



Office of Utility Regulation

Guernsey Post's Bulk Mail Tariff Changes

Decision Notice

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Office of Utility Regulation
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1. Introduction

In April 2006, the Director General of Utility Regulation (“DG”) published a draft decision notice (OUR 06/08) following his review of Guernsey Post Limited’s (“GPL”) proposed Bulk Mail tariff changes. The DG proposed specific maximum prices for a range of products offered by the company which will come into effect later this year.

In December, 2006 the DG completed the first part of his review of GPL’s tariff application and published his decision on the company’s letter and parcel tariffs in Document OUR 05/30 which came into effect on 1st April 2006. Due to the considerable uncertainty at that time relating to certain aspects of the new commercial contract being negotiated between GPL and Royal Mail and the on-going nature of those discussions between the two parties, the DG deferred any decision on bulk mail tariffs pending further review. GPL submitted a further and final set of proposals for the DG’s consideration in mid February 2006 and the DG’s draft decision set out the OUR’s consideration of the February proposals.

The DG invited interested parties to comment on the draft decision (Document OUR 06/08) regarding new prices for Bulk Mail services which would come into effect later this year. The OUR received 11 responses to the draft decision paper. The DG has considered fully all of the comments made and has assessed these responses along with the other information available to him in reaching the conclusions contained in this decision paper. As in the draft decision paper, the DG’s response to GPL’s commercially confidential submission is included in a confidential annex which sets out the DG’s position.

The DG believes that this price control decision represents a fair balance between the need to ensure that GPL is a financially sustainable universal service provider, which allows for its shareholders to make a return on its investment within the Bailiwick, whilst protecting the interests of the bulk mail sector by ensuring that the charges for key services, particularly where consumers have little or no choice of supplier, are set at levels that are fair and more fully reflect the cost of providing this service. The DG notes that GPL’s financial security is partially reliant on a healthy and sustainable Bulk Mail industry within the Bailiwick.

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: presents the DG's decisions on the main assumptions regarding inputs used to derive GPL's allowable revenue for the price control; and
- Section 5: contains the DG's decision on GPL's prices; and
- Section 6: sets out the next steps.

This decision paper contains three annexes. These annexes together with an outline of their contents and level of disclosure are listed below.

- Annex A: contains the formal price control that will apply to GPL in accordance with Licence condition 18.2 of its Postal Licence.
- Annex B: sets out the DG's consideration of GPL's comments on the issues raised in the confidential annex attached to OUR 06/08. This annex is confidential and has been given only to GPL.
- Annex C: presents the final Bulk Mail Demand Forecasts extracted from the OUR's model. This annex is confidential and has been given only to GPL.

2.2. Comments Received

The OUR received responses to the draft decision paper from:

- EA Carey (Europe) Limited;
- Guernsey Bulk Mailers Association;
- Guernsey Flowers Limited;
- GPL;
- Healthspan;
- HealthyDirect;
- ODFL;
- Regency Fulfilment;
- 7Dayshop.com;
- Sigma Aztec; and
- Thompson & Morgan (Young Plants) Limited ("T&M").

The DG wishes to thank those who have responded to the draft decision for their contributions. In accordance with the OUR's policy on consultation set out in

Document OUR 05/28 – “Regulation in Guernsey; the OUR Approach and Consultation Procedures”, non-confidential responses to the consultation are available on the OUR’s website (www.regutil.gg) and for inspection at the OUR’s 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 ('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:

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

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

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

The OUR has recently completed a review of the current USO and has submitted its recommendations (OUR 06/11) on possible changes to the USO to the Commerce & Employment Department. Any change to the USO will be a matter for the States to determine.

3.2. Regulatory Framework

In exercising his functions and powers, the DG³ has a duty to promote (and, where they conflict, to balance) the following objectives⁴:

- 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.

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 These statutory duties also apply to the States of Guernsey

⁴ The Regulation of Utilities (Bailiwick of Guernsey) Law, 2001

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 regulate directly 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 the draft decision the DG stated that based on his earlier finding from November 2005 he considered GPL dominant in the market for outbound Bulk Mail services and that he intended to set a price control for outbound Bulk Mail services provided by GPL.

The DG considers that there is no evidence to suggest that the classification of GPL as dominant in this market should be changed and will therefore set a price control for outbound Bulk Mail services provided by Guernsey Post Limited.

