



Office of Utility Regulation

2006 Postal Pricing Review – Process and Timetable

Consultation Paper

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1 Introduction

In March 2004 the Director General (“DG”) of Utility Regulation, in line with States policy and States Directions, capped the prices that Guernsey Post Limited (“GPL”) could charge for reserved postal services in which it has a legal monopoly (i.e. those services provided for a price below £1.35). These prices were capped up to 31st March 2006 and over the intervening period GPL were required to undertake a number of tasks, including a review its business plan taking into account actual events in the market in the light of price changes that came into effect in 2004 and to submit new pricing proposals and business plan to OUR by mid-2005.

The purpose of this document is to explain the process and timetable that the OUR intends to follow in carrying out its review of GPL’s pricing proposals for 1st April 2006. By setting out the intended process and timetable for the review in advance, OUR hopes to make it easier for interested parties to identify how and when they can participate in the review and provide their responses to the OUR. The OUR is seeking to encourage all interested parties to participate in the review by commenting on consultation documents and as appropriate, through bilateral meetings with the OUR. Active, extensive and informed participation by interested parties will help to ensure that the OUR’s decisions at the end of the review take into account as wide a range of views as possible.

The remainder of this Consultation Paper is organised as follows:

Section 2 - sets out the procedures for individuals and organisations wishing to respond to this document and provides the timetable for submitting responses.

Section 3 - provides background information on the legal, policy and licensing framework, including GPL’s relevant licence conditions. It also summarises the OUR’s ongoing postal work programme as well as developments in the UK market which interested parties should be aware of.

Section 4 - describes the process and the timetable that the OUR intends to adopt in the review of GPL’s proposals for prices from 1st April 2006 identifying key milestones that will affect interested parties, and also sets out the information the OUR will require to perform its review.

Annex 1 to this consultation paper provides a brief summary of Royal Mail’s Size Based Pricing Proposals which are mentioned in section 3.4 as one of the developments that will be taking place in the UK postal market during the OUR’s review of GPL’s pricing proposals.

This consultative document does not constitute legal, commercial or technical advice. The Director General is not bound by it. The consultation is without prejudice to the legal position of the Director General or her rights and duties to regulate the market generally.

2 Consultation Procedure and Timetable

The consultation period will run from Friday 10th September 2004 to Friday 8th October 2004. Written comments should be submitted before 5.00pm on October 8th 2004 to:

Office of Utility Regulation
Suite B1 & B2,
Hirzel Court,
St. Peter Port,
Guernsey GY1 2NH.

Email: info@regutil.gg

All comments should be clearly marked **“Comments on 2006 Postal Pricing Review: Process and Timetable - Consultation Paper”**.

In line with the policy set out in Document OUR 04/01 – “Regulation in Guernsey; Revised Consultation Procedures”, the DG intends to make responses to the consultation available on the OUR website. Any material that is confidential should be put in a separate Annex and clearly marked so that it can be kept confidential.

The DG regrets that she is not in a position to respond individually to the responses to this consultation, but she will publish a report on the consultation after all comments have been considered.

3 Background

This section provides some background information on the Guernsey postal sector, including the policy framework and a number of key regulatory developments that will take place over the next 18 months. It also describes some important issues that are likely to arise in the UK postal market over this time period and explains why developments in the UK have a direct effect on postal services in Guernsey.

3.1 Legislation and States Directions

Guernsey's regulatory legislation sets out the overarching objectives of the regulatory regime in all of the regulated sectors (telecommunications, post and electricity) and provides for the States of Guernsey to issue certain directions to the DG in each of these sectors. This legislation along with States Directions set the framework within which the DG regulates the postal sector.

