



Commission for  
**Communications Regulation**

# **An Post's price application: Consultation on ComReg's consent to change the charges of certain postal services within the scope of the universal postal service relating to postal packets weighing less than 50 grams**

## **Consultation**

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**An Coimisiún um Rialáil Cumarsáide**

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# 1 Introduction

- 1 Following ComReg's Information Notice (Document No. 12/109<sup>1</sup>) and a supporting report from Frontier Economics<sup>2</sup>, An Post submitted an amended price application to ComReg on 19 October 2012, seeking to increase the charges for certain of its postal services within the scope of universal postal services relating to postal packets weighing less than 50 grams.
- 2 Under section 30(12) of the Communications Regulation (Postal Services) Act 2011 ("2011 Act"), the price increases proposed by An Post require the prior consent in writing of ComReg.
- 3 ComReg, in considering whether to consent to An Post's proposed price increases, must take into account the potential effect of the proposed increases on the availability of a universal postal service within, to and from the State, at an affordable price for the benefit of all postal service users. ComReg must also assess whether the increased prices for the universal postal services, if introduced, would comply with the tariff requirements set out in section 28 of the 2011 Act, which include that tariffs for a universal postal service must be affordable, cost-oriented, uniform, transparent, and non-discriminatory.
- 4 Having regard to the applicable provisions of the 2011 Act and the views expressed by Frontier Economics in its supporting report<sup>3</sup>, this Consultation sets out ComReg's preliminary views in relation the various price increases sought by An Post.
- 5 ComReg's preliminary views, as set out herein, are based in large part on information that is currently available to it, much of which was provided by An Post. Therefore, to supplement the information available to ComReg, ComReg is very interested to hear the views of all interested parties and in particular An Post's customers before making any final determination in this matter. In making its final determination, ComReg will balance An Post's need to ensure that it is financially capable to continue to provide the universal postal service against the entitlement of postal service users to have an affordable universal postal service.

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<sup>1</sup> 'Update on the review and assessment of An Post's application for changes to the charges for postal services within the scope of the universal postal service' dated 9 October 2012

<sup>2</sup> Redacted version published as Document No. 12/109a on 9 October 2012

<sup>3</sup> Redacted version published as Document No. 12/138a

## 2 Executive Summary

- 6 On 19 October 2012, in accordance with section 30(12) of the Communications Regulation (Postal Services Act 2011 (“2011 Act”), An Post submitted an application seeking ComReg’s consent to increase its prices for certain postal services within the scope of the universal postal service relating to postal packets weighing less than 50 grams. An Post has not increased its prices for such services since March 2007 and appropriate increases are therefore likely to be warranted. It is the quantum of those increases, and their compliance with relevant provisions of the 2011 Act, which is the subject of this consultation.
- 7 An Post does not require ComReg’s prior consent to increase prices for its postal services within the scope of the universal postal service for postal packets that weigh *more* than 50 grams and earlier this year An Post did increase its prices for such services.
- 8 An Post’s application to increase its prices is made in the context of a substantial loss of business in recent years. In common with the postal industry in most other countries, this recent loss of business is mainly due to the global economic downturn and the move to replace traditional mail with electronic substitutes such as email, leading to a significant decline in mail volumes. Therefore, this loss of business has nothing to do with regulation or market liberalisation. This loss of business presents a number of challenges for An Post, so that it may ensure that its business remains financially viable, and these are discussed in chapter 3 of this consultation paper.
- 9 According to An Post, the proposed price increases would generate an extra €14m in revenue in its first full year of implementation. This additional revenue would then decline year on year in line with the forecast continued decline in mail volumes. It is also worth noting that this additional revenue, even if generated, would cover less than one third of the current financial losses<sup>4</sup> which An Post claims to be incurring annually as a result of providing the universal postal service.
- 10 It is against this background that An Post seeks ComReg’s consent to its price increases. ComReg is of the view that increased prices, at best, can only form part of an overall solution to An Post’s financial challenges and only if such increases do not have a significant detrimental impact on future mail volumes, which would result in reduced revenues and thereby negate the benefit of the price increases.

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<sup>4</sup> This does not equate to any net cost associated with the provision of the universal postal service. ComReg has yet to determine the methodology for this and will do so in 2013.

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- 11 ComReg, in considering An Post's application, must act in accordance with its statutory functions and obligations and must consider the potential effect of the proposed increases on the continued availability of a universal postal service within, to and from the State, at an affordable price for the benefit of all postal service users, and whether the increased prices for universal postal services, if introduced, would comply with the tariff requirements set out in section 28 of the 2011 Act which include that tariffs for a universal postal service must be affordable, cost-oriented, uniform, transparent, and non-discriminatory.
- 12 In considering An Post's proposed price increases for its universal postal services, ComReg must take account of and balance all of the tariff requirements.. For example, though the cost orientation requirement requires that prices shall reflect the costs associated with providing each universal postal service, the affordability requirement requires that prices shall be affordable for all postal service users. Furthermore, ComReg must have proper regard to section 12(1) of the Communications Regulation Act 2002, as amended by the 2011 Act, which sets out the three overarching objectives of ComReg in its regulation of the postal sector. The first two objectives are particularly relevant to this issue and they are as follows:
- (i). *to promote the development of the postal sector and, in particular, the availability of a universal postal service within, to and from the State at an affordable price for the benefit of all postal service users,*
  - (ii). *to promote the interests of postal service users within the community...*
- 13 This consultation sets out ComReg's preliminary views, based on:
- its review of An Post's price application and the supporting material provided by An Post;
  - the views of ComReg's independent expert consultants, Frontier Economics<sup>5</sup>; and,
  - other relevant evidence and material.

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<sup>5</sup> A redacted version of their report is published alongside this consultation as Document No. 12/138a

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- 14 In considering An Post's application, ComReg will also carefully consider the information and views submitted by all respondents to this consultation. As noted in ComReg's published Consultation guidelines<sup>6</sup>, the purpose of a public consultation is to allow ComReg to consider the views of interested parties in reaching a decision. It should, however, be noted that the consultation process is not equivalent to a voting exercise and ComReg alone will form the final decision, or decisions, having had regard to all relevant information before it.
- 15 An Post's application can be considered to apply to two separate categories of postal services.
- 16 The first category is the "universal postal services" which are provided exclusively by An Post, the sole designated universal service postal provider in the State. Section 28(1) of the 2011 Act provides that the "*tariffs for each postal service or part of a postal service provided by a universal postal service provider in the provision of a universal service shall comply*" with requirements as to cost orientation, affordability, uniformity, transparency, and non-discrimination.
- 17 The second category consists of postal services that are not "universal postal services" but are "within the scope of universal postal service" (i.e. such services may be provided by postal service providers other than An Post). ComReg will consent to An Post's application to increase its prices for its various non-universal postal services that are within the scope of universal postal service. Such services are not subject to the tariff requirements set out in section 28(1) of the 2011 Act (which only apply to the "universal postal services" provided by An Post) while the 2011 Act does not contain any other provisions by which ComReg may specifically assess an application to increase prices for such services and decide whether to give its consent, or not.
- 18 In relation to the first category, Table 1 below shows:
  - An Post's current prices for its universal postal services relating to postal packets weighing less than 50 grams, and An Post's proposed changes to such its prices for such services, as set out in its application to ComReg of 19 October 2012.

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<sup>6</sup> ComReg Document No. 11/34

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- The green column sets out the minimum price increases which ComReg *is* minded to consent to, subject to its consideration of all responses to this consultation. These price increases reference the change in CPI since the last price increases occurred, in early 2007, and the forecast CPI for 2013. ComReg considers that such CPI-linked price increases would be appropriate as they improve the cost reflectivity of the universal postal services while remaining affordable; and
- The amber column sets out the price increases which ComReg *could be* minded to consent to, though again subject to its consideration of all responses to this consultation. These possible price increases are higher than the increases set out in the green column and most of these increases are in the amount sought by An Post. However, some of the price increases set out in the amber column, which relate to key universal postal services, are less than the amounts sought by An Post.

19 In order that ComReg may consent to any price increase which is less than the amount sought by An Post, An Post must submit an adjusted application to ComReg under section 30(12), seeking the price increase which ComReg has already indicated that it is minded to consent to. Where such an adjusted application is received, ComReg considers that any further public consultation would not be required as the views of interested parties would already have been sought and considered.

**Table 1: ComReg’s preliminary views on its consents for An Post’s universal postal services**

Universal postal services: 0 – 50g	Current price	An Post’s price application of 19 October	ComReg’s preliminary view	
			Is minded to consent to <sup>7</sup>	Could be minded to consent to <sup>8</sup>
Domestic stamped letter	0.55	0.65	0.58	0.60
Domestic metered letter	0.54	0.60	0.57	0.59
Business reply letter	0.54	0.60	0.57	0.59
Stamped large envelope	0.95	1.05	1.01	Consent to proposed price increase
Metered large envelope	0.95	1.05	1.01	1.03

<sup>7</sup> Subject to the views of respondents

<sup>8</sup> Subject to the views of respondents and other relevant evidence



Universal postal services: 0 – 50g	Current price	An Post's price application of 19 October	ComReg's preliminary view	
			Is minded to consent to <sup>7</sup>	Could be minded to consent to <sup>8</sup>
Business reply large envelope	0.95	1.05	1.01	1.03
Stamped packet	2.20	2.40	2.33	Consent to proposed price increase
Metered packet	2.20	2.40	2.28	2.35
Business reply packet	2.20	2.40	2.28	2.35
Proof of delivery	n/a	5.50	n/a - as new service	Consent to price
Insurance	n/a	5.00 plus	n/a - as new service	Consent to price
"Delivery only" bulk mail letter	(0.44) <sup>9</sup>	0.48	n/a - as new service	Consent to price
"Delivery only" bulk mail large envelope	(0.82) <sup>9</sup>	0.90	n/a - as new service	Consent to price
"Delivery only" bulk mail packet	(2.00) <sup>9</sup>	2.19	n/a - as new service	Consent to price
"Deferred delivery" bulk mail letter	(0.41) <sup>10</sup>	0.45	n/a - as new service	Some concerns to be addressed before determining
"Deferred delivery" bulk mail large envelope	(0.76) <sup>10</sup>	0.84	n/a - as new service	Some concerns to be addressed before determining
"Deferred delivery" bulk mail packet	n/a	2.25	n/a - as new service	Some concerns to be addressed before

<sup>9</sup> For information purposes, the current price for Bulk Mail 9. "Delivery only" will be based on current Bulk Mail 9 product.

<sup>10</sup> For information purposes, the current price for Bulk Mail 6. "Deferred delivery" will be based on current Bulk Mail 6 product with amendments made to allow acceptance at all delivery offices for a D+2 delivery and a lower threshold of 200 items for meter customers.

Universal postal services: 0 – 50g	Current price	An Post's price application of 19 October	ComReg's preliminary view	
			Is minded to consent to <sup>7</sup>	Could be minded to consent to <sup>8</sup>
				determining
International	Various	Various	Consent to all proposed price increases	Consent to all proposed price increases
International bulk mail	Various	Various	Consent to all proposed price increases	Consent to all proposed price increases

23 As can be seen from the table above, ComReg could be minded to consent to the following price increases in relation to An Post's universal postal services:

- 86 price increases sought by An Post for certain of its universal postal services; and
- price increases for the remaining 7 universal postal services, conditional upon An Post submitting an adjusted application.
- In relation to "Deferred Delivery", there are some concerns that the proposed price increases may not be appropriate as Frontier Economics, in its accompanying report, notes that careful consideration of the proposed pricing must be taken as An Post's largest customers will avail of this service and are potentially most at risk of substituting if the price increase is not appropriate. ComReg will consider the views of respondents and other relevant information before making its final determination on the three prices proposed by An Post.

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- 24 The price increases for the non-universal postal services within the scope of universal postal service and the “could be minded to consent to” price increases in the amber column above, if implemented<sup>11</sup>, would give An Post most (c.75%) of the additional revenue of c.€14m<sup>12</sup> which it seeks<sup>13</sup>. Taking into account the additional revenue of c. €8m that An Post claims it has received from its May 2012 price increases, this means that An Post could obtain a total additional revenue of c.€19m (c.86%) of the c.€22m<sup>12</sup> additional revenue it has sought.
- 25 In setting out its above preliminary views, ComReg has attempted to balance An Post’s need to ensure that it can continue to provide a universal postal service against the entitlement of postal service users to avail of universal postal services that remain affordable.

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<sup>11</sup> This includes proposed prices for “Deferred delivery” bulk mail service

<sup>12</sup> Based on An Post’s information and subject to its forecasts being correct.

<sup>13</sup> Assuming that the price increases do not cause a substantial further decline in mail volumes, thereby negating the benefit of the price increases

## 3 Background

26 This chapter presents an overview on An Post's price increase application and sets out some of the challenges<sup>14</sup> facing An Post and the relationship of the price increase application to these challenges.

### 3.1 Background on the price application

27 On 19 October 2012, An Post submitted an application to ComReg seeking ComReg's consent to increases in the prices of certain postal services within the scope of the universal postal service for postal packets weighing less than 50 grams. An Post does not require ComReg's prior consent to increase its prices of its postal services within the scope of the universal postal service for postal packets weighing more than 50 grams, and An Post did increase its prices for such services earlier this year<sup>15</sup>.