Decision 1

The DG will set a price control for outbound Bulk Mail services provided by Guernsey Post Limited.
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4. Assessment of GPL's Bulks Mail Tariffs

The following section sets out the DG's position on the key elements of the determination of the Bulk Mail price control together with his views on the points raised by respondents to the draft decision.

4.1. Duration of Price Control

In the draft decision, the DG proposed to set a price control for GPL's Bulk Mail tariffs through to 31st March 2007, with new Bulk Mail prices coming into effect from 1st July 2006, although the DG specifically sought the views of interested parties on the implementation date.

GPL responded to this issue by stating that the delay to the publication of the draft announcement had cost the company additional profits it would have earned if the new prices came into effect on 1 April 2006 i.e. to cover the increase in terminal dues charged by Royal Mail. In the company's view, the Bulk Mail industry had been aware since August 2005 when the proposals were published in full that the Bulk Mail prices would be increasing. GPL believed that this gave the industry sufficient time to accommodate the changed prices into their business models. GPL also stressed that if the proposed tariffs were introduced a month later then it would mean that the company would incur a financial loss in its next annual accounts.

Healthspan does not believe it to be reasonable for the prices to be introduced with effect from 1st July 2006 and that September would be more realistic as it likely that self-sortation would necessitate new work practices, refurbishment and potentially new premises. This view (i.e. 1 September) was also supported by another interested party in a confidential response to the draft decision.

Sigma suggested in its response that a compromise would be to change the tariffs from 1 August 2006. If this were adopted then the respondent suggested that adherence to at least three months notice period for change of rates should be an expectation in future and particularly with regard to the proposed review of GPL's charges from 1 April 2007.

The DG notes GPL's response to the question of the timing of the introduction of the new Bulk Mail prices. In essence the points raised by GPL reflect concerns regarding:

- the financial viability of the company; and
- the notice period allowed for customers.

Each of these points is considered in turn below.

The DG, and indeed the States of Guernsey, has a number of statutory obligations under section 2 of the Regulation Law which, taken together, have the effect of requiring the DG to ensure the GPL is financially sustainable and capable of providing a universal postal service as specified by the States within the Bailiwick.

The DG and the States (as GPL's shareholder) have a duty therefore to take a longer-term view in terms of assessing financial viability and sustainability instead of simply focusing on year on year statutory accounts and financial budgets. The DG cannot be driven exclusively by any regulated entity's wish to report trading profits year-on-year. Rather he must take a longer term view of what the sustainability of the company requires in terms of tariffs to ensure the continuation of the business and a reasonable return to the shareholder over a longer term period. Therefore while the DG notes that for GPL its annual accounts appear to be a primary driver with respect to this price control, for the DG it is not a determining factor.

With regard to the notification period, the DG does not accept that customers have been aware of the precise new tariffs that the company was intending to introduce. GPL only submitted its final proposals in February 2006 which formed the basis for the draft decision together with the DG's assessment of those prices. These proposals had changed markedly from the August 2005 proposals which the Bulk Mailers had previously been consulted upon. The DG does not accept that the August 2005 notification could form any reasonable basis for the presumption that Bulk Mailers had been notified. The DG further notes that the detailed product specification which forms a central part of the overall proposal has only recently been notified to the Bulk Mailers.

The DG does not accept therefore that the Bulk Mailers could have taken the August 2005 proposals as sensible inputs to their individual business models given the changes that have since occurred to GPL's tariff proposals. GPL has also set out arguments in its own response to the draft decision which would necessitate changes in the prices contained in Document OUR 06/08 which would lead to higher new prices from 1st July.

The market would only be aware of any changes in prices at the time of the publication of this Decision Notice. The Bulk Mail companies would only therefore have a notice period of about 6 weeks for the actual prices if the new prices came into effect on 1st July 2006. The DG notes that there is a trade-off to be made between the timing of any changes to the actual tariffs and the level that those tariffs must be set at. Taking account of these issues he has determined that the tariff changes for Bulk Mailers should come into effect on 1st August 2006.

The DG believes that given the particular issues faced by Bulk Mailers in their businesses that a period of notification is required to allow for orderly planning of their needs. The DG is of the view that a three month notice period for changes to Bulk Mailers tariffs is a reasonable operational requirement and believes GPL should take account of this in planning all future tariff changes.

Decision 2

The DG proposes to set a price control for Bulk Mail prices which will come into effect from 1 st August 2006.

4.2. OUR's Approach to Assessing GPL's Proposals

As the DG was proposing a one-year price control, he intended to continue to use a Pay As You Go approach in determining the GPL price control for the period to 31st March 2007.