First, the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 sets out the overarching objectives that the DG must take into account when exercising her functions and powers in any of the regulated sectors. The DG has a duty to promote (and, where they conflict, to balance) a number of objectives, including¹:

- a. protect the interests of consumers in terms of prices, quality, service levels, permanence and variety of utility services;
- b. secure the provision of utility services that satisfy all reasonable demands for such services within 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;
- 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;

Second, the Post Office (Bailiwick of Guernsey) Law, 2001 (the Postal Law) sets out the DG's specific duties and functions in the postal sector and also sets a number of parameters as to what types of services should be licensed, and therefore regulated. For example, the Law provides that a range of postal activities do not require licensing, from personal private delivery to the delivery of court documents and banking instruments².

Third, the States of Guernsey has set out in Directions to the DG, some key policies that the DG is obliged to implement. Briefly, the States of Guernsey directed the DG to licence GPL and to require GPL to provide a "universal postal service" which was set out in States Directions as follows³:

¹ Section 2 of the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001 sets out these objectives in more detail

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

³ States Resolutions 2001, pages 78-80 (item no 14)

“... 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.”*

Finally, the States directed that GPL should be provided with the exclusive right to provide some postal services (known as “reserved services”) insofar as this is needed to enable and ensure the universal postal service is delivered. The relevant States Direction⁴ 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 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”.

To comply with this Direction, the DG made an Order in accordance with section 9 of the Postal Law⁵ that states that any postal services that are provided for a price greater than £1.35 (the “non-reserved services”) can be provided by any person or business without a licence. All services in Guernsey that are provided for a price of less than £1.35 are deemed to be reserved services (the “reserved sector”) and GPL is the only operator entitled to provide these services. This was agreed by GPL at that time as an appropriate range of services to reserve to the company in order to enable it to meet its universal service obligation.

3.2 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 Guernsey⁶.

In accordance with Condition 18.3 of GPL’s postal licence, the DG may regulate the prices of a postal licensee where that licensee is dominant. The relevant licence condition states:

⁴ States Resolutions 2001, pages 78-80 (items no 15 and 16)

⁵ The Post Office (Reserved Postal Services) Order, 2001

⁶ Document OUR 01/16 Decisions under the Post Office (Bailiwick of Guernsey) Law 2001 – Decision Notice and Report on the Consultation Paper.

“The Director General may determine the maximum level of charges the Licensee may apply for Licensed 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 or categories of Licensed Services or any combination of Licensed 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 the determination applies.”*

It was under this condition that the DG capped GPL’s prices for products within the reserved sector in March 2004.

3.3 OUR’s Postal Work Programme: Key Milestones

The OUR is currently working on three issues which are closely related to the 2006 price control review:

- Inclusion of non licensed services within the scope of price controls;
- Consideration of size of reserved sector; and
- Reviewing GPL’s compliance with its quality of service targets.

Each of these issues will impact on any decision in relation to GPL’s proposed prices from 2006 onward and they are described in more detail below.

3.3.1 Price Regulation of Non-Licensed Services

The DG has recently published⁷ a Notice of Proposal to Modify the Licence issued to Guernsey Post Ltd under Section 2(1) of the Post Office (Bailiwick of Guernsey) Law, 2001. The DG has proposed to amend condition 18 to include non-licensed services within the scope of price controls set by the OUR.

The reason for this modification is to enable the OUR to regulate GPL’s prices where it is found to be dominant, irrespective of whether the services come within the reserved sector (below £1.35) or outside the reserved sector.

In the event that this modification is implemented after consideration of written representations and objections, then the OUR will proceed to determine whether GPL is dominant in any relevant markets for non-licensed postal services. If GPL is found to be dominant in any such market, the OUR will proceed to take this into account when reviewing GPL’s proposed prices for 2006 and whether any of those prices should be subject to price control.

⁷ Document OUR 04/18 – Extension of Powers to Enable Control of Postal Prices Outside the Reserved Sector: Statutory Invitation to Comment

3.3.2 Size of the Reserved Sector

The threshold of the reserved sector was set in 2001 at what was then 5 x the price of a 60g item of mail in the UK. The value of this was £1.35, meaning that GPL has a monopoly on all mail items below this value.