28 An Post's application is updated from its previous application<sup>16</sup> as the current application relates to certain universal postal services specified by ComReg on 26 July 2012 as being within the scope of the universal postal service, and certain postal services notified by An Post on 31 August 2012 as being within the scope of the universal postal service. An Post's application has also been updated by An Post to take account of its most recent mail volume forecasts, and with additional supporting information.

29 Since 19 October 2012, ComReg has engaged with An Post in order to obtain all information necessary to consider An Post's price increase application. Though some of the information sought remains lacking, ComReg has nonetheless decided to proceed with this consultation in order to obtain the views of interested parties. A non-confidential version of An Post's price increase application can be found at ComReg Document 12/138s1 and the supporting information provided on foot of ComReg's request can be found at ComReg Document 12/138s2.

30 ComReg, prior to forming its final decision, will consider the views of all respondents and all other relevant information before it.

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<sup>14</sup> Further details on the general environment for the universal postal service provider can be found in ComReg's Postal Strategy Statement 2012 – 2014 (Document No. 12/116 dated 30 October 2012).

<sup>15</sup> These price increases made by An Post for its postal services >50 grams were effective from 1 May 2012. An Post is now proposing to make the same price increases for its postal services < 50 grams.

<sup>16</sup> See ComReg Information Notice 12/109 dated 9 October 2012 for details on An Post's application of February 2012

## 3.2 Challenges facing An Post

31 This section identifies and describes certain challenges facing An Post and how these challenges relate to An Post's price increase application. ComReg seeks views from all interested parties regarding these challenges and the suitability of the proposed price increases to address these challenges.

### **Challenge 1: Significant declines in mail volumes – proposed price increases could result in further mail volume declines**

32 Traditional mail volumes are in decline worldwide due to replacement by electronic substitutes ("e-substitution") and the challenging global economic environment. As noted in ComReg's Postal Strategy Statement<sup>17</sup>, business postal service users account for over 80% of mail transactions and many of these users are actively seeking cheaper alternatives, often electronic, to deliver their communications. Therefore, the greatest threat to An Post's business is not from other providers of postal services but lies outside of the postal sector, from substitutable electronic methods of communication. This trend is observed by the Boston Consulting Group in its report to the International Post Corporation<sup>18</sup>:

*Not only does the absolute mail volume decline, with the rise of digital communication and social media physical mail is also rapidly losing relevance. Measured in units of communication, its share in the communications market dropped from 13% in 2000 to 1% in 2010. Without further measures relevance will decrease even more quickly in the following years.*<sup>19</sup>

33 Furthermore, once a portion of mail business has been lost to an electronic substitute it would seem relatively unlikely that business will return as such business customers would most likely invest significant resources in order to implement the switch. Therefore, e-substitution, once it occurs, is likely to be permanent.

34 The significant decline in mail volumes for An Post's core letters business can be seen in the graph below<sup>20</sup>. The graph shows actual declines for the period 2008 – 2011 inclusive and forecast declines for 2012 - 2014 inclusive (assuming the proposed price increases are made). In both cases the data is as provided by An Post.

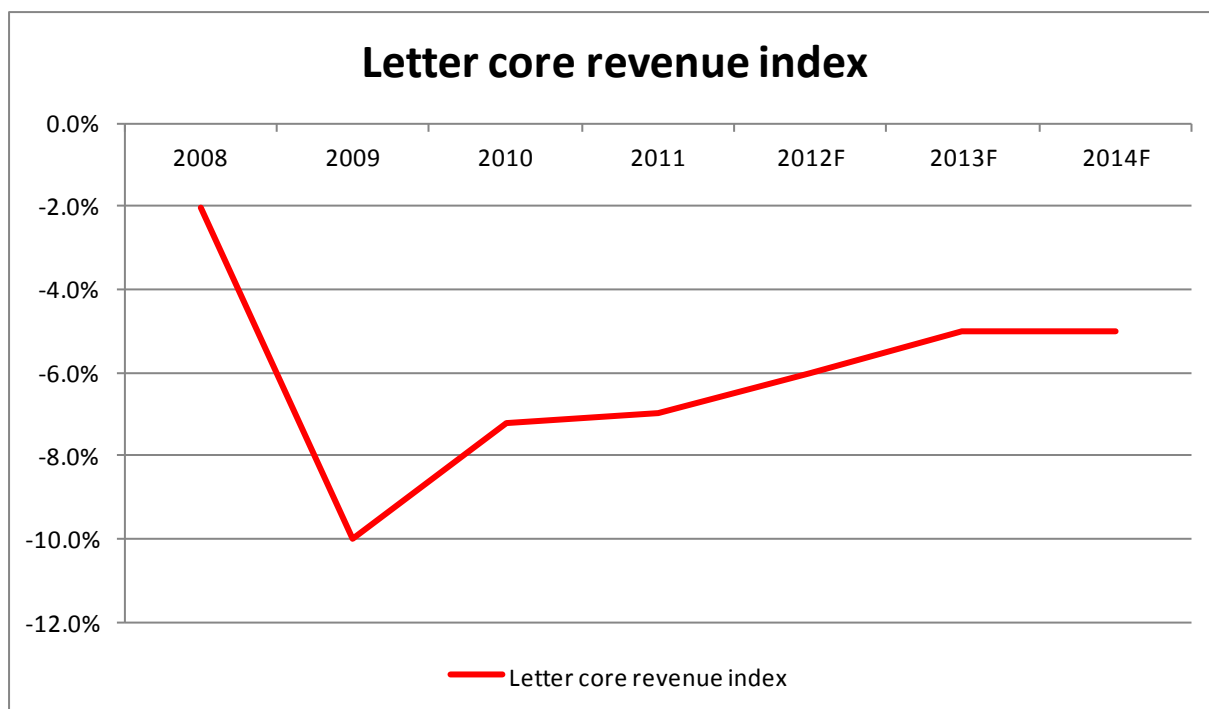
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<sup>17</sup> ComReg Document No. 12/116

<sup>18</sup> [http://www.ipc.be/-/media/Documents/PUBLIC/Brochures/IPC-BCG\\_Focus%20on%20the%20Future.ashx](http://www.ipc.be/-/media/Documents/PUBLIC/Brochures/IPC-BCG_Focus%20on%20the%20Future.ashx)

<sup>19</sup> At page 17

<sup>20</sup> Based on An Post's "letter core revenue index" published in its audited annual reports.



**Source: An Post's price application (Figure 11)**

- 35 Given the significant decline in mail volumes to date, as shown above, one must ask if An Post's forecast future decline of c.5% per annum is appropriate. An Post<sup>21</sup> states that *"(f)orecasts by their very nature require judgment and estimation. They are not an exact science. In its budget for 2012, An Post included a forecast decline in mail volumes of 5% for this year. Volume declines in the first few months of the year suggested that an overall volume decline in the order of 7% for the full year would materialise. However, the rate of decline stabilised for the second half of the year and it now appears that the overall decline for the current year will be closer to 6%. Please note that the volume decline stabilised in the period following the 1 May 2012 price increases..."*
- 36 An Post originally forecast that its mail volumes would continue to decline by 3% p.a. from 2013 onwards. The Frontier Economics report, the redacted version of which was published in October 2012<sup>22</sup>, concluded that this forecast by An Post was at the low end of the range by reference to international comparisons. In addition, Frontier Economics considered An Post's original forecast of mail volume decline to be optimistic.
- 37 An Post re-considered its forecast of mail volume decline in light of the greater than expected decline experienced in 2012 and it has revised its forecast decline to 5% per annum in its amended price increase application to ComReg, dated 19 October 2012.

<sup>21</sup> An Post's response to ComReg's query 2 – published at 12/138s2

<sup>22</sup> ComReg Document 12/109a

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- 38 Cumulatively, An Post's amended application now forecasts a total decline in mails volumes of c. 35% up until the end of 2014 (compared against the peak in mail volumes registered in 2007).
- 39 Frontier Economics reviewed An Post's amended application of 19 October and its updated report<sup>23</sup>, published alongside this consultation paper, states that An Post's updated forecast volumes and revenues are more closely aligned to recent trends and international comparators.
- 40 ComReg is of the view that a further significant decline in An Post's mail volumes, absent any commensurate reduction in its costs, would significantly increase An Post's costs per unit, thereby possibly placing the financial viability of the universal postal service provider at risk. It is questionable whether further price increases could compensate for such increased per unit costs as significant price increases may cause a significant numbers of postal service users to switch to a substitutable electronic service. This cycle of fewer customers leading to higher prices, leading to fewer customers still, could result in an irreversible downward spiral in mail volumes. ComReg is particularly concerned as to whether the proposed price increases, if implemented, could lead to a further mail volume decline greater than the 5% currently forecast by An Post. ComReg, given its statutory objective to ensure that there is an affordable universal postal service for all, must consider whether An Post's proposed price increases, if implemented, could accelerate the decline in mail volumes which is occurring and thereby threaten the very future of the universal postal service. ComReg would welcome views of interested parties on these issues and would particularly welcome the views of business users as to whether the proposed price increases would cause them to consider switching to an electronic means of communication. ComReg would particularly welcome the views of interested parties as to how they would react to any of the price increases which An Post seeks to implement. Would you be willing to pay such increased prices? Or would increased prices encourage or cause you to use the particular postal service less often? Or would increased prices encourage or cause you to switch to another means of communication?

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<sup>23</sup> 12/138a

## **Challenge 2: Claimed significant financial losses associated with the provision of the universal postal service – these claimed financial losses will not be fully remedied by the proposed price increases**

- 41 An Post estimates that the price increases would yield an additional c.€22m in gross revenue in the first full year. This c. €22m figure consists of c. €8m from the price increases already made by An Post on 1 May 2012<sup>24</sup> (for postal packets above 50 grams which did not require ComReg's prior consent) and c. €14m additional revenue which would arise from the price increases which An Post is now seeking.
- 42 Furthermore, An Post estimates that its incurred financial loss<sup>25</sup> from providing the universal postal service will be c.€65m in 2012. This means that the estimated €22m in additional revenues, even if generated, would only cover approximately one third of An Post's own forecast financial losses for providing the universal postal services in 2012. Moreover, such additional revenues would be generated in the first year only and would then decline year on year, as mail volumes continue to decline as is expected. Therefore, An Post must address the problem of its annual incurred losses in providing the universal postal service through means other than price increases. It would appear that price increases, at best, could form one third of the overall solution to An Post's incurred losses, and various other measures by An Post will also be necessary.

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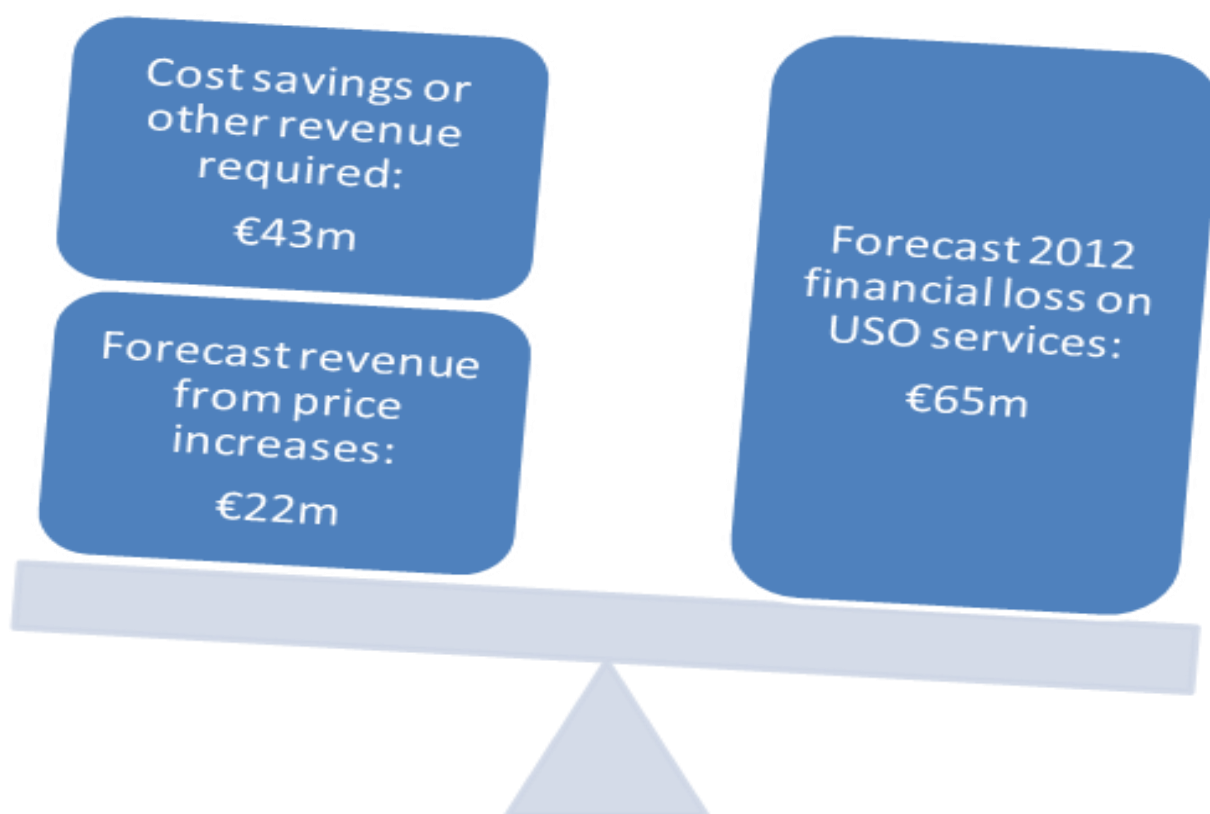
<sup>24</sup> These price increases by An Post in 2012 did not require the prior consent of ComReg

<sup>25</sup> This is financial loss forecast by An Post. It does not equate to any net cost associated with the provision of the universal postal service. This is because the 2011 Act and the EC Postal Directive are clear that this must relate to the efficient provision of the universal postal service. Furthermore, the 2011 Act and the Postal Directive are clear that the net cost is to be calculated by reference to the difference between the net costs of a designated universal service provider operating under a universal service obligation and not operating under such a requirement.