GPL claimed that, arising from the proposals in the draft decision, the price controlled sector would only make a return of 0.25% which the company alleged would put the long term viability of the company at risk. GPL believed that the reduction in profit margins in the draft decision put at risk the longer-term viability and the provision of the USO within the Bailiwick.

The DG recognises that both he and the States have a statutory obligation to ensure the **long-term** viability of the Bailiwick's universal service provider. The DG believes that a healthy and competitive Bulk Mail sector is in long term interests of GPL and he must focus on the financial performance of the company in the long term and not just on one year's P&L results. The DG notes that GPL's submission sought a Profit Before Interest and Tax ("PBIT") of 2.22% for the price-controlled business. The DG notes that in the draft decision the price-controlled business had a PBIT of 1.82% (i.e. only 0.4 percentage points below GPL's own submission). Based on the DG's final position set out in this decision notice, GPL's price-controlled business achieves a PBIT of 1.56% over the price control period. The DG therefore does not accept that his decision in anyway endangers the long term financial viability of the company. The DG would again stress that given the short duration of this price control he is confident that the long term viability of the company is not at risk arising from this decision.

GPL accepted the PAYG model to be the pragmatic solution for this short price control, although it did not believe the 2004 model could be accepted as the control model in future price controls due to the changes in the business that have taken place since the original price control.

The DG welcomes the company's acceptance of this model for the purpose of estimating the company's revenue requirements as part of this price control. The DG believes that this simplified approach is proportionate for this one-year price control and is in the best interests of both GPL and its customers. The DG will consider further the appropriate approach to quantifying the company's revenue requirements for the next price control, which will cover a longer period than the one considered by this decision.

Decision 3

The DG has used a Pay As You Go approach in determining the Guernsey Post Limited price control for the period to 31 March 2007.
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4.3. Operating Costs

Royal Mail Contract

In the draft decision, the DG proposed to allow for GPL to recover the year 1 costs of the Royal Mail contract from the price controlled products. For the current tariff submission and the draft decision, the DG was prepared to accept the Royal Mail year 1 terminal dues payments in their entirety and allow this to be included within the company's allowable revenue calculations. However, as noted earlier, the DG has a statutory duty to protect consumers' interests and therefore reserves his position regarding the charges for years 2 and 3 made by Royal Mail in any future tariff submission from GPL.

Decision 4

The DG will allow Guernsey Post Limited to recover the year 1 costs of the Royal Mail contract from the price-controlled products.
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Efficiency Savings

In light of the high level efficiency review the DG proposed to reduce GPL's annual operating costs for 2006/07 by 2.7% to reflect achievable efficiency savings.

GPL had considerable reservations on some of the specific cost savings identified by the OUR.

The DG's position concerning the specific points raised by GPL in its confidential submission are set out fully in Annex B to this Decision Notice. As Annex B contains commercially confidential information, this Annex has been provided solely to GPL. As a result of the representations made by GPL, the DG has decided to reduce GPL's annual operating costs by 1.8% (prior to any changes in demand forecasts described in section 4.4 below). The derivation of this figure is explained in more detail in Annex B1 which contains commercially confidential information.

Decision 5

The DG has reduced Guernsey Post Limited's 2006/07 annual operating costs by 1.8% to reflect efficiency savings (prior to any changes in demand forecasts).

120-way sortation

In the draft decision, the DG proposed to reduce the 120-way sortation charges to 10p/item below 500g and 49p/item above 500g. This charge is in effect a component of the 'Bulk Sea Priority (4-way sort)' Product.

Healthspan commented that whilst the proposed 10p per item charge was less than originally requested by GPL for this element of the service it believed that even this rate did not reflect the true cost and represented a rate in excess of £30/man hour. Based on Healthspan's own logistics experience these rates seemed excessive. Healthspan also attempted to negotiate a compromise in the interim period with GPL which was not successful.

One interested party in a confidential response strongly disagreed with the DG's proposal to reduce the prices as set out in the draft decision. The respondent believed that the reduced differential would discourage BMs from sorting themselves and that GPL would have to bring forward the daily collection cut-off times thereby making it difficult to run a successful BM company in the Bailiwick. The respondent also believed that it would be difficult for GPL to manage its operations without impacting on its efficiency across the business.

GPL indicated that it set these prices at a level designed to encourage the BMs to self-sort and that the prices in the draft decision would no longer be a deterrent. In fact it believes that the 10p / item charge may in fact attract the sortation work which was not the intention of the company's pricing strategy. GPL instead proposed a 15p /item charge with consignment limits at those levels where self-sortation had been determined to be viable for the customer.