In February 2004 GPL asked the OUR to make a determination that the reserved sector threshold should track the 5 x 60g UK price. Given price increases in the UK, this would raise the threshold of the reserved sector and increase GPL's monopoly to include all mail items priced below £1.60.

A decision of this type would clearly reduce the contestable postal market in Guernsey and reduce the opportunities for other parties to enter the market. Therefore the OUR explained to GPL that any consideration of changes to the reserved sector should involve a public consultation to allow interested and potentially affected parties to comment on the impact of any change.

GPL has been requested to reconsider its original proposal and make a submission to the OUR by 1st November 2004 on the proposed size of the reserved sector which is required to fund the company's universal service obligation. The OUR requires that GPL fully justifies any request to change the size of the reserved sector and as indicated above any consideration of changes to the reserved sector should involve a public consultation during 2004/05.

3.3.3 Compliance with quality of service targets

In August 2003, following on from previous consultations and publications on the quality of postal services to, from and within the Bailiwick of Guernsey, the DG issued a Direction⁸ to GPL in relation to quality of service ("QoS") target levels. This Direction formalised the requirement on GPL to comply with certain specific targets that had already been widely consulted on.

GPL is required to publish its performance for each six month period starting on 1st October 2003, within one month of the end of the reporting period. In addition GPL is required to submit to the OUR an annual return for the previous 12 months demonstrating compliance with each of the specified targets for each of the specified quality of service indicators.

The first QoS annual report from GPL is due at the end of October 2004 at which time GPL is required to demonstrate its compliance with the first year targets.

3.4 Relevant Developments in the UK

3.4.1 Importance of the UK Postal Market for Guernsey

Royal Mail is GPL's major trading partner with over 70% of GPL's mail volumes either being received from Royal Mail or delivered to Royal Mail for onward delivery. Whilst GPL's postal network does "interconnect" directly with Jersey Post's network, the vast majority of mail leaving or entering the Bailiwick does so via Royal

⁸ Document OUR 03/24R Guernsey Post Limited: Quality of Service Notice of Direction to Guernsey Post Limited under condition 14.1 of its Licence to provide Postal services

Mail's network. Almost 90% of mail leaving the Bailiwick is destined for the UK, with a large proportion of all incoming mail to the Bailiwick being posted in the UK.

Furthermore, apart from the mail going to Jersey, all mail to international destinations outside the UK also currently passes through Royal Mail's network. Similarly, incoming international mail to the Bailiwick from outside the UK arrives via Royal Mail's network. In addition Royal Mail, as the universal service provider in the UK, is the only network operator capable of delivering normal letter post to any address in the UK and collecting such letter post from its collection points at the present time.

This clearly demonstrates the importance of the UK postal market in general and Royal Mail in particular to GPL. Consequently it is important to take into consideration the developments in the UK market and regulatory regime over the next 18 months when considering GPL's pricing proposals. The UK postal market will face a number of changes over this period including:

- a lowering of the maximum reserved sector for the postal market from mail items weighing less than 100g to 50g or / and from three times to two and half times the basic postal tariff by January 2006 in compliance with European legislation⁹;
- further market liberalization in April 2005 and the development of an access code for other operators to gain downstream access to Royal Mail's network;
- a review by Postcomm (the UK regulator) of Royal Mail's price control with new price controls due to come into effect on 1st April 2006; and
- a review by Postcomm of Royal Mail's Size Based Pricing ("SBP") proposals.

The first two developments listed above are part of the liberalization process in the UK which should provide greater opportunities over the medium term for GPL in relation to its mail-handling partners but are unlikely to impact in the short term.

The latter two are key issues that will impact directly on GPL and its services over the next 18 months and these are described in more detail below.

3.4.2 Review of Royal Mail's Price Control

Royal Mail's existing price control and service quality obligations are due to be revised on 31 March 2006. Earlier this year Postcomm (the UK economic postal regulator) started its own work project in reviewing the current price control¹⁰ which involved a multi stage consultation process. Postcomm anticipated finalizing its indicative timetable in August 2004, but the response to the first consultation has yet to be published.