ComReg will consult on the form and manner that any request for the funding of net costs associated with the provision of the universal service. As set out by ComReg in its Postal Strategy Statement, ComReg will consult on this in Quarter 1, 2013. Furthermore, as set out by ComReg in its Postal Strategy Statement, any net cost submission by An Post is not expected until Quarter 2, 2013 given that the net cost submission should be informed by audited cost data. Absent a decision by ComReg on this methodology, a net cost (if any) associated with the provision of the universal service obligation cannot be established.



This can be represented graphically as follows:

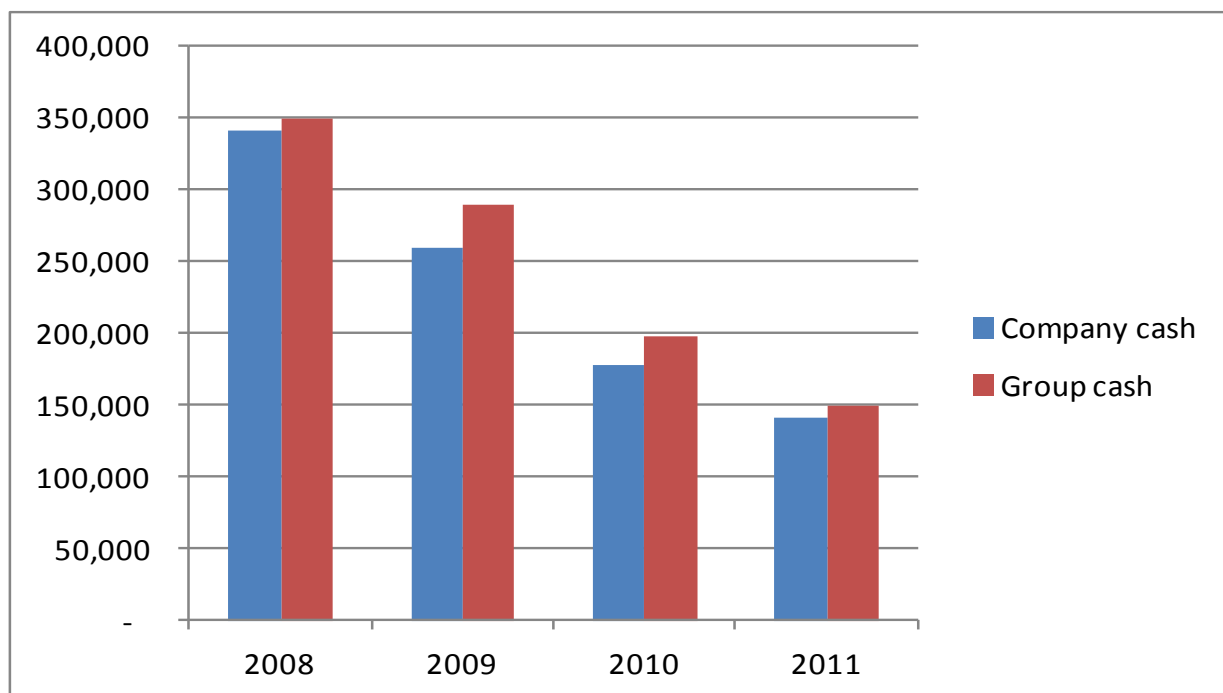


**Source: Data from An Post's price application**

- 43 The 2011 Act provides a mechanism for a designated universal postal service provider to seek funding of the net cost associated with the provision of the universal postal service if it is found to be an unfair burden. An Post is the only designated universal postal service provider at present. However, if there is a net cost, and if ComReg determines it to be an unfair burden, then it is An Post itself in the main that will fund any such net cost (in its capacity as a postal service provider offering postal services within the scope of universal postal service) as there are currently few postal service providers other than An Post that provide postal services within the scope of universal postal service, and those few are likely to be so small in size that their contributions to the net cost of the universal service could be minimal. There is currently no evidence to suggest that this will change in the near future.

### Challenge 3: The deteriorating cash position of An Post – the proposed price increases will not fully remedy this

44 An Post is the current sole designated universal postal service provider while ComReg's statutory remit is to ensure the provision of the universal postal service. ComReg is therefore concerned by An Post's deteriorating cash position as set out below (based upon data from An Post's audited and published annual reports):



**Source: An Post's annual reports**

45 As can be seen from the table above, An Post's cash reserves have been declining at a rate of c.€50-90m per annum. This outflow includes certain one-off costs such as, for example, investment in new automation machines and provisions made for voluntary severance schemes. However, the general trend of An Post's cash balance is downwards. Therefore, given a cash balance of c.€150m at the end of 2011, and absent any other changes and the fact that the proposed price increases even if implemented would not address the year on year losses that being incurred, An Post faces a very challenging financial situation. As noted earlier in this paper, An Post's forecast gross additional revenue from all the price increases it seeks or has introduced is c.€22m<sup>26</sup> in the first full year of implementation. Even if this additional revenue is achieved it will decline to some extent thereafter due to further mail volume declines as forecast Post. Therefore, the proposed price increases cannot fully address An Post's "cash burn" problem.

<sup>26</sup> c.€14m from the proposed price increases which require ComReg's consent

- 46 According to An Post's five-year plan, which amongst other things sets out to address this issue, An Post plans to maintain a cash balance of c. €100m which it claims is sufficient to meet its requirements. An Post plans to maintain this cash balance through a combination of cost reductions, additional revenue from commercial sources, and appropriate price increases in order to maintain An Post's financial viability and in turn ensure the provision of the universal postal service.

**Challenge 4: Efficient provision of the universal postal service commensurate with the volume decline – the proposed price increases could accelerate volume declines requiring further cost adjustments**

- 47 As noted by the 'Report of the Review Group on State Assets and Liabilities'<sup>27</sup>, An Post is facing an "... *industrial relations challenge of aligning the company's fixed cost base to declining revenues particularly in the postal business.*" The Report further notes that "*(r)igorous cost control measures and efficiency improvements should be adopted to mitigate further losses*".
- 48 Staff costs account for around three-quarters of total operating costs in An Post's mails business and it is essential for An Post management to ensure that staffing is appropriate for its mail volumes so as to ensure the future financial viability of the business.
- 49 As described above, ComReg is particularly concerned that price increases, if too high, could exacerbate the problem of declining mail volumes as postal service users may respond to the price increases by reducing their use of mail by switching to electronic substitutes. An acceleration in mail volume decline could necessitate a further reduction in costs commensurate with the volume decline. Therefore, ComReg considers that An Post must focus on maintaining and/or growing its mail volumes and that offering high quality postal services to its customers at affordable prices is essential to minimising volume decline.

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<sup>27</sup> April 2011

### 3.3 Conclusion

50 Significant operational and financial challenges face An Post and it is in this context that An Post seeks ComReg's consent to the various price increases at issue. However, increased prices alone will not fully address the challenges facing An Post while they could accelerate mail volume declines and thus exacerbate, rather than address, those challenges.

51 ComReg considers that appropriate price increases are necessary but only as one of a series of measures necessary to ensure the continued financial viability of An Post and to maintain the provision of a universal postal service. These measures must of necessity include cost containment and further growth in other commercial activities. It is for An Post management to address these urgently in order to ensure the continued provision of the universal postal service by An Post at an affordable price for all postal service users.

Q. 1 Do you agree with the identification of the key challenges facing An Post and the relationship of these to the proposed price increases sought by An Post? Please support your answer with reasons and any supporting material.

## 4 An Post's price application

52 ComReg is currently considering the An Post application of 19 October 2012 to increase its charges for certain postal services within the scope of universal postal service relating to postal packets weighing less than 50 grams, all of which require the prior consent of ComReg.

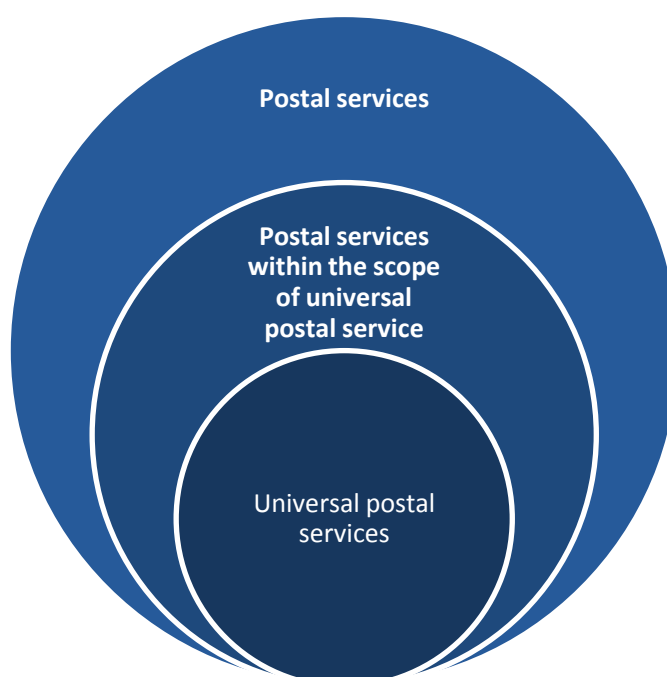
53 An Post's postal services "within the scope of the universal postal services" fall into two categories:

(1) the universal postal services specified by ComReg in its Communications Regulation (Universal Postal Service) Regulations, 2012 ( S.I. 280 of 2012)<sup>28</sup>; and

(2) non-universal postal services notified by An Post as being within the scope of the universal postal service.

54 Therefore, for An Post as the designated universal postal service provider, its universal postal services represent a subset of its postal services that fall within the scope of universal postal service.

55 This can be illustrated<sup>29</sup> as follows:



<sup>28</sup> [http://www.comreg.ie/\\_fileupload/publications/SI\\_280\\_of\\_2012.pdf](http://www.comreg.ie/_fileupload/publications/SI_280_of_2012.pdf)

<sup>29</sup> The illustration does not represent the number of An Post's postal services within the scope of universal postal service. It is to illustrate that, for An Post, as the current universal postal service provider, its universal postal services are a subset of postal services within the scope of universal postal service.

56 In this chapter, ComReg will address the above two categories of “universal postal services” and “postal services notified by An Post as being within the scope of the universal postal service” separately, as the 2011 Act creates different obligations in respect of on each category.

57 Before examining the postal services affected by the price application, ComReg must first review the forecast volume projections made by An Post in support of its price application.

## 4.1 Volume projections in the price application

58 As can be seen in the table below, and as noted earlier in this consultation paper, An Post has lost significant letter mail volumes in recent years. According to An Post, this decline has been mainly due to the downturn in the economy and e-substitution.

**Table 2: Letters Core Revenue Index (source: An Post)**

%	2008	2009	2010	2011	2012F	2013F	2014F
<b>Volumes</b>	-2%	-10%	-7%	-7%	-6%	-5%	-5%
<b>Cumulative</b>	-2.0%	-11.8%	-17.8%	-23.5%	-28.1%	-31.7%	-35.1%

59 In preparing its forecasts for 2012 – 2014, An Post has forecast growth rates for its postal services as set out in the table below, which it derived from international benchmarking, economic forecasts and the analysis of the An Post customer base by the An Post sales team. An Post has noted that it is undertaking further work in 2013 to increase the granularity of its forecasting methodology.

**Table 3: Forecast growth rates 2012 – 2014 (source: An Post)**

% Growth Rates	2012F	2013F	2014F
<b>Stamp (Domestic)</b>			
- Letter	-4%	-5%	-5%
- Large Envelope	-6%	-6%	-6%
- Packet	0%	0%	0%
<b>Meter (Domestic)</b>			
- Letter	-9%	-5%	-5%
- Large Envelope	-11%	-6%	-6%
- Packet	0%	0%	0%
<b>Bulk (Domestic)</b>			
- Letter	-5%	-5%	-5%
- Large Envelope	-7%	-6%	-6%
- Packet	0%	0%	0%
<b>Parcels</b>	9.5%	8%	5%
<b>OVERALL</b>	<b>-6%</b>	<b>-5%</b>	<b>-5%</b>

## Consultation

60 ComReg is concerned that An Post's proposed price increases could accelerate the rate of mail volume decline so that any further price increases may be unaffordable for postal service users, and therefore counter-productive. Any price increase will therefore require that there be commensurate cost reductions by An Post to ensure that universal postal services remain affordable for postal service users. Therefore, ComReg has a number of comments in relation to An Post's forecasts:

- The uniformity of the expected declines in 2013 – 2014 across all products (Stamp, Meter and Bulk mail) may indicate that An Post's analysis of its future volume projections, by mail type and by customer, was not sufficiently robust, particularly given the different historic declines across products observed in recent years.
- An Post's forecast decline in mail volumes for its meter customers for the period to 2014 may be optimistic given the significant volume decline which has already occurred, while a price increase of 11% for these typically larger customers, as is proposed, must be carefully considered having regard to the fact that many of those customers could switch to alternative electronic communications channels.
- ComReg must query the lack of forecast growth in An Post's packet mail segments, given the increasing use of e-fulfilment and internet shopping for small packages (e.g. CDs, DVDs etc). Is the proposed pricing of packets limiting growth of this universal postal service given that some commentators such as Boston Consulting Group consider 'Business to Consumer' parcels to be recession proof<sup>30</sup>?

