 set out in sections 2, 4 and 5 respectively and in particular sections 2(a), 5(a), 5(e) and 5(g) of that law; and
 - section 5 of the Post Office (Bailiwick of Guernsey) Law 2001 and particular section 5(1)(d) thereof, and
 - his finding that Guernsey Post Limited has a dominant position in 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 markets; all in the Bailiwick of Guernsey.

hereby determines that the maximum levels of charges that Guernsey Post Limited may apply to the provision of Postal Services in those relevant markets specified above are those specified in paragraphs 4 – 15 below.

2. Unforeseen delays notwithstanding, it is expected that the maximum levels of charges which may be applied by Guernsey Post Limited, as set out in this Determination shall come into effect on 1st April 2006 and shall apply until 31st March 2007 subject to the provisions of paragraph 3 hereof.
3. This Determination is subject to review, either in whole or in part, by the Director General, where the Director General considers this necessary and/or appropriate or at the request of Guernsey Post Limited having regard to his duties and functions under Law, including the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, and the Post Office (Bailiwick of Guernsey) Law, 2001.

4. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of Local to Local letter rates**

Guernsey Post Limited shall ensure that the charges which it applies to local to local letters shall not exceed the following rates:

Weight (g)	Local to local letter rates
	1 April 2006
	£
60	0.29
100	0.29
150	0.43
200	0.57
250	0.71
Each additional 50g	0.14

5. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of Local to Jersey and UK letter rates**

Guernsey Post Limited shall ensure that the charges which it applies to local to Jersey and UK letters shall not exceed the following rates:

Weight (g)	Local to UK/Jersey letter rates
	1 April 2006
	£
60	0.34
100	0.50
150	0.66
200	0.82
250	0.98
Each additional 50g	0.16

6. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of Local to Local parcel rates**

Guernsey Post Limited shall ensure that the charges which it applies to local to local parcels shall not exceed the following rates:

Weight (not over Kgs)	Local to local parcel rates
	1 April 2006
	£
1	2.65
2	3.10

4	3.85
6	4.40
8	4.95
10	5.50
15	9.10
20	11.00

7. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of Local to Jersey and UK parcel rates**

Guernsey Post Limited shall ensure that the charges which it applies to local to Jersey and UK parcels shall not exceed the following rates:

Weight (not over Kgs)	Local to UK/Jersey parcel rates
	1 April 2006
	£
1	4.30
2	5.25
4	7.15
6	8.60
8	10.00
10	11.35
15	13.25
20	14.70

8. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect Recorded Delivery rates**

Guernsey Post Limited shall ensure that the charges which it applies to Recorded Delivery rates shall not exceed the following:

	Recorded Delivery 1 April 2006
The fee for Recorded Delivery in addition to the appropriate postage	£1

9. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of Local to outside Europe surface mail rates**

Guernsey Post Limited shall ensure that the charges which it applies to local to outside Europe surface mail rates shall not exceed the following:

Weight (not over grams)	Surface Mail (outside Europe only)

	1 April 2006
	£
20	0.38
60	0.61
100	0.88
150	1.23
200	1.58
250	1.93
Each additional 50g	0.35
Max weight	5kg

10. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of postcard rates**

Guernsey Post Limited shall ensure that the charges which it applies to postcard rates shall not exceed the following:

Location	Postcards
	1 April 2006
	£
Europe (outside UK)	0.42
Worldwide	0.45

11. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of airmail rates**

Guernsey Post Limited shall ensure that the charges which it applies to airmail rates shall not exceed the following:

Weight (not over grams)	Airmail		
	1 April 2006		
	Europe (incl Eire)	Rest of World Zone 1	Rest of World Zone 2
	£	£	£
10	0.42	0.47	0.47
20	0.42	0.68	0.68
40	0.60	1.05	1.12
60	0.78	1.42	1.56
80	0.96	1.79	2.00
100	1.14	2.16	2.44
120	1.32	2.53	2.88
140	1.50	2.90	3.32
160	1.68	3.27	3.76

180	1.86	3.64	4.20
200	2.04	4.01	4.64
Each additional 20g	0.18	0.37	0.44
Max weight	2kg	2kg	2kg

12. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of International Signed For rates**

Guernsey Post Limited shall ensure that the charges which it applies to International Signed For rates shall not exceed the following:

	International Signed for 1 April 2006
The fee for International Signed For service in addition to the appropriate postage	£3.30

13. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of Airsure rates**

Guernsey Post Limited shall ensure that the charges which it applies to Airsure rates shall not exceed the following:

	Airsure 1 April 2006
The fee for Airsure service in addition to the appropriate postage	£4.00

14. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of international standard parcel rates**

Guernsey Post Limited shall ensure that the charges which it applies to international standard parcel rates shall not exceed the following:

International Standard Parcel 1 April 2006								
Weight in kgs	Zone 5	Zone 6	Zone 7	Zone 8	Zone 9	Zone 10	Zone 11	Zone 12
0.5	5.65	17.00	17.00	17.00	18.90	15.75	21.75	21.75
1.0	6.90	18.60	18.60	18.60	21.20	19.65	25.55	26.90
1.5	8.10	20.15	20.15	20.15	23.55	23.55	29.40	32.10
2.0	9.25	21.75	21.75	21.75	25.90	27.45	33.30	37.20
2.5	10.45	23.30	23.30	23.30	28.25	31.40	37.10	42.40
3.0	11.55	24.45	24.45	24.45	30.35	35.05	40.55	47.30
3.5	12.60	25.55	25.55	25.55	32.50	38.80	43.90	52.25
4.0	13.65	26.70	26.70	26.70	34.65	42.50	47.30	57.10

4.5	14.75	27.85	27.85	27.85	36.80	46.25	50.70	62.05
5.0	15.80	29.00	29.00	29.00	38.95	50.00	54.15	67.00
5.5	16.45	29.95	29.95	29.95	40.45	52.90	56.95	71.50
6.0	17.05	30.85	30.85	30.85	41.95	55.85	59.80	76.00
6.5	17.70	31.80	31.80	31.80	43.45	58.85	62.65	80.60
7.0	18.30	32.75	32.75	32.75	45.00	61.80	65.45	85.10
7.5	18.95	33.70	33.70	33.70	46.50	64.80	68.30	89.65
8.0	19.60	34.65	34.65	34.65	48.00	67.75	71.15	94.20
8.5	20.20	35.60	35.60	35.60	49.50	70.65	73.95	98.70
9.0	20.85	36.55	36.55	36.55	51.05	73.65	76.80	103.25
9.5	21.45	37.50	37.50	37.50	52.55	76.60	79.65	107.80
10.0	22.10	38.45	38.45	38.45	54.10	79.60	82.50	112.35
10.5	22.80	39.05	39.05	39.05	55.25	81.85	85.25	116.15
11.0	23.50	39.70	39.70	39.70	56.45	84.10	88.00	119.90
11.5	24.20	40.30	40.30	40.30	57.65	86.35	90.75	123.70
12.0	24.90	40.95	40.95	40.95	58.85	88.60	93.55	127.45
12.5	25.55	41.60	41.60	41.60	60.05	90.95	96.35	131.25
13.0	26.25	42.20	42.20	42.20	61.20	93.20	99.10	135.05
13.5	27.00	42.85	42.85	42.85	62.40	95.45	101.85	138.80
14.0	27.65	43.45	43.45	43.45	63.65	97.70	104.65	142.60
14.5	28.35	44.10	44.10	44.10	64.85	99.95	107.40	146.35
15.0	29.05	44.75	44.75	44.75	66.05	102.25	110.20	150.15
per 0.5kg	0.55	0.35	0.35	0.35	0.90	1.80	2.65	3.25

15. **Maximum Levels of Charges which may be applied by Guernsey Post Limited in respect of international economy parcel rates**

Guernsey Post Limited shall ensure that the charges which it applies to international economy parcel rates shall not exceed the following:

International Economy Parcel 1 April 2006				
Weight in kgs	Zone 9	Zone 10	Zone 11	Zone 12
(£)				
0.5	15.70	14.10	19.65	15.25
1.0	17.30	16.65	22.75	17.60
1.5	18.95	19.15	25.85	19.90
2.0	20.60	21.70	28.95	22.25
2.5	22.25	24.20	32.00	24.55
3.0	23.70	26.40	34.65	26.90
3.5	25.15	28.60	37.25	29.25
4.0	26.55	30.80	39.95	31.55
4.5	28.05	33.00	42.60	33.90
5.0	29.50	35.25	45.25	36.25
5.5	30.80	37.40	47.65	38.20
6.0	32.15	39.50	50.15	40.25

6.5	33.45	41.65	52.60	42.25
7.0	34.75	43.80	55.05	44.30
7.5	36.10	45.95	57.55	46.30
8.0	37.45	48.10	59.95	48.30
8.5	38.75	50.20	62.40	50.35
9.0	40.05	52.35	64.90	52.35
9.5	41.35	54.50	67.35	54.40
10.0	42.75	56.65	69.85	56.40
10.5	44.00	58.60	71.85	58.50
11.0	45.25	60.55	73.95	60.55
11.5	46.50	62.50	76.00	62.65
12.0	47.75	64.45	78.10	64.70
12.5	49.05	66.40	80.20	66.80
13.0	50.30	68.35	82.25	68.90
13.5	51.55	70.30	84.35	70.95
14.0	52.80	72.25	86.40	73.05
14.5	54.10	74.25	88.50	75.10
15.0	55.35	76.20	90.60	77.15
per 0.5kg	1.05	1.90	2.00	2.00

16. This Determination shall come into effect on 1st April 2006 and shall continue in force until 31st March 2007 unless changed, amended, replaced or revoked, by the Director General.