Parties interested in the OUR's consultation are advised to monitor Postcomm's website for the development of the price control in the UK. The key dates in Postcomm's indicative timetable are:

April 2005: publication of Postcomm's initial proposals

⁹ European Postal Services Directive (97/67/EC as amended by Directive 2002/39/EC)

¹⁰ Postcomm 2006 Royal Mail Price and Service Quality Review, Consultation about Process, Timetable and Main Issues for the Review.

October 2005: publication of final proposals
February/March 2006: publication of final decision, and
1 April 2006: new price control and service quality standards.

Documents published by Postcomm can be accessed at www.postcomm.gov.uk.

3.4.3 Review of Royal Mail's Size Based Pricing ("SBP") Proposal

Royal Mail applied to Postcomm in August 2003 to change its pricing structure from one primarily based on the weight of a mail item to one primarily based on the size (and to a lesser degree weight) of a mail item. The proposal represents a major change to Royal Mail's pricing structure and would affect most postal users to varying degrees.

Under Royal Mail's proposal, the prices for 'letters' at the basic weight step for items weighing up to 60g would be unchanged. This includes the basic price of a first and second class stamp of 28p and 21p respectively. Royal Mail's other prices for business and bulk users at this weight step would also be unaffected. Together this represents about 70% of all the mail volume handled by Royal Mail. Therefore, the changes to prices under Royal Mail's SBP proposal would affect about 30% of mail volumes.

A summary of Royal Mail's SBP proposals are included in Annex 1 of this document for information (interested parties are encouraged to view Royal Mail's website – www.royalmail.com - to see the proposals in their entirety). The general effect of SBP would be to increase prices for relatively light but large or unusually shaped mail items, while decreasing prices for small and thin, but relatively heavy mail items.

Postcomm has so far completed its own initial analysis of Royal Mail's SBP proposals and conducted one public consultation. The first consultation was primarily designed to facilitate a wide and informed debate on the issues, including the principle of SBP and obtain views about possible implementation issues for SBP, such as the appropriate length of the notice period for the introduction of SBP. Responses to this first consultation are available directly from Postcomm's website (www.postcomm.gov.uk). Postcomm will shortly publish its response to this consultation and its proposed decision on whether, and if so how, SBP should be introduced.

Royal Mail's application to Postcomm in August 2003 sought to introduce SBP from 1 April 2005. Royal Mail had expected that this would give a notice period of about one year, as it expected Postcomm to have made a decision about its proposal by March 2004. Given Postcomm's need for further work to assess Royal Mail's cost information as part of the 2006 price control and service standards review, as well as the need for an adequate period of notice for customers prior to the introduction of SBP, Postcomm consider that it might be possible for SBP to be introduced later in 2005. However, it is possible, depending on the progress with the further work to assess Royal Mail's cost information and the length of the customer notice period that the UK regulator considers appropriate, that if the proposals are accepted, SBP would not be introduced until at least April 2006.

3.4.4 Conclusion

Changes to Royal Mail's pricing structure or levels are likely to have a knock on effect on Guernsey postal customers because Royal Mail may well seek to change how it charges Guernsey Post Ltd for delivering mail to match any new pricing structure in the UK.

While it is not possible to anticipate the outcome of these developments with certainty, or how GPL will chose to react to such developments in providing its own services, it is clear that if there were to be increases in prices in the UK and/or a change to SBP, and these changes were to flow through to the Guernsey market, then Guernsey customers would be affected in a way that is similar to the effect on postal customers in the UK.

4 OUR Postal Price Review Process

When the OUR decision on the first price control for GPL's prices for reserved services was published in March 2004¹¹, it set a short term price control up until 31st March 2006. This was done for a number of reasons, including the requirement for more robust business planning for longer term price setting, the need to monitor major changes in the Guernsey and UK postal market, and the need to improve information on which the OUR can base future pricing decisions.