61 ComReg would welcome the views of interested parties on An Post's forecast volumes and growth rates.

Q. 2 Do you agree with ComReg's comments / concerns in relation to the mail volume forecasts made by An Post in its application? Please support your answer with reasons and any supporting material.

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<sup>30</sup> See "Economic Downturn" at page 20 of 'Focus on the Future: Building a new compelling position for posts' dated June 2012. Joint publication with International Post Corporation.

## **4.2 Price increases sought for postal services (not universal postal services) within the scope of the universal postal service that weigh up to 50 grams**

- 62 An Post has sought ComReg's prior consent to the following price increases to certain of its postal services in respect of postal packets weighing less than 50 grams, which are not universal postal services but which are within the scope of the universal postal service.
- 63 The tariff requirements set out in section 28 of the 2011 Act only apply to universal postal services, provided by An Post alone in its capacity as the sole designated universal service provider in the State. Therefore, though section 30(12) indicates that ComReg's prior consent is required for any price changes for postal services that within the scope of the universal postal service, the tariff requirements do not apply to such services which are "within the scope of universal postal service" but which are not actual "universal postal services".
- 64 The following tables set out these non-universal postal services that are within the scope of universal postal service and the proposed price increases by An Post:



Table 4: Non universal postal services within the scope of universal postal service as notified by An Post	0-50g Letter			0-50g Large Envelope			0-50g Packet		
All prices are excluding VAT	Current price	Proposed price	% increase (rounded)	Current price	Proposed price	% increase (rounded)	Current price	Proposed price	% increase (rounded)
<b>Fully paid bulk mail</b>	0.54	0.60	11%	0.95	1.05	11%	2.20	2.40	9%
<b>Bulk Mail 1. Presentation before noon auto processing</b>	0.44	0.48	9%	0.83	0.91	10%			
<b>Bulk Mail 3. Deferred Processing before noon auto-processing</b>	0.42	0.46	10%	0.80	0.88	10%			
<b>Bulk Mail 4. Presentation before noon + 85% autosort</b>	0.43	0.47	9%	0.80	0.88	10%			
<b>Bulk Mail 5. Presentation before 3pm + 85% autosort</b>	0.44	0.48	10%	0.82	0.90	10%			
<b>Bulk Mail 7. Presentation before 3pm</b>	0.46	0.50	9%	0.87	0.96	10%	2.04	2.23	9%
<b>Bulk Mail 10. PreSorted (152 Sorts) before noon</b>	0.43	0.47	9%	0.79	0.87	10%	1.96	2.14	9%
<b>Bulk Mail 11. Deferred Processing before noon</b>	0.48	0.52	8%	0.89	0.98	10%	2.06	2.25	9%
<b>Bulk Mail 12. Deferred Processing before noon auto-processing</b>	0.45	0.49	9%	0.86	0.95	11%			

**Table 5: International Bulk Mail Service – non universal postal services within the scope of universal postal service**

Country	Letters EXTRA			Flats EXTRA		
	Proposed	50g Current	% Inc.	Proposed	50g Current	% Inc.
UK	€0.48	€0.46	4%	€0.53	€0.51	4%
Austria	€0.65	€0.58	12%	€1.11	€0.82	36%
Belgium	€0.62	€0.57	8%	€1.26	€1.26	0%
Denmark	€0.90	€0.70	28%	€1.24	€1.08	15%
Finland	€0.71	€0.57	23%	€0.86	€0.70	22%
France	€0.66	€0.61	8%	€0.94	€0.87	8%
Germany	€0.63	€0.61	3%	€1.32	€1.28	3%
Greece	€0.68	€0.60	13%	€1.08	€0.90	20%
Iceland	€0.63	€0.51	23%	€0.88	€0.64	38%
Italy	€0.76	€0.72	6%	€1.26	€1.20	6%
Luxembourg	€0.60	€0.58	3%	€1.16	€1.12	3%
Netherlands	€0.59	€0.56	6%	€0.87	€0.82	6%
Norway	€0.90	€0.82	10%	€1.28	€1.14	12%
Portugal	€0.55	€0.52	6%	€0.87	€0.82	6%
Spain	€0.40	€0.37	8%	€0.69	€0.54	27%
Sweden	€0.66	€0.63	4%	€0.90	€0.86	5%
Switzerland	€0.72	€0.64	12%	€1.44	€1.28	12%
Hungary	€0.48	€0.41	19%	€0.67	€0.57	18%
Poland	€0.45	€0.40	12%	€0.53	€0.47	11%
Slovenia	€0.37	€0.33	13%	€0.47	€0.44	8%
Slovakia	€0.66	€0.62	6%	€0.80	€0.75	6%
Lithuania	€0.43	€0.43	0%	€0.51	€0.50	2%
Estonia	€0.44	€0.34	28%	€0.51	€0.40	27%
Romania	€0.39	€0.37	4%	€0.49	€0.47	5%
U.S.A.	€0.39	€0.35	12%	€0.50	€0.45	12%
Australia	€0.53	€0.53	0%	€0.70	€0.67	4%
New Zealand	€0.63	€0.54	17%	€0.83	€0.68	22%
Israel	€0.55	€0.50	10%	€0.66	€0.60	10%
Japan	€0.56	€0.51	10%	€0.69	€0.63	10%
Bulgaria	€0.21	€0.21	3%	€0.43	€0.40	5%

**Table 6: International Bulk Mail Service to UK – non universal postal services within the scope of universal postal service**

Country	50g Letter			50g Flat		
	Proposed	Current	% Inc.	Proposed	Current	% Inc.
UK	€0.387	€0.284	36%	€0.545	€0.414	32%

### **ComReg's consent on the non universal postal services within the scope of the universal postal service:**

65 ComReg will consent to all the price increases proposed by An Post for its non-universal postal services within the scope of universal postal service, for the following reasons:

- There are no applicable provisions in the 2011 Act to inform ComReg's consent or otherwise;
- Such services are not subject to the tariff requirements set out in section 28 of the 2011 Act;
- The increases do not appear to threaten the provision of the universal postal service; and
- ComReg should not unduly limit the commercial freedom of An Post in relation to these non-universal postal services (just as ComReg is not involved in overseeing pricing of other providers of postal services within the scope of universal postal service). Ultimately, this is best addressed through competition.

### **4.3 Price increases sought for universal postal services within the scope of the universal postal service that weigh up to 50 grams**

66 As set out by ComReg in its Information Notice 12/109<sup>31</sup>, ComReg's final decision in respect of An Post's proposed price increases for its full universal postal services will be based on the requirements of the 2011 Act and will include an assessment to ensure that the application minimises the risk of there being a detrimental effect on An Post's ability to provide the universal postal service, in the medium to longer term. The review will also involve an assessment of An Post's application against the tariff requirements of the 2011 Act and Article 12 of the Postal Services Directive.

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<sup>31</sup> 'Update on the review and assessment of An Post's application for changes to the charges for postal services within the scope of the universal postal service' dated 9 October 2012

67 Therefore, in relation to the proposed pricing of the universal postal services, ComReg has to take account of and balance the tariff requirements of the 2011 Act. For example, though the cost orientation requirement requires prices to take account of and reflect the costs of providing the universal postal service, the affordability requirement requires that prices are affordable for all postal service users. Furthermore, promoting the universal postal service at an affordable price to the benefit of all postal service users is an objective set for ComReg by the 2011 Act. Accordingly, in order to be compliant with the applicable provisions of the 2011 Act, a price lower than cost may be required to ensure that a universal postal service is affordable.

### **The affordability of prices:**

68 In its application, An Post states that its proposed price increase will be not raise affordability issues for any of its customer groups. An Post also claims that the price increases which it introduced in May 2012, in respect of postal packets above 50 grams, have not led to adverse customer reactions or volume impacts.

69 ComReg notes An Post's claims that there are unlikely<sup>32</sup> to be material affordability issues for residential postal service users, as for the lowest income group the proposed price increases, if implemented, would result in a decline of less than 0.1% in disposable income.

70 However, the case is somewhat different for SMEs and other business postal service users. An Post has provided no research or surveys as to the possible or likely reaction of these users to the proposed price increases but<sup>33</sup> has stated that it *"is strongly of the view that research would only serve to suggest that SMEs would not welcome a price increase and therefore of no real benefit to the analysis of the Price Application."*

71 Furthermore, An Post claims that research of SMEs *"would be an extremely difficult task to undertake as some customers currently avail of discounts (of varying sizes) whereas others do not. Some SMEs use stamps, some meters and some bulk services. The proposed increases on different services, including percentage increases, are not uniform so it would be difficult to assess who would be satisfied based on all these differences."*<sup>34</sup>

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<sup>32</sup> However, it is important to note that results from An Post's residential consumer survey on willingness to pay points to almost half of respondents stating they would not accept a price increase of stamped letter to 65 cents. This is discussed further in the section on Domestic Stamped Letter.

<sup>33</sup> Q.1 response of 29 November 2012 – see ComReg Document 12/138s2

<sup>34</sup> Q.4 response of 29 November 2012 – see ComReg Document 12/138s2

- 72 ComReg notes that An Post's business customers account for c.80% of its total mail volumes and ComReg is thus surprised that more research was not conducted as to the possible or likely reaction of these users to the proposed price increases, given the effect which a negative reaction would have on An Post's future mail volumes and hence on its revenues. In particular, the research could have considered the proposed price increases to meter mail for SMEs and the proposed price increases to bulk mail for larger business customers. Research could also have shed light on whether certain segments or sectors within the wider business community have especially heavy dependence on postal communications, and hence might feel the financial impact of the proposed price increases especially strongly.
- 73 In the absence of any research by An Post, ComReg therefore seeks the views of all interested parties on this issue, though in particular the views of SMEs and business postal service users, as to the affordability, or otherwise, of the higher prices which An Post wishes to implement.

**Prices must be cost-oriented:**

- 74 Section 28(1)(b) of the 2011 Act requires that prices for universal postal services *"shall be cost-oriented, that is to say, that prices shall take account of, and reflect the costs of, providing the postal service or part of the postal service concerned"*.
- 75 Therefore, in this consultation paper, ComReg sets out its preliminary views as to whether An Post's proposed price increases would reflect its estimated incurred costs in respect of each of the universal postal services at issue<sup>35</sup>.
- 76 ComReg will assess the cost orientation of the proposed increased prices based on information provided by An Post under section 3.2 of the Accounting Direction<sup>36</sup> which requires *"(a) detailed report must be prepared by An Post ... setting out for each price point a detailed estimate of the costs of providing the service."*
- 77 In its application, An Post has noted that it has *"not undertaken separate industrial engineering studies to estimate cost information for every price point ... An Post has provided a detailed level of information for each service which it provides. Notwithstanding this, An Post has endeavoured to provide estimates for the vast majority (over 90% by volume) of price points and proposes to undertake further work in advance of the next phase of price changes."*<sup>37</sup>

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<sup>35</sup> An Post must comply with all of the tariff requirements set out in the 2011 Act, including affordability. Therefore, there may be cases where prices are required to be below "cost" in order to comply with the affordability requirement.

<sup>36</sup> ComReg Document 06/63 ' Regulation of Universal Postal Services – Accounting Separation & Costing Methodology: Accounting Direction to An Post' dated 8 December 2006.

<sup>37</sup> Q.1 response dated 29 November 2012 – see ComReg Document 12/138s2

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78 Relevant case law<sup>38</sup> indicates that the relevant “cost” in a review of cost orientation is the fully allocated cost / fully distributed cost<sup>39</sup>. An Post has provided to ComReg a cost estimate for the majority of its price points. According to An Post, it allocates costs to a very detailed level. Costs are allocated initially to Business Units and are then allocated by:

- Geographic segment (domestic, inbound international, outbound international);
- format (letters, large envelopes, packets, parcels);
- payment method (stamped, metered, bulk); and
- finally by two weight categories (less than 50 grams, greater than 50 grams).

79 According to An Post, as cost allocation deepens the level of precision decreases. An Post also states that allocating costs across all weight steps, and not just as between those above and below 50 grams, would require industrial engineering studies. Therefore, the cost estimates provided by An Post for each price point are, according to An Post, prepared as a “management estimate”.

80 It is also worth noting that the costs estimates provided by An Post have not been assessed on the basis of efficiency. A review of the efficiency of these costs will be required for the new price cap price control to be implemented late 2013.

### **Methodology used by An Post to estimate costs for each price point:**

81 The first step of An Post’s methodology to estimate costs for each price point was to use its audited Regulatory Accounts costs per unit that are split for less than 50 grams and greater than 50 grams. Next, using a report prepared by CERP<sup>40</sup>, An Post calculated its estimates with weight being the appropriate cost driver for collection, transport and distribution but not for sortation. Further details on An Post’s methodology to estimate its costs for each price point can be found in An Post’s response to ComReg’s query 5 published in Document 12/138s2.