The DG maintains that the sortation charge component of this bulk mail tariff should be cost reflective and should not be used to make GPL an expensive option in order to encourage the BMs sort themselves. It is clear that not all BMs have resources in terms of staff and space to sort 120-ways themselves and will have no option but to choose to pay GPL to sort 120-ways on their behalf, particularly given the notice period provided of the details of what GPL refers to as the 'We sort' product. Consequently the DG believes that the revised prices set out in the draft decision are appropriate for this element of the service and has retain it as an input to the final Bulk Sea Priority (4-way sort) tariff. The revised pricing for this product is set out in section 5.

Decision 6

The DG will set the maximum charge for 120-way sortation element of the Bulk Sea Priority (4-way sort) tariff at 10p/item below 500g and 49p/item above 500g.

4.4. Demand Forecasts

In the draft decision, the DG indicated that he was minded to accept GPL's proposed 2006/07 Bulk-Mail demand projections in their entirety.

A number of Bulk Mail customers had queries regarding the forecast volumes and weights provided by GPL to the OUR as part of its tariff applications. The OUR reconsidered these forecasts and requested additional information from GPL in order to address these queries.

The importance of forecasts cannot be understated in price control decisions. They provide a basis for estimating the likely revenue which will accrue to a regulated company over the period of the price control and as such the level of costs to be recovered. Costs, particularly in the postal sector, have a clear relationship with volumes handled. The risk in under-estimating or over-estimating changes in volumes may have a significant bearing on the nature of the final price control decision. Therefore effort is required to ensure that forecasts are as robust as possible. While the DG acknowledges that forecasts are just that – estimates of what is most likely to

happen – it does not diminish the need for a proper informed view and decision-making being based on the best available information.

The DG has therefore considered the information available to him from both GPL and individual Bulk Mailers before reaching a conclusion on the volume levels to use in this price control. The DG has amended and updated the forecast volume and average weights within the economic model to forecast future revenue. Annex C comprises a confidential annex explaining the assumptions the DG has used within the OUR's economic modelling.

Decision 7

The DG has amended the demand forecasts for a number of bulk mail operators within the OUR's economic modelling.
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4.5. Bulk Mail Product Specifications

Regency Fulfilment commented in its response (dated 19th April 2006) to the OUR draft decision that in their opinion “it is important that access to sorting is not restricted by Guernsey Post through the introduction of additional conditions outside of the ruling by the OUR, and we are hopeful that access to sorting remains a right and not a privilege.”

The GMBA commented that “Some members did not receive a copy of the spreadsheet entitled “Bulk Mailer Products 2006/07 until this week (w/c 24 April) or not at all.” A number of members responded separately on this document commenting on the constraints that were being imposed on their options.

It would appear that GPL's response to the draft decision and the inclusion of maximum consignments for the company's Bulk Sea Priority (4-way sort) product (referred to by GPL as its “We Sort” product) are designed to limit the company's obligation to sort 120-ways. The original pricing strategy discussed in section 4.3 was designed as a means of making the product sufficiently expensive to encourage the BM's to self sort rather than deliver unsorted mail to GPL. It might be interpreted that the introduction of maximum consignment limits is a means of circumventing the proposed price control by in effect removing a product from the market for customers to choose by imposing unreasonable non-price terms and conditions.

The DG is particularly disappointed that GPL had not provided the BMs with the Product Specifications earlier in the process particularly bearing in mind that the company had been aware of the general structure and contents of the RM – GPL contract for some time. It is regrettable that the “Explaining the Bulk Mail Products – 2006/07” document appears also to have been only issued to the BMs midway through the final week of the OUR's consultation.

The proposal by GPL to set maximum consignment limits is in effect, through the non-price terms and conditions for this service, an attempt to circumvent the price control. The DG does not consider that such behaviour is acceptable given the length of time GPL has known that sortation would form a central part of this price control and in particular would have significant implications for Bulk Mailers.

The proposal by GPL to impose consignment limits was made after the draft decision was published. Therefore neither the Bulk Mailers nor the OUR had any opportunity to comment in any meaningful way on the proposal. The DG does not consider the consignment limits appropriate and directs GPL, under Condition 15.2 of its postal licence, to withdraw the Maximum Consignment limits.

Decision 8

The DG hereby directs Guernsey Post Limited, under Condition 15.2 of its Postal Licence, to remove the Maximum Consignment Limits for each of the product specifications included in the company's Bulk Mailer Products 2006/07 document.