As the current price control ends on 31 March 2006, it is necessary to undertake a new price review to consider postal prices that should apply from 1 April 2006. This section of the document sets out a programme of work to achieve such a review in a timely fashion while providing an opportunity for interested parties to participate and comment on the review:

- Section 4.1 describes the process of price control review, notes a range of other interlinked and dependent work items, sets out the OUR work programme, the work required to be carried out by GPL and, crucially, points in the process where the OUR will seek information from all affected parties.
- Section 4.2 describes the information that the OUR will need to arrive at a decision, both from GPL and from other interested parties; and
- Section 4.3 sets out a draft timetable for the process to help interested parties to schedule their input into the process.

The OUR is seeking input and comments on the process and timetable and will finalise these following consideration of any comments. However, while the OUR is open to suggestions in relation to the process and timetable, it is not proposed to adjust the final date for the implementation of new prices (i.e. 1st April 2006).

4.1 Price Review Process

The OUR intends to follow a multi stage consultation process in preparing for the review of GPL's prices. The following are the key milestones in the process:

4.1.1 Consultation on Price Review Process and Timetable

This first consultation addresses the process, information requirements and timetable for the overarching pricing review. The OUR intends to finalise the timetable following consideration of responses, in November 2004.

4.1.2 Consultation on modifying GPL Licence

In parallel with this consultation, the OUR has published a consultation on a proposal to amend GPL's licence to enable the OUR to consider the application of price control to services provided by GPL that are outside the reserved sector. Following consideration of responses to that consultation, the OUR intends to publish a decision in October 2004.

¹¹ Document OUR 04/02: Guernsey Posts Proposed Tariff Changes – Decision Notice and Report on the Consultation

4.1.3 Review of Dominance in relation to non-licensed services

Should the OUR conclude that the GPL licence should be amended, then the OUR will proceed with a consideration of GPL's position in the market for non-licensed postal services, and, if it is proposed to consider making a finding of dominance in a relevant market, an appropriate consultation will be undertaken on any such proposals.

If appropriate, it is proposed that this work stream will take place over the period from November 2004 to February 2005 and any consultation will be scheduled to take place during that period.

4.1.4 Review of Size of the Reserved Sector

GPL has been required to resubmit its fully justified proposals on the size of the reserved sector by 1st November 2004.

Dependent on those proposals, the OUR may consult publicly on the size of the reserved sector and any proposed changes, thereby allowing interested parties to comment on any changes. This consultation is likely to take place in the period November 2004 to February 2005 but this is dependent on the quality and detail of GPL's submission and any requirement to seek additional information could impact on this consultation.

4.1.5 Consultation on GPL Pricing Proposals

GPL will be required to submit its business plan covering the period 2004/05 to 2010/11 in September 2005 along with its pricing proposals. The confidential business plan will set out the economic justification for the company's pricing proposals.

The OUR will then consult on GPL's proposals as was done with the pricing proposals made in 2003. The consultation will set out details of the OUR's approach to reviewing GPL's proposals and the OUR's proposals on key issues including, inter alia, the scope, duration, type of control and the appropriate cost of capital. This consultation document will include a non-confidential summary of GPL's pricing proposals. It will be published upon receipt of the proposals in September 2005 and the consultation is intended to run during September/October 2005.

4.1.6 OUR Examination of Business Plan

Upon receipt of GPL's business plan and pricing proposals the OUR will analyse the projections in the business plan to develop forward looking, efficient costs required by the activities and products covered by the price control. The OUR is committed to adopting a rigorous approach to assessing GPL's pricing proposals, taking into account the statutory objectives set out in the Regulation Law and will undertake its own analysis and financial/economic modelling exercise.