82 In correspondence with ComReg, An Post has committed to a more robust cost analysis, including the use of industrial engineering studies which it will complete in 2013. ComReg welcomes this commitment as a robust calculation of costs will be required not only for the new price cap price control but also for any review of the net costs associated with the provision of the universal postal service.

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<sup>38</sup> European Court of Justice decisions in Arcor and Mobistar cases

<sup>39</sup> Full costs attributable to the provision of the postal service, including the costs of investments in maintaining / improving the infrastructure used to provide the postal service

<sup>40</sup> CERP, Recommendation on best practices for Cost Accounting Rules, 7 May 2009

### **Prices must be transparent:**

83 In giving its consent to any proposed price increases for An Post's universal postal services, ComReg will also ensure that the new prices are clear and, where any discounts apply, that the net prices are clearly and unambiguously conveyed to postal service users at all times, as it these prices that will actually be paid.

### **Prices must be non-discriminatory:**

84 An Post offers a price differential for certain postal services. For example, An Post has the following discounts:

- For letters: a discount for meter payment as opposed to stamp payment
- For letters, packets: a discount for presenting a minimum quantity in bulk

85 These discounts are welcomed once the discounts are non-discriminatory and reflect the costs avoided for that discount alone.

86 Therefore, in determining whether to give its consent to any price increases for the universal postal services, ComReg will ensure that there is no inappropriate pricing discrimination against any equivalent groups of postal users and that any discounts are supported by the cost avoided for that discount alone.

### **Proposed price increases for An Post's universal postal services:**

87 According to information provided by An Post<sup>41</sup>, the Deferred delivery bulk mail service (based on a revised bulk mail 6) is its largest volume universal postal service, followed by the Domestic Metered Letter, and then by Domestic Stamped Letter. These three services are key to ComReg's review and consent to price increases for any of these services requires robust supporting information. It must be shown that the proposed price increases would comply with the tariff requirements of the 2011 Act and that continued provision of the universal postal service, at an affordable price for all users, would be safeguarded.

88 The following tables set out, for each universal postal service, the current price, the increased price proposed by An Post, the percentage amount of the proposed increase, and an illustration of the price if it was linked to CPI increase of 5.8%<sup>42</sup> and rounded to the nearest cent.

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<sup>41</sup> Response to Q.5 dated 29 November 2012 – see ComReg Document 12/138s2

<sup>42</sup> Based on actual CPI for the period March 2007 – September 2012 and forecast CPI October 2012 to December 2013 (Sources: CSO and Central Bank Ireland). The price cap required by the 2011 Act will allow An Post, as the universal postal service provider, CPI price increases. ComReg plans to implement the price cap by Quarter 4, 2013.



**Table 7: Domestic universal postal services:**

<b>Universal Postal Service: 0 – 50g</b>	<b>Current price</b>	<b>Price proposed by An Post</b>	<b>Proposed price increase as %</b>	<b>CPI linked price for information purposes only</b>
<b>Stamped letter</b>	0.55	0.65	18%	0.58
<b>Metered letter</b>	0.54	0.60	11%	0.57
<b>Business reply letter</b>	0.54	0.60	11%	0.57
<b>Stamped large envelope</b>	0.95	1.05	11%	1.01
<b>Metered large envelope</b>	0.95	1.05	11%	1.01
<b>Business reply large envelope</b>	0.95	1.05	11%	1.01
<b>Stamped packet</b>	2.20	2.40	9%	2.33
<b>Metered packet</b>	2.20	2.40	9%	2.33
<b>Business Reply packet</b>	2.20	2.40	9%	2.33
<b>Proof of delivery</b>	n/a (5.25 <sup>43</sup> )	5.50	n/a	n/a
<b>Insurance service</b>	n/a	5.00 plus the price of relevant stamp	n/a	n/a
<b>Delivery only bulk mail letter</b>	n/a (0.44 <sup>44</sup> )	0.48	n/a	n/a
<b>Delivery only bulk mail large envelope</b>	n/a (0.82 <sup>44</sup> )	0.90	n/a	n/a
<b>Delivery only bulk mail packet</b>	n/a (2.00 <sup>44</sup> )	2.19	n/a	n/a
<b>Deferred delivery bulk</b>	n/a (0.41 <sup>45</sup> )	0.45	n/a	n/a

<sup>43</sup> This is the price of the old “registered” service which included the cost of insurance. As a result of ComReg Decision D08/12 and SI 280 of 2012, the registered service is now a separate “Proof of delivery” service and a separate “Insurance” service where insurance in addition to proof of delivery is required.

<sup>44</sup> Based on current bulk mail service “Discount 9”. Volumes of 2,000 items upwards, pre-sorted, and presented at mail centres or designated acceptance offices before 530pm.

<sup>45</sup> Based on current bulk mail service “Discount 6”. Deferred delivery will be based on Discount 6 but will accept mail at all delivery offices for D+2 delivery and will have a lower threshold (200 items) for meter customers.



Universal Postal Service: 0 – 50g	Current price	Price proposed by An Post	Proposed price increase as %	CPI linked price for information purposes only
mail letter				
Deferred delivery bulk mail large envelope	n/a (0.76 <sup>45</sup> )	0.84	n/a	n/a
Deferred delivery bulk mail packet	n/a	2.25	n/a	n/a

**Table 8: International universal postal services:**

Universal Postal Service: 0 – 50g	Current price	Price proposed by An Post	Proposed price increase as %	CPI linked price for information purposes
Letter UK, Europe, and Rest of World	0.82	0.90	10%	0.87
Large Envelope UK, Europe, and Rest of World	1.50	1.65	10%	1.59
Packet UK, Europe, and Rest of World	2.70	3.00	10%	2.86
Parcel UK	18.25	20.00	10%	19.31
Parcel Europe and Rest of World	22.00	25.00	14%	23.28
Sending Books UK and Europe	9.00	15.00	67%	9.52
Sending Books Rest of World	14.00	17.00	21%	14.81
Letter proof of delivery UK, Europe, Rest of World	n/a (5.17 <sup>43</sup> )	5.50	n/a	n/a
Large Envelope proof of delivery UK, Europe, Rest of	n/a (5.85 <sup>43</sup> )	6.25	n/a	n/a

Universal Postal Service: 0 – 50g	Current price	Price proposed by An Post	Proposed price increase as %	CPI linked price for information purposes
World				
Packet proof of delivery UK, Europe, Rest of World	n/a (7.05 <sup>43</sup> )	7.60	n/a	n/a

### International Bulk Mail universal postal services:

89 There are a number of price increases proposed to International Bulk Mail Services, which are universal postal services, as set out in the table below.

**Table 9: International Bulk Mail universal postal services**

Country	Priority Letters						Priority Flats			Priority Packets		
	25g			50g			50g			50g		
	Proposed	Current	% Inc.	Proposed	Current	% Inc.	Proposed	Current	% Inc.	Proposed	Current	% Inc.
UK	€0.52	€0.50	4%	€0.59	€0.57	4%	€0.60	€0.58	3%	€1.50	€1.50	0%
Austria	€0.68	€0.65	5%	€0.82	€0.82	0%	€1.17	€0.91	28%	€2.12	€1.29	63%
Belgium	€0.65	€0.64	2%	€0.75	€0.73	2%	€1.40	€1.40	0%	€1.88	€1.88	0%
Denmark	€0.82	€0.78	5%	€0.82	€0.82	0%	€1.30	€1.20	8%	€2.56	€2.56	0%
Finland	€0.75	€0.64	16%	€0.82	€0.72	15%	€0.90	€0.78	16%	€1.54	€1.34	15%
France	€0.70	€0.68	2%	€0.82	€0.82	0%	€0.99	€0.98	2%	€1.67	€1.64	2%
Greece	€0.71	€0.67	7%	€0.82	€0.82	0%	€1.14	€1.01	13%	€1.70	€1.58	7%
Iceland	€0.66	€0.57	16%	€0.82	€0.67	22%	€0.93	€0.71	30%	€1.50	€1.50	0%
Norway	€0.82	€0.82	0%	€0.82	€0.82	0%	€1.34	€1.27	5%	€2.43	€2.29	6%
Spain	€0.42	€0.41	2%	€0.57	€0.55	4%	€0.73	€0.61	20%	€1.44	€1.44	0%
Switzerland	€0.76	€0.72	6%	€0.79	€0.75	6%	€1.50	€1.43	5%	€6.17	€6.17	0%
Hungary	€0.51	€0.45	12%	€0.66	€0.59	12%	€0.71	€0.64	11%	€0.88	€0.88	0%
Poland	€0.47	€0.45	5%	€0.52	€0.50	5%	€0.55	€0.53	5%	€0.76	€0.76	0%
Slovenia	€0.39	€0.37	7%	€0.48	€0.48	1%	€0.50	€0.49	2%	€0.70	€0.70	0%
Estonia	€0.46	€0.38	20%	€0.51	€0.43	19%	€0.53	€0.45	20%	€0.94	€0.78	21%
U.S.A.	€0.41	€0.41	0%	€0.51	€0.51	0%	€0.53	€0.52	1%	€0.67	€0.67	0%
New Zealand	€0.66	€0.63	6%	€0.82	€0.78	5%	€0.87	€0.79	10%	€0.91	€0.88	3%

## **ComReg's proposed consent or otherwise to the proposed price increases**

- 90 ComReg has considered each of An Post proposed price increases against the relevant provisions of the 2011 Act which among other things require that ComReg must ensure the provision of the universal postal service, at an affordable price for all users, and ensure that prices for universal postal services comply with the tariff requirements.
- 91 In forming a preliminary view as to whether to consent, in whole or in part, to An Post's proposed price increases, ComReg has considered all relevant information before it, including all information provided by An Post and the report by Frontier Economics<sup>46</sup>. Before reaching a final view, ComReg will also consider the views of all respondents to this consultation.

### **DOMESTIC UNIVERSAL POSTAL SERVICES:**

- 92 In relation to domestic universal postal services, ComReg's preliminary views regarding An Post's proposed price increases are set out below.

#### **Domestic Stamped Letter**

- 93 For its Domestic Stamped Letter weighing less than 50 grams, An Post proposes an 18.2% increase in the current price, from 55 cents to 65 cents.

#### **Cost orientation:**

- 94 Based on cost estimates provided by An Post, this price increase would improve the cost reflectivity<sup>47</sup> of the Domestic Stamped Letter.

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<sup>46</sup> 12/138a

<sup>47</sup> See paragraph 75

95 Earlier this year, An Post increased the price for its Domestic Stamped Letter weighing 51– 100 grams to 65 cents (this did not require the prior consent of ComReg). ComReg has previously set out why it is the format of the item rather than the weight of the item that determines its cost<sup>48</sup>. Therefore, the Domestic Stamped Letter should be priced at the same tariff and there should be no weight step at 50 grams resulting in a different price. Consequently, and in order to be compliant with the tariff requirements of the 2011 Act, any price that ComReg consents to for a Domestic Stamped Letter up to 50 grams must also apply to a Domestic Stamped Letter up to 100 grams. As the volume of Domestic Stamped Letters weighing 51 - 100 grams is relatively low it follows that the reduction on total revenue from any reduction to the price of Domestic Stamped Letter 51 – 100 grams will also be relatively low.

**Affordability:**

96 The proposed price increase of c.18% is double most of the other price increases sought by An Post.

97 Earlier this year, An Post increased the price for its Domestic Stamped Letter weight 51– 100 grams to 65 cents. In its application, An Post claims that this price increase had suffered little reaction from its customers.

98 In response, ComReg notes that letters weighing less than 50 grams account for the majority of letter mail volumes. Therefore, the proposed price increase for Domestic Stamped Letters weighing up to 50 grams requires careful consideration to ensure that it is affordable for postal service users. Further, as the volume of Domestic Stamped Letters weighing 51 – 100 grams is relatively low, the reaction to the prices increases for Domestic Stamped Letters weighing 51– 100 grams which have already occurred might tell us little about resistance to an 18% increase for Domestic Stamped Letters weighing up to 50 grams.

99 For example, ComReg notes that pricing research conducted by Millward Brown on residential customers, on behalf of An Post, indicates that just under half of such customers<sup>49</sup> said that they would not be prepared to pay 65 cents for a domestic stamped letter service. According to this research, there would be strong resistance to a price increase to 65 cents among certain respondents. ComReg would welcome the views of residential postal service users in relation to the 10 cent increase in the price of a Domestic Stamped Letter weighing up to 50 grams which An Post seeks to implement.

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<sup>48</sup> Section 4.2.7 of ComReg Document 02/15

<sup>49</sup> Excluding don't knows

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100 An Post saw no value in conducting any research amongst its business customers as to their reaction to a 10 cent increase in the price of Domestic Stamped Letters weighing up to 50 grams, this being the key category of postal service which many such customers avail of. Therefore, as part of this public consultation, ComReg would welcome the views of all such business users of An Post's postal service as to the affordability, or otherwise, of the proposed price increases.

101 Finally, as set out by ComReg in Document No. 12/116a<sup>50</sup>, ComReg notes that a price increase to match inflation can be considered appropriate having regard to the requirement that all such tariffs shall be affordable, especially as price increases to take account of CPI changes will be allowed under the new price cap price control.