4.6. Other Issues Raised by Respondents

Respondents to the consultation raised a number of additional comments outside of those issues the DG specifically invited comments on. These additional issues are set out below with the DG's comments.

Volume Discounts – some respondents believed that GPL's prices should reflect volume discounts to reflect operational cost savings that large customers secure for GPL. GPL is required to ensure that all discounts are cost-justified and transparent. Based on the evidence available there does not appear to be discounts warranted simply by volume for GPL to pass onto its customers. However the price control decisions set out in this paper and in Annex A are maximum prices that GPL may charge. GPL is still at free to introduce discounts for its postal services which comply with condition 18.4 of its Postal Licence. Discounts would be justified to reward any additional work share or operational practices which reduce GPL's costs and these would be a matter for commercial negotiation between the parties.

Compensation Provision – one respondent believed that there should be compensation provisions from RM when it fails in its service, for example when mail to UK customers is severely delayed. This will be a matter for GPL to negotiate with RM and one would expect enhanced product characteristics to be reflected in the prices for premium products.

International Mail – one respondent requested GPL to offer bulk mail prices for international mail as BMs expand into European markets. Again this is a commercial matter for GPL to negotiate with its partners.

5. Bulk Mail Prices Decision

The DG's decision on the price control for GPL's Bulk Mail prices is shown in Table 1 below.

Table 1: DG's Decision re Bulk Mail Tariffs from 1st August 2006

Product	Price per item at 60g (p)	Price per g above 60g (p)
Bulk Air 120-way sort (flowers)	29.95	0.258
Bulk Sea Priority (4-way sort) –items less than 500g	35.34	0.218
Bulk Sea Priority (4-way sort) – items more than 500g	74.34	0.218
Bulk Sea Priority 120-way sort	25.34	0.218
Bulk Sea Economy 120-way sort	24.58	0.211
Bulk Sea Unsorted (non MOU)	37.20	0.320

The Bulk Mail charge for the individual products in Table 1 is therefore derived using the following formula:

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

Where:

$$P_{\text{item}} = \text{price per item};$$

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

To illustrate the price per item for an individual bulk mailer with an average weight of 300g the charge for a Bulk Sea Economy 120-way sort product would be as follows:

Item Charge	+	Weight Price	x	(Weight - 60g)
P _{item}	+	P _g	x	(W - 60)
£0.2458	+	£0.00211	x	(300 - 60)
Total Item Charge		<u>£0.7522</u>		

The DG's decision on tariffs for non Bulk Mail customers was set out in his December 2005 price control decision document. Those tariffs are not affected by the decision regarding Bulk Mail tariffs set out in this document

6. Next Steps

This decision paper sets out maximum prices for GPL's Bulk Mail products which will now remain in place until 1st April 2007. The standard postal tariffs are also currently subject to a price control which expires at the end of March 2007. The DG therefore anticipates that GPL will submit a new tariff application in the coming months for changes in postal prices which would come into effect on 1st April 2007.

GPL's next tariff application and the DG's consideration of the company's proposals will take place in the context of the States' consideration of the postal Universal Service Obligation and will be informed by an independent efficiency review of the company commissioned by the DG.

The DG believes that price controls should typically be for two to three years as opposed to only one year controls, although in this instance a one year control was sought by the company. The DG therefore anticipates that the next price control for GPL should be for a longer time period than this current control in order to give certainty to the market. Similarly the DG expects GPL to seek fully cost reflective prices in the next tariff application and thereby reduce further the degree of cross-subsidisation within its product portfolio.

The OUR has already commenced its work programme for this specific activity and will continue to keep the market informed of progress.

ENDS/

ANNEX A Price Control Decision

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 outbound bulk mail services markets 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 paragraph 4 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 August 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 Outbound Bulk Mail rates

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

Product	Price per item at 60g (p)	Price per g above 60g (p)
Bulk Air 120-way sort (flowers)	29.95	0.258
Bulk Sea Priority (4-way sort) –items less than 500g	35.34	0.218
Bulk Sea Priority (4-way sort) – items more than 500g	74.34	0.218
Bulk Sea Priority 120-way sort	25.34	0.218
Bulk Sea Economy 120-way sort	24.58	0.211
Bulk Sea Unsorted (non MOU)	37.20	0.320

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

**ANNEX B Review of Business Plan (Commercially
Confidential)**

**ANNEX C Demand Forecasts (Commercially
Confidential)**