The consideration of the business plan is intended to take place over the period from September 2005 to December 2005. During that period, the OUR will consider a range of information from various sources, including GPL's confidential Business Plan submitted in support of the pricing proposals. However, in circumstances where the DG has not been provided with sufficient information, or information has not been

made available to her, she may need to rely on such other sources as she considers appropriate, such as estimates and benchmarking studies.

It is also during this period that the OUR is likely to seek information and input from affected parties in the context of the OUR consultation on the pricing proposals. Information requirements are considered in more detail in the next section. The DG reserves the right to take all relevant information into account and to adapt the work required to finalise this matter as necessary. The OUR intends to publish its decision on the outcome of the pricing proposals by the end of December 2005.

- Q1.** *Do respondents consider that the multi-stage consultation process described above provides interested parties with the opportunity to engage fully in the OUR's review of the GPL's pricing proposals?*
- Q2.** *Do you consider that there are any other mechanisms or process that the OUR can use to improve the consultation process? If so, please explain what additional or alternative options you propose and why?*
- Q3.** *Do you consider that there are any additional issues that should be addressed in the price control review process? If so, please explain what issues and why as well as your proposals for how they should be addressed?*

4.2 Information Requirements

To arrive at a decision on postal prices in the reserved sector (and any relevant market for non licensed services that may be appropriate), the OUR must have access to the best available information.

This section briefly describes some of the information that the OUR will require and identifies the parties who will be asked to provide it. The section is designed to help interested and affected parties to prepare for their input into the price review process.

4.2.1 GPL Business Plan

When submitting its proposed prices for postal services, the OUR will require GPL to submit a detailed business plan and financial model in support of those proposals. The OUR intends to engage with GPL over the coming months to ensure that the company's business plan will satisfy with the OUR's requirements and can be readily incorporated within the OUR's own economic model.

The business plan underpinning GPL's pricing proposals will comprise both the financial model and underlying rationale and justification underpinning the key assumptions including, *inter alia*:

- Volume forecasts
- Capital expenditure projections;
- Cost of key inputs;
- Allocation of costs to products;
- Cost of capital assumptions;

- Anticipated efficiency savings and any associated restructuring and/or rationalisation of the operation; and
- The impact these have on price levels.

Hence the financial statements and model will represent one aspect of GPL's business plan and the OUR will be particularly interested in ensuring GPL's business plan is premised on efficient capex and opex forecasts. Therefore GPL should ensure that comprehensive justifications are provided throughout its submission. Some examples of issues to take into consideration when providing justification are set out below for guidance. However, these examples are not exhaustive, but merely serve to illustrate the type of information the OUR will expect to receive;

- where historic information is used to underpin future projections, details of the information used should be provided along with objective justifications as to why similar trends could be expected in the future;
- in relation to the company's existing asset base, GPL will be required to justify an economically efficient asset base; and
- project appraisals for any major capital expenditure projects which demonstrate the benefits that the investments will bring, particularly in relation to creating operational savings and providing Guernsey's consumers with a better, lower cost and more reliable service.

GPL will be required to submit its business plan information by September 2005 to meet the timetable set out in section 4.3.

Q4. Do respondents consider that there is any other information that the OUR should request GPL to include within its business plan to support its pricing proposals? If so please explain what information and why you think it would be helpful.

4.2.2 Other Information Sources

The OUR must balance a number of issues when considering an application for price changes. As explained in section 3.1 the OUR has a statutory obligation to take account of the impact of any price changes on the wider economy. At the same time, the OUR must ensure that Guernsey retains a robust and sustainable postal service that will continue to be able to serve the needs of postal users into the future. Achieving these aims involves balancing the interests of the wider economy, GPL, and a range of different postal service users, all of whom will have different priorities.

To enable the OUR to consider as thoroughly as possible the impact of proposed price changes on customers and groups of customers, the OUR will invite interested parties to provide detailed information in response to the consultation on GPL's pricing proposals which will be published in September 2005. In particular, the OUR would welcome quantitative information from bulk mail businesses demonstrating the impact of the proposals on their business.