### **Domestic Stamped Letter - Preliminary view:**

102 The Domestic Stamped Letter is one of the key universal postal services and ComReg requires robust analysis in order to consent to any price increase, as ComReg is required by its statutory remit to ensure that the Domestic Stamped Letter shall remain affordable to users throughout the State and ComReg cannot give its consent to a price increase of such amount as could render the Domestic Stamped Letter unaffordable to some users.

103 If An Post was minded to adjust its application in respect of the Domestic Stamped Letter, so as to lower the price increase which is sought, then it would appear that ComReg, subject to consideration of all responses to this consultation, could consent to a CPI matched price increase up to 58 cents.

104 Also, and again subject to the views of respondents, if An Post was minded to adjust its application, ComReg considers that a 9% price increase, up to 60 cents may be appropriate as such a price setting would reflect incurred costs and subject to the views of respondents may be affordable. ComReg also notes that a 9% price increase is similar to the level of most of the other price increases which An Post seeks to implement. Furthermore, a price increase of such amount may be appropriate so as to balance the needs of An Post to continue to provide a universal postal service and the entitlements of postal service users to continue to avail of such a service at an affordable price.

105 ComReg will await the views of respondents and will fully consider all such views before deciding whether it may consent to the 65 cent price increase currently sought by An Post, or whether it could consent to a price increase of lesser amount. However, ComReg does note at this stage that An Post's own research of residential customers indicates that there would be significant resistance to the proposed 10 cent price increase, from 55 up to 65 cents.

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<sup>50</sup> 'Response to Consultation on Draft Postal Strategy Statement 2012 – 2014' dated 30 October 2012

### **Domestic Stamped Large Envelope and Packet**

106 In relation to the Domestic Stamped Large Envelope, An Post proposes a 10.5% increase from 95 cents to €1.05, and for the Domestic Stamped Packet An Post proposes a 9.1% increase from €2.20 to €2.40.

#### **Cost orientation:**

107 Based on cost estimates provided by An Post, it would appear that these price increases would improve the cost reflectivity of the Domestic Stamped Large Envelope and the Domestic Stamped Packet.

#### **Affordability:**

108 An Post has not conducted any customer research as to the affordability, or otherwise, of the proposed price increases for Domestic Stamped Large Envelopes and Packets, though ComReg notes that the proposed price increases of 9-11% are less than the increase of just over 18% that is sought for the Domestic Stamped Letter. Therefore, as part of this consultation and in order to further inform its review as to the affordability, or otherwise, of the proposed price increases for Domestic Stamped Large Envelopes and Packets, ComReg would welcome the views of postal service users as to the affordability, or otherwise, of the proposed price increase.

109 Finally, as set out by ComReg in Document No. 12/116a, ComReg notes that a price increase to match inflation can be considered appropriate having regard to the requirement that all such tariffs shall be affordable, especially as price increases to take account of CPI changes will be allowed under the new price cap price control.

#### **Domestic Stamped Large Envelope and Packet - Preliminary view:**

110 ComReg could consent to a CPI matched price increase to €1.01 for the Stamped Large Envelope and a CPI matched price increase to €2.33 for the Stamped Packet.

111 ComReg will await the views of respondents and will fully consider all such views before deciding whether it may consent to the price increases sought by An Post, for Domestic Stamped Large Envelopes and Packets. However, subject to such views as are received, ComReg is currently minded to consent to the proposed price increases as it would appear that these would improve the cost reflectivity of these services and would not seem to create any concerns as to the continued affordability of such services.

### **Domestic Metered Letter**

112 In relation to Domestic Metered Letter, An Post proposes an 11.1% increase from 54 cents to 60 cents.

#### **Cost orientation:**

113 Based on cost estimates provided by An Post, this price increase would be at the cost estimate for Domestic Metered Letter.

#### **Affordability:**

114 An Post has not presented any research as to the affordability, or otherwise, of the proposed 11% price increase for the Domestic Metered Letter weighing less than 50 grams, for its meter customers. ComReg notes, however, that the proposed increase is not as large as that sought for the Domestic Stamped Letter (18%). An Post claims that there has been little customer reaction to the price increases already made for Domestic Metered Letters weighing more than 50 grams (which did not require ComReg's prior consent).

115 Furthermore, An Post is proposing to reduce the mail volume threshold for being able to avail of its Domestic Metered Letter service from 350 mail items down to 200 mail items, which means that more of its customers will be able to avail of the meter mail discounts available. ComReg considers that this proposal by An Post is to be welcomed, and should be implemented.

116 An Post did not conduct any research from its business customers who use meter machines, and in particular small and medium enterprises, as to their reaction to the proposed increase in the price of the Domestic Metered Letter, from 54 cents up to 60 cents. Therefore, in this consultation, ComReg would particularly welcome the views of business users of An Post's meter mail service, particularly as to the affordability, or otherwise, of the proposed price increase.

117 Finally, as set out by ComReg in Document No. 12/116a, ComReg notes that a price increase to match inflation can be considered appropriate having regard to the requirement that all such tariffs shall be affordable, especially as price increases to take account of CPI changes will be allowed under the new price cap price control.

#### **Non-discrimination:**

118 The current discount as between the Domestic Metered Letter and the Domestic Stamped Letter is 1 cent (c.2%). An Post proposes to increase this discount to 5 cents (c.8%). However, users of Domestic Metered Letters would still see an increase in price of c.11% from 54 cents to 60 cents.

- 119 In its engagement with An Post, ComReg has sought evidence that demonstrates that the proposed increase in the price differential between its Domestic Metered Letter and its Domestic Stamped Letter is supported by the associated costs which An Post avoids and which are connected to the particular payment method. That is, ComReg must be assured that the discounted price Domestic Metered Letter is based upon the fact that paying by meter, rather than by stamp, enables An Post to avoid or reduce certain costs, such as the cost of operating counters in order to sell stamps. This is required in order to demonstrate that no discrimination is occurring between users of the Domestic Metered Letter service and the Domestic Stamped Letter service.
- 120 An Post, for its part, maintains that the discount for its Domestic Metered Letter service should reflect the fact that meter mail tends to have better mail characteristics than stamped mail - for example, meter mail is more likely to contain typed addresses than stamped mail, which aids automatic sorting. However, ComReg is of the preliminary view that it is not appropriate to include these possible cost savings based upon general mail characteristics to support a discount based upon payment method, as to do so would be discriminatory in the absence of such a characteristic (e.g. typed addresses) being required for meter users. For example, under An Post's proposal a meter customer would avail of an increased discount as its mail is typed addressed but a stamp customer would not avail of the same discount if that customer also typed addressed its mail.
- 121 ComReg also notes that An Post proposes a 5% discount for stamps purchased online in a quantity greater than 300, as this allows An Post to avoid the counter serving element of the revenue collection costs incurred. This is similar to the proposed cost saving for meter customers discussed above. Therefore, if the cost savings for stamps purchased online are broadly the same as the cost savings for metered mail<sup>51</sup>, in order to be non-discriminatory, the discount for stamps purchased online should also be broadly the same as the discount for metered mail.
- 122 ComReg would welcome the views of interested parties on the issues identified in relation to the possible discrimination in the meter payment discount.

### **Domestic Metered Letter - Preliminary view:**

- 123 As noted above, the Domestic Metered Letter is one of the three key universal postal services and ComReg requires robust information and analysis before it may consent to a price increase for Domestic Metered Letters weighing less than 50 grams, as ComReg must ensure that the provision of a universal postal service at an affordable price for postal users is safeguarded.

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<sup>51</sup> At least insofar as it relates to upstream costs



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124 If An Post was minded to adjust its current application then subject to the views of respondents ComReg considers that it could consent to a CPI-matched price increase for Domestic Metered Letters weighing less than 50 grams, thus raising the price from 54 cents to 57 cents.

125 Also, subject to the views of respondents, if An Post was minded to adjust its application, ComReg considers that a 9% price increase up to 59 cents may be appropriate in order to balance the need of An Post to continue to provide a universal postal service against entitlement of all postal service users to continue to avail of affordable universal postal services. (similar to the level of most of the price increases sought). A price of 59 cents would also maintain the current 1 cent (c.2%) discount between meter and stamped letters (assuming An Post was minded to adjust its application for stamped letters to 60 cents).

126 ComReg will await the views of respondents and will fully consider all such views before deciding whether it may consent to the price increase to 60 cents for the Domestic Metered Letter weighing less than 50 grams, which is sought by An Post. ComReg will also consider whether the 5 cents discount that would result between a 60 cent Domestic Metered Letter and a 65 cent Domestic Stamped Letter would be justified and whether it would be discriminatory.

### **Domestic Metered Large Envelope and Packet**

127 An Post proposes a c.11% increase for the Domestic Metered Large Envelope, from 95 cents to €1.05, and a c. 9% increase for the Domestic Metered Packet, from €2.20 to €2.40.

### **Cost orientation:**

128 Based upon associated cost estimates provided by An Post, it would seem that these proposed price increases would improve the cost reflectivity for the Domestic Metered Large Envelope and Domestic Metered Packet products. However, the proposed increased price for the Domestic Metered Packet product is slightly above the cost estimates associated with that product and ComReg is of the view that the price of a product should not exceed the associated fully allocated cost.

**Affordability:**

129 An Post has not presented any research as to the affordability, or otherwise, of the proposed price increase for its meter customers. ComReg notes, however, that the proposed price increase of c.9-11% is not as great as the c.18% sought for the Domestic Stamped Letter. An Post claims that there has been little reaction to the price increases it has already made for its postal services weighing more than 50 grams. Furthermore, An Post is proposing to reduce the meter mail volume threshold for being able to avail of its Domestic Metered Large Envelope and Packet mail services from 350 mail items down to 200 mail items, which means that more of its customers would be able to avail of the discounts available. ComReg considers that this proposal by An Post is to be welcomed, and should be implemented.

130 An Post chose not to conduct any research with its business customers who use meter machines, and in particular small and medium enterprises, as to their reaction to the proposed increase in the price of its Domestic Metered Large Envelope and Packet services. Therefore, in this consultation, ComReg would particularly welcome the views of business users of An Post's meter mail services, particularly as to the affordability, or otherwise, of the proposed price increases.

**Non-discrimination:**

131 There is no discount for meter payment on Domestic Large Envelopes and Packets though there is a discount for meter payment on Domestic Letters.

132 An Post claims that a meter payment discount is not offered for its Domestic Large Envelopes and Packets services as these services do not have automatic sorting benefits that arise with Domestic Letters. ComReg has concerns in relation to this as, ostensibly at least, the lack of a payment method discount for these items may not be justified and may be discriminatory.

133 Again, ComReg notes that the discount associated with a particular payment method can only relate to the costs that are avoided due to the payment method.

134 Therefore, ComReg is of the preliminary view that An Post would be acting in a discriminatory manner by not offering a meter payment discount for its Domestic Large Envelopes and Packets services, as ComReg cannot see why such a discount should not apply if it is applied to other postal services availing of the same payment method. This meter payment discount should be the same as the revised meter payment discount for Domestic Letters (as agreed with ComReg as being compliant).

135 ComReg would welcome the views of all interested parties on this issue.

**Domestic Metered Large Envelope and Packet - Preliminary view:**

136 If An Post is minded to adjust its application then subject to the views of respondents ComReg considers that it could consent to a CPI-matched price increase for the Metered Large Envelope and the Metered Packet, provided that the increased prices reflected a discount similar to the discount offered for the Domestic Metered Letter (currently c.2%). Therefore, ComReg could consent to a price of €1.01 for Metered Large Envelope and €2.28 for Metered Packet.

137 In line with its consultation procedures, ComReg will await the views of respondents before deciding whether it could consent to the price increases proposed by An Post. Subject to those views, ComReg is currently minded to consent, subject to An Post adjusting its application to offer a meter payment discount for Large Envelopes and Packets similar to the agreed meter payment discount for Letters (which is currently c. 2%), to a price of €1.03 for Metered Large Envelope and €2.35 for Metered Packet.

**Domestic Business Reply Letter**

138 An Post is proposing a 11.1% increase for its Domestic Business Reply Letter, from 54 cents to 60 cents.

**Cost orientation:**

139 Based on cost estimates provided by An Post, it would appear that this price increase would improve the cost reflectivity of the Domestic Business Reply Letter.

**Affordability:**

140 An Post has not presented any research as to the affordability, or otherwise, of the proposed price increase for its business reply customers. Therefore, in this consultation, ComReg would welcome the views of business reply postal service users as to the affordability, or otherwise, of the proposed price increase.

141 As set out by ComReg in Document No. 12/116a, ComReg notes that a price increase to match inflation could be considered to be affordable, especially as CPI changes will be allowed under the new price cap regime which will be of the form "CPI-X%".

**Non-discrimination:**

- 142 The existing price variance between the Domestic Business Reply Letter and Domestic Stamped Letter is 1 cent (c.2%). The current price increases proposed by An Post, if implemented, would see this price variance increase to 5 cents (c.8%), as users of the Domestic Business Reply Letter service would see prices increase from 54 cents up to 60 cents, whereas users of the Domestic Stamped Letter service would see prices increase from 55 cents up to 65 cents.
- 143 ComReg has sought evidence from An Post that demonstrates that the proposed increase to the discount between these two services is supported by the associated avoided costs. This is required in order to demonstrate that there is no unjustified pricing discrimination.
- 144 An Post states that the business reply discount reflects that business reply mail, as required by its terms and conditions, is typically pre-printed typed addressed which aids automatic sortation and minimises manual sortation which is costly.
- 145 ComReg is of the preliminary view that it is appropriate to include cost savings as it is a requirement of the Business Reply service. However, An Post has not fully demonstrated to ComReg that the quantum of such cost savings is of the order of 5 cents. Therefore, An Post is requested in its response to this consultation to provide supporting information that shows that the cost saving due to the requirements of the Business Reply service is indeed of the order of 5 cents.
- 146 In addition to the specific information sought from An Post, ComReg would also welcome the views of all interested parties on this matter.

