



Office of Utility Regulation

Guernsey Post Tariffs

Information Note

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1. Introduction

The Office of Utility Regulation (OUR) published its decision on postal prices in January 2011 for the three years to March 2014. In this decision, the Director General (DG) determined the individual prices Guernsey Post (GPL) could charge for 2011-12 and the overall revenue GPL could obtain from its customers in 2012-13 and 2013-14 for the products the OUR controls.

In its decision document, the OUR explained that its intention for the last two years of its price control was to move away from controlling individual prices so as to give GPL a larger measure of pricing freedom. Subject to its licence condition, GPL would be thus able to set prices according to commercial and management considerations.

The competitive pressures applied to the bulk mail industry since the announcement that LVCR (Low Value Consignment Relief) would be abolished from April 2012 strengthen the OUR's resolution to implement a mechanism that allows pricing freedom to GPL. To do this, the OUR intends to identify two baskets of products and services, the bulk mail basket and a basket containing most of the other products and services provided by GPL.

The OUR will cap the revenue that GPL receives from each basket so that GPL's total revenue is not larger than the OUR allowed in its price control decision (subject to various adjustments).

Bulk mail basket – This basket contains products which are dispatched in large volumes from a single point of origin and addressed to their destinations by means of machineable address labels. They may be already sorted according to their UK destinations.

Non-bulk mail basket – This basket mainly consists of products charged at public or business tariff. These two groups of tariffs (public and business) mirror each other but differ to the extent that business mail (distinct from bulk mail) is slightly cheaper to process than mail sent by the general public and therefore its tariff are slightly lower. Business and Public tariffs provide a comparator and consequently a check on each other so that no single group of tariffs is likely to be unduly raised compared to the other. For these reasons it seems appropriate to keep both types of mail in the same basket.

GPL is already free to vary its prices to bulk mailers according to the type of postal items they send (packets, large letters, letters) and the amount of processing done to sort mail in advance of handing it over to GPL. GPL may also offer other discounts to bulk mailers subject to its usual licence conditions which ensure that there are no competition distortions in the market for GPL's services. In particular, discounts offered by GPL

have to be transparent and determined by objective conditions so that they can be offered to all the mailers that satisfy them.

The operation of two baskets also ensures that customers of products in the non-bulk mail markets (public tariff customers, for instance) only pay through their tariffs for the reasonable costs associated with the service being provided. .

The use of two separate baskets also reflects the fact that the specific cost structure of each is different. Essentially, Guernsey Post bulk mail includes a much greater proportion of variable costs such as Royal Mail charges but would not reflect the cost of various access points to the network such as Post Offices and letter boxes, which are used by public tariff customers. Public Tariffs also reflect the much greater labour and overhead costs associated with the provision of the postal network across the Bailiwick

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