

6th October 2006

The Director General
Office of Utility Regulation
Suite B1 & B2
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St Peter Port Guernsey
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Dear Sir

COMMENTS ON GUERNSEY POST'S PROPOSED TARIFF CHANGES

Postwatch Guernsey would like to respond to the OUR's Consultation Paper (No: 06/15) on Guernsey Post's Proposed Tariff Changes, which incorporates Guernsey Post's Tariff Submission for the three year period from April 2007 to March 2010.

In October 2005 we submitted a lengthy letter in response to the OUR's Consultation Paper on the proposed tariff changes for the one year period from April 2006 to March 2007. Since then, earlier this year, there was a review of the Universal Service Obligation and, more recently, a detailed efficiency review into Guernsey Post's operational costs. We would make the following comments:

Universal Service Obligation ("USO")

The USO review - the main purpose of which was to mitigate the increased tariffs that Guernsey Post would need to seek from April 2007 - proposed a number of cost-savings. The most contentious proposals related to the withdrawal of Saturday deliveries, and a reduction in the nine postal retail outlets in Guernsey (with the retention of the one outlet in each of Alderney, Herm and Sark). We supported those proposals in the main, on the basis that we felt it was sensible and prudent to seek any potential cost-savings (albeit that the level of suggested savings that might be achievable was rather disappointing) that would avoid swingeing tariff increases going forward, and to maintain "affordability" of postal prices for customers. It is not our intention to reiterate here our views on the USO as those were set out in our letter to the OUR of 17th March 2006.

In the event, the public response to the USO review, as reported by the media, appeared to support the USO remaining unchanged. It is presumably therefore reasonable to conclude, particularly in view of the absence of comments received on the tariff changes now being proposed, that customers are prepared to accept higher costs to maintain the existing levels of service that the Bailiwick enjoys.

We were disappointed with the Commerce & Employment Department's decision not to refer proposals to change the USO to the States, as we felt that maintaining the status quo would have an inflationary impact. In addition, we felt that the review presented our politicians with an important opportunity to consider the issue of how to fund the retail network, and how to retain the existing postal outlets, given that potentially more of those could be lost in the future.

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The tariff proposals

The proposals are that a local letter up to 100g will increase from the current 29p to 33p on 1st April 2007 rising to 36p and then 39p in 2009. The OUR has previously stated that there remains an ongoing need to 'rebalance' the local letter tariff to further reduce the subsidisation of local letters by bulk mail traffic. Particularly given the decision not to change the USO, there was a certain inevitability to the high tariff increases that we are now seeing. However, we would hope that these proposals, which will see an increase of 10p on a local stamp by 2009, will conclude this 'rebalancing' exercise, and that future rises will be in line with RPI.

It is proposed that the UK tariff will increase from the current 34p to 39p on 1st April 2007, rising to 44p and then 49p in 2009. Whilst we note Guernsey Post's statement in its media release that it proposes to increase the weight band for a standard letter from 60g to 100g, we do question how many letters actually fall within the 60g-100g band, and therefore how much of a benefit the increase in the standard letter weight to 100g might actually provide. In addition, we note that the price step for letters to the UK and Jersey between the 100g and 150g weight band rises substantially: an additional 56p in 2007 compared to the current 16p.

Whilst Guernsey Post has pointed out that local mail is cheaper in the Bailiwick than it is in the UK, customers in the UK can choose to use second class mail, which costs 23p compared to the first class mail cost of 32p. We recognise - particularly as Guernsey Post consistently achieves a 95% next day delivery for local-to-local letters - that there is unlikely to be a demand for a second class mail service for local mail, but it may be, given the increasing costs of sending mail to the UK, that a second class service for UK mail would be of interest in the future, particularly in view of Royal Mail's recent introduction of Pricing in Proportion (PiP), with prices based on size as well as weight; whilst Guernsey Post has not yet moved to that system, it may be that its contract with Royal Mail will need to reflect PiP at some future stage.

Concerning the proposals for International mail, we note that the 2007 rate for an Airmail letter of 500g to Europe is proposed to be £5.02, and the 2007 rate for an International Standard Parcel of 0.5kg to Near Europe (Zones 6-8) is proposed to be £17.60. This difference in price is very surprising and appears to be an anomaly - perhaps this requires investigation?

Looking ahead, we are aware that - certainly in the immediate future - there is not a realistic alternative for Guernsey Post than to use Royal Mail services into the UK, and that the costs payable by Guernsey Post to Royal Mail (which from April 2007 will represent 49% of Guernsey Post's total costs) will be increasing further. This does not seem to bode well for our hoped for RPI only tariff increases going forward! As we have no information concerning the contract with Royal Mail (on the grounds of commercial sensitivity), we are reliant on the OUR, and its consultants, to evaluate whether the terms of that contract represent value for money and the best service available for the Bailiwick.

Concerning the proposed three year price control period, whilst we understand it is unclear as to whether the level of proposed tariffs for the third year (from April 2009) is correct, bearing in mind the possible uncertainty with the Royal Mail contract terms by that stage, on balance we welcome the intention to have a longer price period, as that will provide certainty both for Guernsey Post and its customers for a reasonable length of time going forward.

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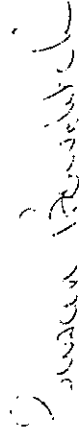
Efficiency review

We welcomed the opportunity to meet with a member of the team of consultants who recently carried out the detailed efficiency review into Guernsey Post. As the OUR is aware, we have previously raised concerns in relation to a number of areas relating to Guernsey Post's operating costs, and in discussing those with the consultant, we were assured that most of those concerns would be addressed as part of the review (although there were certain aspects that were outside the scope of the review). Whilst no details have been provided (and it is somewhat frustrating that the conclusions of the review will - we understand - only be released when the OUR publishes its draft Decision on the tariff proposals), we understand that several areas have been identified where efficiencies could be achieved, and that as a direct result of the review, the tariff increases being sought are less than had originally been envisaged.

We understand that some of the potential cost-savings identified include areas that we have previously highlighted to Guernsey Post (in some cases going back two years) where we perceived action could be taken to achieve savings. Whilst we are pleased that (it appears) there will be a positive outcome to the review, we have for some time felt that certain of our suggestions to Guernsey Post management had been rather disregarded and not given serious consideration. This is regrettable, given that the input of our members - all of whom give their time voluntarily and are keen to see Guernsey Post's continued success - has only ever been intended to be constructive and helpful.

We thank you for the opportunity to comment.

Yours faithfully
For Postwatch Guernsey



David Inglis
Chairman