The OUR would welcome information of the following type to help inform its decisions:

- Demonstration of how a company's demand for postal services would be affected by proposed price changes (i.e. price elasticities of demand);

- Modelling results showing the impact of price changes on a company's financial performance;
- Explanation of the impact of price changes on the company's strategy (e.g. investment and employment levels);
- Historical actual mail volumes and average weights on a quarterly basis (disaggregated by types of products if considered helpful);
- Projected mail volumes and average weights on a quarterly basis (again disaggregated by types of products, if demand for products are likely to vary i.e. total average weights may vary over time).

The OUR believes that this information would be highly sensitive and commercially confidential and proposes to keep such information confidential. Respondents should clearly mark confidential information in their responses. The OUR would also welcome information from other postal users, including those postal user that are large customers and those postal users for whom postal services comprise a significant cost.

The OUR notes that the bulk mail postal users (and all other users) are not obliged to provide this information to the OUR. However, the provision of this data will enable the OUR to independently assess GPL's volume forecasts and business plan and allow a more thorough and focussed consideration of the concerns of parties that will, ultimately, be affected by changes in prices that might take place. In the absence of this information the OUR will seek to base its decision on the best and most comprehensive information available.

Q5. Do respondents agree that this range of information would be helpful for the OUR in assessing GPL's pricing proposals? If not please explain why and suggest any alternative information or additional information that you think the OUR should consider.

4.3 Timetable

Previous sections give some indication of the key consultations and information requirements that the OUR considers are crucial to the review of 2006 postal prices. This section pulls these together and sets out a proposed timetable for the work required to complete the review. A key driver in setting this timetable is the desire for any new prices to be publicly known well before the implementation date of 1 April 2006 so as to enable all parties to prepare and plan for those new prices. Table 1 below sets out the OUR's proposed timetable on a month by month basis.

Table 1: OUR's Draft Indicative Timetable for 2006 Postal Pricing Review

Task	2004				2005												2006			
	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr
OUR Process Consultation	■	■																		
Licence Modification Consultation	■																			
Licence Modification Decision		■																		
OUR Process Decision			■																	
OUR Review of Reserved sector			■	■	■	■														
OUR Review of Dominance (if needed)			■	■	■	■														
GPL Preparation of Business Plan							■	■	■	■	■	■								
Submission of Tariff Application													■							
Consultation on Tariff Application													■	■						
OUR Decision on prices																■				
New Prices Implemented																				■

This timetable is provided to give interested parties, including customers and GPL, an understanding of the tasks that need to be completed in order to review postal prices and arrive at a timely decision on what new prices should be. It also sets out the process the OUR intends to adopt for the review of GPL's pricing proposals, and most importantly the various occasions when all parties will have opportunities to contribute to the process. In brief, those occasions are:

- September/October 2004** Comment on this consultation on price review process
- September 2004** Comment on proposals to modify GPL licence to enable the consideration of price control for non licensed services
- November 2004 – February 2005** Comment on consultation on dominance in relevant market for non licensed services (if appropriate)
- November 2004 – February 2005** Comments on review of the size of the reserved sector (if appropriate)
- September/October 2005** Comments on GPL pricing proposals and submission of confidential information to assist OUR decision making process

Q6 *The OUR would welcome interested parties comments on the draft indicative timetable for the pricing review and any changes that might be considered appropriate. If you consider that changes would be appropriate, please explain your reasons.*

ANNEX 1 Summary of Royal Mail's SBP Proposals

This annex summarises proposals by Royal Mail, the UK universal postal service provider, to introduce size based pricing (SBP). Interested parties requiring additional information are encouraged to review Postcomm's, Royal Mail's and Postwatch's websites¹² where considerably more information is available.

Royal Mail's proposal would introduce three 'sizes' of postal items:

- letters – a postal item that does not exceed 240mm by 165mm¹³, with a maximum thickness of 5mm and a maximum weight of 100g;
- large letters – a postal item that does not exceed 353mm by 250mm¹⁴, with a maximum thickness of 10mm and a maximum weight of 500g. These items are commonly known as "flats"; and
- packets – a postal item that does not meet either of the other specifications, up to a maximum weight of 1kg.