**Domestic Business Reply Letter - Preliminary view:**

- 147 If An Post is minded to adjust its application, ComReg is of the preliminary view that it could likely consent to a CPI-matched price increase to 57 cents for the Domestic Business Reply Letter.
- 148 Subject to the views of respondents, the provision of appropriate supporting information from An Post, and maintaining an appropriate discount to Stamped Letter, ComReg could consent to a price increase up to 59 cents for Business Reply Letter (if the price consented to for Stamped Letter is 60 cents).

**Domestic Business Reply Large Envelope and Packet**

- 149 An Post proposes a c.11% price increase for the Domestic Business Large Envelope, from 95 cents to €1.05, and a c.9% increase for the Domestic Business Reply Packet, from €2.20 to €2.40.

**Cost orientation:**

150 Based on cost estimates provided by An Post, it would appear that these price increases would improve the cost reflectivity of these two products.

**Affordability:**

151 An Post has not presented any research as to the affordability, or otherwise, of the proposed price increases for its business reply customers. Therefore, in this consultation, ComReg would greatly welcome the views of business reply postal service users as to the affordability, or otherwise, of the proposed price increase.

**Non-discrimination:**

152 There is no discount for Business Reply Large Envelopes and Packets even though there is a discount for Domestic Business Reply Letters.

153 ComReg is of the preliminary view that Business Reply Large Envelopes and Packets should have the same discount as for Business Reply Letters, as they are subject to the same terms and conditions. In particular, ComReg notes that business reply is based upon pre-printed typed addresses, which aids automatic sortation and minimises manual sortation which is costly.

154 Therefore, ComReg is of the preliminary view that An Post would be acting in a discriminatory manner by not offering the same meter payment discount for its Business Reply Large Envelopes and Packets as for its Business Reply Letters

155 ComReg would welcome the views of interested parties on this matter.

**Domestic Business Reply Large Envelope and Packet - Preliminary view:**

156 If An Post is minded to adjust its application to include a similar discount for its Business Reply Large Envelopes and Packets as it has for its Business Reply Letter, ComReg is currently minded to consent to a price of €1.03 for Business Reply Large Envelope and €2.35 for Business Reply Packet.

**Proof of delivery facility**

157 Proof of delivery facility is a universal postal service providing the sender with proof of the handing in of the postal packet and/or of its delivery to the addressee. It also includes compensation to the sender or addressee in the event of theft or loss of or damage to the postal packet in the course of its transmission by post. Therefore, the proof of delivery facility is part of the old “registered items” service but with a limited level of compensation if the letter is lost.

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158As noted in D08/12, similar services to the proof of delivery service are offered across Europe. For example, in the UK the price of the Recorded Delivery service is 95p (€1.21) and in France the Recommendation service is priced at €2.78.

159An Post is proposing a price of €5.50 for its proof of delivery facility. This is an increase in price from the old “registered items” service which was priced at €5.25 and included both proof of delivery and insurance.

### **Cost orientation:**

160According to An Post, and based on cost data provided for the old registered items service, the cost of providing a proof of delivery facility exceeds the price An Post proposes to offer, for the following reasons:

- The proof of delivery service requires handing over the counter, consequently it requires recording by the counter clerk;
- The proof of delivery service is processed by hand at all times rather than by machine. This is for security reasons;
- The proof of delivery service requires the recipient to sign for the item. This involves time, and therefore cost, compared with a simple insertion through the letterbox for a standard item; and
- If an item is missing and a complaint is made, compensation may be payable.

161Based on the information provided by An Post, the cost of a proof of delivery facility is c. €5 higher than the cost of a stamped letter. ComReg understands that the relative low volumes on the old registered items service is resulting in a high direct and indirect cost per unit. Furthermore, the cost per unit includes a significant common cost allocation relative to other postal services.

### **Affordability:**

162An Post has not presented any research as to the affordability, or otherwise, of the proposed price for its proof of delivery facility. Therefore, in this consultation, ComReg would welcome the views of all interested parties, including users of the old registered items service, as to the affordability, or otherwise, of the proposed price for the new proof of delivery facility.

### **Non-discrimination:**

163As stated above, ComReg would have some concerns that the price of the proof of delivery facility seems high, relative to the price of Domestic Stamped Letter. ComReg would welcome the views of interested parties on this.

**Proof of delivery facility - Preliminary view:**

164 Subject to the views of interested parties, ComReg is currently minded to consent to An Post's proposed price of €5.50 for its proof of delivery facility

**Insurance**

165 Insurance is a universal postal service that insures a postal packet in the event of loss, theft or damage up to the value declared by the sender of the postal packet.

166 An Post is proposing a price of €5 for its insurance service in addition to the price of the relevant postage bought e.g. a Domestic Stamped Letter requiring insurance would be priced at €5.65 (65 cent for the stamp + €5 for insurance). This is because the insurance service requires the proof of delivery service (which An Post proposes to price at €5.50). ComReg understands that the proof of delivery facility would be required as to offer an insurance service requires certain procedures to minimise its loss / damage.

**Cost orientation:**

167 According to An Post, and based on cost data for the insurance element in the old registered items service, the cost of providing an insurance service alone is c.15-20 cents which is the additional price when added to the proof of delivery service.

**Affordability:**

168 An Post has not presented any research as to the affordability, or otherwise, of the proposed price for the insurance service. Therefore, ComReg would welcome the views of postal service users who use the old registered items service as to the affordability, or otherwise, of the proposed price for the insurance service as an optional extra cost on the proof of delivery service.

**Transparency:**

169 An Post has yet to provide its proposed terms and conditions associated with the new Insurance service. ComReg expects that these terms and conditions should clearly set out that postal service users should use the Insurance service where insurance compensation is required.

**Insurance service - Preliminary view:**

170 Subject to the views of interested parties, ComReg is currently minded to consent to An Post's proposed price of €5 for its insurance service

### **“Delivery only” bulk mail universal postal service**

171 An Post’s “Delivery only” bulk mail service is one of the two universal bulk mail services required by the Regulations<sup>52</sup>. “Delivery only” bulk mail means pre-sorted mail deposited at a delivery office for delivery within the State, using the “D+n” formula. In D08/12, ComReg noted that the “Delivery only” bulk mail service is based on An Post’s current specification of discount 9 which is offered on the basis of a volume of at least 2,000 mail items being presented at a delivery point before 5:30pm.

172 An Post is proposing to increase its prices for “Delivery only” bulk mail to which discount 9 applies, as follows:

- c.9% increase in the price of letter from 44 cents to 48 cents,
- c.10% increase in the price of large envelope from 82 cents to 90 cents
- c.10% increase in the price of packet from €2.00 to €2.19.

#### **Cost orientation:**

173 The proposed pricing would reflect the estimated cost of providing the universal postal service, according to data provided by An Post.

#### **Affordability:**

174 An Post has not presented any research in relation to the affordability, or otherwise, of the proposed price increases for its bulk mail customers. Therefore, in this consultation, ComReg would welcome the views of bulk mail users as to the affordability, or otherwise, of the proposed price increases for this bulk mail service.

#### **Transparency:**

175 ComReg is of the preliminary view that the pricing of the “Delivery only” bulk mail service is not transparent. The proposed schedule of charges set out the workshare discounts for this bulk mail service. ComReg is of the preliminary view that it would be more transparent if the schedule of charges simply showed the prices in effect for the “Delivery only” bulk mail service.

176 ComReg would appreciate the views of interested parties on this.

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<sup>52</sup> SI 280 of 2012



**“Delivery only” bulk mail service - Preliminary view:**

177 Subject to the views of interested parties and An Post revising its Schedule of Charges to make them more transparent, ComReg is currently minded to consent to An Post’s proposed prices for its “Delivery only” bulk mail universal postal service.

**“Deferred delivery” bulk mail universal postal service**

178 The “Deferred delivery” bulk mail service is the other of the two universal bulk mail services required by the Regulations<sup>53</sup>. “Deferred delivery” bulk mail means mail deposited at a delivery office for delivery within the State one day later than would otherwise be the case, again applying the “D+n” formula. The Regulations further stipulate that “delivery office” means an office managed by An Post for the purposes of processing postal packets immediately prior to the activity of delivery to the addressee. Therefore, the Regulations state that mail can be deposited in bulk at any An Post delivery office for delivery within the state within two working days.

179 An Post has proposed a specification of a bulk mail service to meet this requirement. It is a bulk mail service similar to the Bulk Mail 6 service except mail can now be deposited at all delivery offices for delivery within D+2 and the mail volume threshold is lowered to 200 items for meter customers and remains at 2,000 items for Ceadunas customers. An Post proposes to price the Deferred delivery universal bulk mail service as follows:

- for letter 45 cents,
- for large envelope 84 cents
- for packet from €2.25.

180 As the “Deferred delivery” bulk mail service is based on Bulk Mail 6 it is likely that the current users of Bulk Mail 6 will avail of this universal postal service. Therefore, this new universal postal service will account for a large portion of An Post’s mail volumes and, consequently, the proposed pricing requires careful consideration.

**Cost orientation:**

181 According to An Post, the proposed pricing would reflect the estimated cost of providing the universal postal service.

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<sup>53</sup> SI 280 of 2012

**Affordability:**

182 The “Deferred delivery” bulk mail universal postal service is based on Bulk Mail 6 with certain revisions made as noted above. Therefore, for Bulk Mail 6 customers remaining on what is now called the “Deferred delivery” bulk mail universal postal service, there is a c.10% price increase. Customers on Bulk Mail 6 are typically An Post’s largest customers (e.g. Banks, Government, Utilities etc.). Given that these large customers are potentially most at risk of substituting away and given that price elasticity research conducted for An Post indicates a possible high elasticity for these customers, careful consideration must be given to the proposed prices of the “Deferred delivery” bulk mail universal postal service as the proposed price increases may result in a revenue lower than the revenue that would have been the case if the price increases had not been made.

183 An Post has not presented any research as to the affordability, or otherwise, of the proposed price increases for its bulk mail customers. Therefore, in this consultation, ComReg would particularly welcome the views of bulk mail users as to the affordability, or otherwise, of the proposed price increases for this bulk mail service.

**Transparency:**

184 ComReg is of the preliminary view that the pricing of the “Deferred delivery” bulk mail service is not transparent. The proposed schedule of charges set out the workshare discounts for this bulk mail service. ComReg is of the preliminary view that it would be more transparent if the schedule of charges simply showed the prices in effect for the “Delivery only” bulk mail service.

185 ComReg would appreciate the views of interested parties on this.

**“Deferred delivery” bulk mail service - Preliminary view:**

186 “Deferred delivery” bulk mail service is a key universal postal service with significant mail volumes. Therefore, the proposed pricing requires careful consideration. Consequently, ComReg seeks the views of respondents as to the likely reaction of its largest customers to the proposed price increases to “Deferred delivery” (Bulk Mail 6), before making its decision on its consent or otherwise.

**INTERNATIONAL**

187 In making a preliminary assessment in relation to An Post proposed prices increases for its international universal postal services, ComReg has considered the information provided by An Post and will, in due course, consider the views of all respondents to this consultation.

**Preliminary view:**

188 ComReg has assessed each of the universal postal services in turn against the tariff requirements of the 2011 Act. Subject to the views of respondents, ComReg is currently minded to consent to all the proposed price increases for its International universal postal services, as set out below.

**Letter, Large Envelope, Packet to UK, Europe, and Rest of World**

189 In relation to these universal postal services, An Post is proposing c.10% price increases.

**Cost orientation:**

190 Based on cost estimates provided by An Post, these price increases would seem to improve the cost reflectivity of these products.

**Affordability:**

191 An Post has not presented any research in relation to the affordability, or otherwise, of the proposed price increase for its customers. Therefore, in this consultation, ComReg would welcome the views of postal service users as to the affordability, or otherwise, of the proposed price increases.

**Parcel to UK**

192 In relation to Parcel to the UK, An Post is proposing a c.10% price increase.

**Cost orientation:**

193 Based on cost estimates provided by An Post, the price increase would seem to improve the cost reflectivity of this product.

**Affordability:**

194 An Post has not presented any research as to the affordability, or otherwise, of the proposed price increase for its postal service users. Therefore, in this consultation, ComReg would welcome the views of postal service users as to the affordability, or otherwise, of the proposed price increase.

**Parcel to Europe and Rest of World**

195 In relation to Parcel to the Europe and the Rest of the World, An Post is proposing a c.14% price increase.

**Cost orientation:**

196 Based on cost estimates provided by An Post, the price increase would seem to improve the cost reflectivity of this product.

**Affordability:**

197 An Post has not presented any research in relation to the affordability, or otherwise, of the proposed price increase for its postal service users. Therefore, in this consultation, ComReg would welcome the views of postal service users as to the affordability, or otherwise, of the proposed price increase.

