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GUERNSEY

Union Room
Guernsey Post Office

GY1 1AA

Tel : 01481 733589

Mob ; 07781107058

Fax : 01481 713025

e-mail: georgej@guernseypost.com

Branch Secretary

George Jennings

5th December 2006

COMMUNICATION WORKERS UNION FORMAL RESPONSE TO GUERNSEY POST'S PROPOSED TARIFF CHANGES

The Communication workers Union have read through the Draft Decision document from the Office of Utility Regulation. This sets out the Director General's ruling on the proposed tariff increases for Guernsey Post Limited, based on responses to the consultation, an efficiency review of the company and the Office's own modelling of GPL's business plan. The proposed decision covers the tariffs that will apply to a range of postal services from April 2007 to March 2010.

General

1. The first point to make is that it is very difficult to assess the proposed tariffs without access to all the detailed background information relating to GPL's business performance, the efficiency review and the modelling of the company's own business plan. At this stage, therefore, we are only in a position to offer some general comments on the broad thrust of the proposals.
2. Ultimately only the company itself can truly determine whether the tariff rises it has requested from the Regulator will give it the revenue needed over the course of the price control period 2007 - 2010. Unlike the UK, where the Regulator imposed its own price rulings on Royal Mail, the Regulator in this case is rubber stamping the proposed tariffs put forward by GPL. In the UK the union has effectively followed Royal Mail's lead on the question of the required price controls and we have generally presented evidence which supports Royal Mail's own arguments. In the case of GPL, I would suggest we would be hard pressed to submit our own evidence on the economics of the proposed price rises which differs to that of the company.

3. In the context of liberalisation, it is clearly important that GPL are not saddled with a price control that hits the company's income, investment and service standards. Against the backdrop of market opening it is vitally important that the incumbent operator is given the right degree of financial support and room for manoeuvre during the course of the price control. GPL clearly believe that the proposed tariffs will meet their requirements over the coming years. But while we clearly need to take account of what the company itself is saying, we also need to understand that the economic assessment is based on a whole host of variables and longer term forecasts (e.g. in relation to future mail volumes and capital expenditure, likely efficiency savings and changes to GPL's existing product portfolio). The problem is what happens if these factors do not conform to forecast and what impact, if any, will this have on prices. Locking GPL into a three-year price control may therefore prove detrimental if the forecasts on which they are based are inaccurate.

Efficiency savings and forecasts

4. The question of whether the tariffs are appropriate for GPL thus rests on a number of factors, not least the company's own forecasts for future efficient operating and capital expenditure, including a reasonable rate of return. Given the tariff levels rest on a host of assumptions about future operations we may wish to propose a review mechanism in the event that future forecasts prove false. While the modelling arrangements should ensure that forecasts are relatively accurate, there should be some provision within the scope of the price control review to reassess tariffs where actual business performance and future demand does not conform to the forecasts.
5. The question of future efficiency savings is another obvious area of concern. The prices are predicated on what the report calls 'reasonable but achievable' assumptions about efficiency savings. The problem with the report is that it is far from clear where these savings will be delivered and what involvement (if any) the CWU will have in this process. The report talks of total savings amounting to £5.3m over the price control period, but it is far less clear about how and where these savings will be realised.
6. Page 11 of the report makes reference to "the level of staffing" as one area to deliver savings and improve productivity along with "a slight decline in the cost of the retail network" and "limited opportunities" for savings on overheads. The problem is in none of these areas does the report spell out in detail how these savings are to be realised. As a union we need a far clearer idea of how GPL intend to deliver efficiency improvements - will it be via job losses, increased mechanisation, new ways of working or a combination of all three. Once the company has set out how it intends to meet its future efficiency targets the CWU will be in a much better position to evaluate the arguments and propose any alternatives.
7. The DG's report also talks about using the company's cash reserves to absorb some of the increases in costs being passed on by Royal Mail. Page 7 of the report says "the DG believes it is appropriate for the interest earned on cash

reserves to be apportioned to the postal business to offset some of the revenue requirement". This is again a question which, ultimately, GPL itself is in the best position to determine. Is the business prepared to follow these arrangements and can it live with the DG's intention to use a reasonable rate of return on capital at 6.68%? While this appears a reasonable rate (many companies seek double digit returns) it is very difficult to arrive at exactly why this figure has been chosen and thus to ultimately determine if it is appropriate or not.

Summary

8. These initial comments on the Regulator's report focus on some broad arguments and comments. In the absence of access to all the relevant financial data, economic modelling and forecasts, it is very difficult to draw any definitive conclusions on the economics.
9. Since GPL itself has proposed the tariff changes approved by the Regulator we would be hard pressed to challenge this and set out alternative modelling and price control arrangements.
10. The key point is that, at a time of postal liberalisation, it is vital GPL receives the revenues it needs to move forwards as a business. Since so much of the tariffs are predicated on a number of variables and forecasts, it is important the controls can be reviewed and, if necessary, adjusted to reflect any significant changes to future mail volumes and business performance. It is also important the CWU has a clearer understanding of, and involvement in, any debate on efficiency savings to ensure these are warranted and appropriate and to clarify exactly where they will be realised.
11. In relation to the efficiency savings which we have commented on, it is important that it is understood by all parties that this issue and in particular any changes to staffing arrangements, duty patterns, full-time jobs and the overall earnings package available to our members must be dealt with in line with the normal Industrial Relations Framework Procedures.

Finally, although the CWU have not made a detailed review on the actual efficiency audit carried out for by Brockley Consulting for the office of OJR, we would like to make the following comments.

The review is so vague that it is difficult to ascertain how some of the efficiency savings it arrives at are to be implemented. Littered with comments such as, we think and we believe rather than clear stated facts and evidence, it almost requires a review to be carried out on the efficiency review. These glaring inaccuracies can easily be highlighted by the obvious mistakes made in attempting to recommend the changes to be made to some Sunday duties.

Although the CWU have carried out an extensive examination of the review this would be too detailed to reproduce here, but we would happy to share these comments with you, should you wish.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'George Jennings', written over a horizontal line.

George Jennings
CWU Branch Sec (Guernsey)