In addition to the maximum weights for each format, Royal Mail's proposal includes one weight step for large letters and packets at 250g. The table below shows the pricing structure proposed by Royal Mail for SBP.

Royal Mail's Proposed Pricing Structure

Format	Letter	Large letter	Packet
Weight Step (g)	-	250	250
Maximum Weight (g)	100	500	1,000

The specifications for the size and weight bands for public tariff letter services under Royal Mail's SBP proposals are set out below.

Proposed New Size	Max. Thickness	Weights	Content would include
Letter Not to exceed 240mm x 165mm. larger than A5 (half sheet of standard paper)	5mm	0-100g	Most letters, postcards, bills and statements, some brochures & most birthday cards.
Large Letter Not to exceed 353mm x 250mm. larger than A4 (standard sheet of paper)	10mm	0-250g 251-500g	Large letters (typically unfolded). Most brochures, company reports, magazines. Most larger birthday cards.
Large Packet Any item more than 10mm thick or longer than 353mm, or heavier than 500g.		0-250g 251-1000g	CDs, DVDs, VHS cassettes, some magazines, prints and posters in large or cylindrical packaging, flower boxes.

¹² <http://www.psc.gov.uk/Index2.html>, <http://www.royalmailgroup.com/aboutus/aboutus11g.asp>, and <http://www.postwatch.co.uk/issues/CurrentIssues.asp?id=12>

¹³ These dimensions are slightly larger than an A5 size piece of paper

¹⁴ These dimensions are slightly larger than an A4 size piece of paper.

Royal Mail's SBP proposals would apply to the following products:

- First and Second Class public tariffs;
- Flatsort 12 (first and second class);
- Mailsort 1400 (all classes);
- Packetpost (first and second class);
- Packetsort 12 (first and second class);
- Presstream (first and second class);
- Response Services (first and second class); and
- Walksort (first and second class).

The indicative prices put forward by Royal Mail are set out below. These are purely illustrative as these would be amended to take account of price changes, including inter alia mailsort reengineering and other pricing initiatives. These are of course subject to Postcomm's overall approval of Royal Mail's SBP proposals.

Indicative Royal Mail Public Tariff Prices (current prices in brackets)

Format	Weight	First Class	Second Class
Letter	0-100g	28p (28-42p)	20p (20-34p)
Large Letter	0-250g	46p (28p)	38p (20p)
	251-500g	83p (£1.74)	70p (£1.42)
Packet	0-250g	93p (28p)	81p (20p)
		£1.79 (£3.67)	£1.50 (£2.04)

For its Mailsort 1400, Presstream and Walksort products, Royal Mail is proposing to include a fourth category of postal items called 'A3 packets'. To qualify for this category a postal item would fail to meet the specifications of letters and large letters, but be no bigger in size than a standard A3 piece of paper (297mm x 420mm). Indicative prices are again shown below.

Indicative Royal Mail Mailsort 1 & 2 1400

Format	Weight	Mailsort 1 Directs	Mailsort 1 Residues	Mailsort 2 Directs	Mailsort 2 Residues
Letter	0-100g	24.0p	28.0p	17.4p	18.4p
Large Letter	0-250g	34.2p	40.0p	27.8p	29.4p
	ea extra 1g upto 500g	0.120p	0.140p	0.108p	0.114p
A3	0-250g	57.5p	68.8p	50.0p	53.0p
	ea extra 1g upto 500g	0.138p	0.165p	0.135p	0.143p
Packet	0-250g	71.9p	86.0p	62.5p	66.2p
	ea extra 1g upto 500g	0.080p	0.096p	0.085p	0.090p
	501g-1000g	92.0p	£1.10	83.8p	88.8p

/ENDS