**Sending books abroad to UK and Europe**

198 In relation to sending books abroad to UK and Europe, An Post is proposing a c.67% price increase. ComReg understands this to be a service with relatively low volumes. Furthermore, in D08/12, ComReg noted that, in particular, it would keep the sending books abroad 2kg – 5kg under review and will revise the universal postal services if it considers it to be a commercial service.

**Cost orientation:**

199 Based on cost estimates provided by An Post, the price increase would seem to improve the cost reflectivity of this product.

**Affordability:**

200 An Post has not presented any research in relation to the affordability, or otherwise, of the proposed price increase for its postal service users. Therefore, in this consultation, ComReg would welcome the views of postal service users as to the affordability, or otherwise, of the proposed price increase.

**Sending books abroad to Rest of the World**

201 In relation to sending books abroad to the Rest of the World, An Post is proposing a c.21% price increase.

**Cost orientation:**

202 Based on cost estimates provided by An Post, the price increase would seem to improve the cost reflectivity of this product. Again, ComReg understands this to be a service with relatively low volumes. Furthermore, in D08/12, ComReg noted that, in particular, it would keep the sending books abroad 2kg – 5kg under review and will revise the universal postal services if it considers it to be a commercial service.

**Affordability:**

203 An Post has not presented any research in relation to the affordability, or otherwise, of the proposed price increase for its postal service users. Therefore, in this consultation, ComReg would welcome the views of postal service users as to the affordability, or otherwise, of the proposed price increase.

### **Proof of delivery facility - International**

204As required by ComReg's Regulation<sup>54</sup>, An Post has introduced an International proof of delivery facility.

#### **Cost orientation:**

205Based on cost estimates provided by An Post, the proposed prices seem to reflect the costs of the service as the price is the combination of the price of the domestic Proof of delivery service plus the price of the relevant international stamp.

#### **Affordability:**

206ComReg will assess the affordability based on the views of respondents on the component parts, namely the price of the domestic Proof of delivery service plus the price of the relevant international stamps.

### **International Bulk Mail**

207In relation to the proposed price increases for International Bulk Mail, An Post has stated that the proposed price increases are mainly due to increased terminal dues and air conveyance costs.

#### **Preliminary view:**

208ComReg is of the preliminary view to consent to these changes but before doing so would welcome views from respondents as to whether they consider the proposed price increases to be affordable.

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<sup>54</sup> SI 280 of 2012

## **4.4 Summary of preliminary views on consent for the universal postal services**

209 Table 10 summarises the proposed price increases which ComReg is minded to consent to / could be minded to consent to subject to the views of respondents and other relevant evidence.

210 The green column sets out the minimum price increases which ComReg is minded to consent to, subject to its consideration of all responses to this consultation. These price increases reference the change in CPI since the last price increases occurred, in early 2007, and the forecast CPI for 2013. ComReg considers that such CPI-linked price increases would be appropriate as they improve the cost reflectivity of the universal postal services while remaining affordable; and

211 The amber column sets out the price increases which ComReg could be minded to consent to, though again subject to its consideration of all responses to this consultation. These possible price increases are higher than the increases set out in the green column and most of these increases are in the amount sought by An Post. However, some of the price increases set out in the amber column, which relate to key universal postal services, are less than the amounts sought by An Post.

212 In order that ComReg may consent to any price increase which is less than the amount sought by An Post, An Post must submit an adjusted application to ComReg under section 30(12), seeking the price increase which ComReg has already indicated that it is willing to consent to. Where such an adjusted application is received, ComReg considers that any further public consultation would not be required as the views of interested parties would already have been sought and considered.

**Table 10: ComReg’s preliminary views on its consents for An Post’s universal postal services**

Universal postal services: 0 – 50g	Current price	An Post’s price application of 19 October	ComReg’s preliminary view	
			Is minded to consent to <sup>55</sup>	Could be minded to consent to <sup>56</sup>
Domestic stamped letter	0.55	0.65	0.58	0.60
Domestic metered letter	0.54	0.60	0.57	0.59
Business reply letter	0.54	0.60	0.57	0.59
Stamped large envelope	0.95	1.05	1.01	Consent to proposed price increase
Metered large envelope	0.95	1.05	1.01	1.03
Business reply large envelope	0.95	1.05	1.01	1.03
Stamped packet	2.20	2.40	2.33	Consent to proposed price increase
Metered packet	2.20	2.40	2.28	2.35
Business reply packet	2.20	2.40	2.28	2.35
Proof of delivery	n/a	5.50	n/a - as new service	Consent to price
Insurance	n/a	5.00 plus	n/a - as new service	Consent to price
“Delivery only” bulk mail letter	(0.44) <sup>57</sup>	0.48	n/a - as new service	Consent to price
“Delivery only” bulk mail large envelope	(0.82) <sup>9</sup>	0.90	n/a - as new service	Consent to price
“Delivery only” bulk mail packet	(2.00) <sup>9</sup>	2.19	n/a - as new service	Consent to price

<sup>55</sup> Subject to the views of respondents

<sup>56</sup> Subject to the views of respondents and other relevant evidence

<sup>57</sup> For information purposes, the current price for Bulk Mail 9. “Delivery only” will be based on current Bulk Mail 9 product.

Universal postal services: 0 – 50g	Current price	An Post's price application of 19 October	ComReg's preliminary view	
			Is minded to consent to <sup>55</sup>	Could be minded to consent to <sup>56</sup>
"Deferred delivery" bulk mail letter	(0.41) <sup>58</sup>	0.45	n/a - as new service	Some concerns to be addressed before determining
"Deferred delivery" bulk mail large envelope	(0.76) <sup>58</sup>	0.84	n/a - as new service	Some concerns to be addressed before determining
"Deferred delivery" bulk mail packet	n/a	2.25	n/a - as new service	Some concerns to be addressed before determining
International	Various	Various	Consent to all proposed price increases	Consent to all proposed price increases
International bulk mail	Various	Various	Consent to all proposed price increases	Consent to all proposed price increases

213 Therefore, in relation to the universal postal services, as can be seen from the table above, subject to the views of respondents and other relevant evidence, ComReg could be to consent to:

- The proposed price increases sought by An Post for certain universal postal services. There are 86 postal services in this category.
- Subject to the concerns in relation to the proposed pricing of "Deferred delivery" being addressed, ComReg could be minded to consent to the three price increases sought by An Post.

<sup>58</sup> For information purposes, the current price for Bulk Mail 6. "Deferred delivery" will be based on current Bulk Mail 6 product with amendments made to allow acceptance at all delivery offices for a D+2 delivery and a lower threshold of 200 items for meter customers.



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- Consent to appropriate price increases for the remaining universal postal services if An Post is minded to adjust its price application for these remaining universal postal services. There are 7 postal services in this category.

Q. 3 Do you agree with ComReg's preliminary views on its consents for the universal postal services? If you disagree, please indicate what particular consents you disagree with. Please support your answer with reasons and any supporting material.

## 5 Regulatory Impact Assessment (RIA)

214 ComReg's published RIA Guidelines<sup>59</sup> (Doc 07/56a), in accordance with a policy direction to ComReg<sup>60</sup>, state that ComReg will conduct a RIA in any process that may result in the imposition of a regulatory obligation, or the amendment of an existing obligation to a significant degree, or which may otherwise significantly impact on any relevant market or any stakeholders or consumers. However, the Guidelines also note that in certain instances it may not be appropriate to conduct a RIA and, in particular, that a RIA is only considered mandatory or necessary in advance of a decision that could result in the imposition of an actual regulatory measure or obligation, and that where ComReg is merely charged with implementing a statutory obligation then it will assess each case individually and will determine whether a RIA is necessary and justified.

215 In this Consultation, ComReg considers that it is not imposing a discretionary regulatory obligation but is acting under a statutory obligation imposed on it by section 30 (12) of the 2011 Act which requires that, pending the making of a price cap decision, ComReg must determine whether to give its prior consent to any application by An Post to change its charges for any its postal services within the scope of the universal postal service relating to postal packets weighing less than 50 grams. Therefore, a RIA is not being undertaken on this occasion.

216 However, as required by the 2011 Act, ComReg has assessed the proposed price increases against the applicable determinative criteria which are set out in the 2011 Act. These criteria include the tariff requirements set out in section 28 of the 2011 Act, which are that the prices for An Post's universal postal services be cost-oriented, affordable, uniform, transparent, and non-discriminatory.

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<sup>59</sup> Which have regard to the RIA Guidelines issued by the Department of An Taoiseach in June 2009

<sup>60</sup> Ministerial Policy Direction made by Dermot Ahern T.D. Minister for Communications, Marine and Natural Resources on 21 February, 2003

## 6 Conclusion

217 ComReg understands that An Post is currently facing some notable financial challenges. However, ComReg is of the view that revenue intervention such as price increases are only part of a solution to An Post's financial problems and only then if they do not have a significant detrimental impact on the volumes of the universal postal services.

218 Cognisant of its obligations under the 2011 Act and having reviewed An Post's price application together with ComReg's independent expert consultants report on the review of An Post's price application, ComReg:

1. Will consent to all the proposed price increases for all the non universal postal services within the scope of the universal postal service
2. Is of the preliminary view that it is could be minded to consent to most of the price increases for the universal postal services sought by An Post. In some cases, in order to obtain the consent, it will require An Post to make an adjusted price application. If An Post makes an adjusted price application that matches the preliminary views of ComReg, ComReg will commit to making its consent as expeditiously as possible.

219 The consented to price increases for the non-universal postal services within the scope of universal postal service, the "could be minded to consent" price increases for the universal postal services<sup>61</sup> would give An Post most (c.75%) of the additional revenue of c.€14m<sup>62</sup> which it seeks<sup>63</sup>. Taking into account the additional revenue of c.€8m that An Post claims it has received from its May 2012 price increases, this means that An Post could obtain a total additional revenue of c.€19m (c.86%) of the c.€22m<sup>62</sup> additional revenue it sought.

220 ComReg has, in making its preliminary views on its consent, tried to balance the financial needs of the universal postal service provider to ensure it can continue to offer a universal postal service and the needs of postal service users to ensure that the prices of universal postal services remain affordable. In finalising its views, ComReg will consider all the views of respondents to this consultation.

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<sup>61</sup> Including the proposed prices for the 'Deferred delivery' product if accepted

<sup>62</sup> Based on An Post's information and subject to its forecasts being correct.

<sup>63</sup> Assuming that the price increases do not cause a substantial further decline in mail volumes, thereby negating the benefit of the price increases

## 7 Submitting comments

221 The consultation period will run until 5pm on 31 January 2013, during which time ComReg welcomes written comments on any of the issues raised in this consultation.

222 It is requested that comments be referenced to the relevant question numbers and/or paragraph numbers from this document. Where views are provided, please provide a supporting rationale for your comments, including if possible, an indication on the broader impact of any changes proposed.

223 As it is ComReg's policy to publish all responses in order to make them available for inspection, responses to consultations should be provided as non-confidential documents, with any information for which confidentiality is claimed (e.g. commercially sensitive information) supplied in a separate annex. In this respect, please refer to ComReg's Consultation Procedures - ComReg 11/34 and ComReg's guidelines on the Treatment of Confidential Information - ComReg 05/24.

224 We request that electronic submissions be submitted in an unprotected format so that they can be appended into the ComReg submissions document for publishing electronically.

225 All responses to this consultation should be clearly marked:- "Reference: Consultation 12/138", and sent by post, facsimile or e-mail to arrive on or before 5pm, 31 January 2013, to:

Mr. Stephen Brogan  
Commission for Communications Regulation  
Abbey Court, Block DEF  
Lower Abbey Street  
Freepost  
Dublin 1

Ph: +353-1-804 9600 Fax: +353-1-804 9680

Email: [marketframeworkconsult@comreg.ie](mailto:marketframeworkconsult@comreg.ie)

# Questions

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## Annex: 1 Legal basis

A 1.1 The following sets out ComReg's legal basis for its consent or not to the proposed price increases by An Post.

A 1.2 In accordance with the 2011 Act, ComReg's statutory functions are:

- To ensure the provision of a universal postal service that meets the reasonable needs of postal service users
- To monitor and ensure compliance by postal service providers with the obligations imposed on them.

A 1.3 Arising from the 2011 Act, ComReg's statutory objectives include promoting the development of the postal sector and, in particular, the availability of a universal postal service within, to and from the State at an affordable price for the benefit of all postal service users.

A 1.4 As required by section 30(12) of the 2011 Act, pending the making of a price cap decision by ComReg, no change can be made by An Post to any charge that applies immediately before the passing of the 2011 Act for postal services within the scope of the universal postal service relating to postal packets weighing less than 50 grams without the prior consent in writing of ComReg.

A 1.5 According to section 28 of the 2011 Act, the tariff for each postal service or part of a postal service provided by An Post as universal postal service provider in the provision of a universal postal service must comply with the following tariff requirements:

- Prices must be affordable and be such that all postal service users may avail of the services provided
- Prices must be cost-oriented, that is to say, the prices must take account of, and reflect the costs of, providing the postal service or part of the postal service concerned
- Tariffs shall be transparent and non-discriminatory
- A uniform tariff shall apply throughout the State to any postal service provided at single piece tariff.

A 1.6 Section 28(5) of the 2011 Act, sets out that where ComReg is of the opinion that An Post as universal postal service provider is failing, or has failed, to comply with the tariff requirements under section 28 of the 2011 Act, ComReg may give a direction to An Post to ensure compliance with the requirement concerned.