



Consultation on Jersey Post Ltd's proposals to introduce Size-Based Pricing from May 2010

February 2010

Jersey Post Proposed Tariff Changes

1. Introduction & Executive Summary

The Postal Services (Jersey) Law 2004 (the ‘Postal Law’) established the Jersey Competition Regulatory Authority (‘JCRA’) as the authority responsible for the regulation of the postal sector in Jersey. The Postal Law came into force on 1 July 2006.

In January 2010 the JCRA received a notification from Jersey Post (‘JP’), (see Appendix 1) which proposes a major restructuring of the way all of its postal tariffs are calculated, by introducing Size-Based Pricing (‘SBP’). Instead of prices being solely determined by the weight of a posted item, JP is proposing that they are determined both by weight and by size.

JP has informed the JCRA of the reasons for its proposals to introduce SBP which are:

- Royal Mail have recently introduced more cost reflected ‘size-based’ prices into the commercial agreement with Jersey Post
- The significant decline in traditional mail in 2009 has meant that historic cross subsidies from letter mail to large letters and packets is no longer sustainable
- Strong competition in bulk packets¹ has resulted in significantly reduced margins, reducing the available funds to cross subsidise the core business

In common with postal classifications in the UK and other postal administrations, JP wishes to split its mail into three broad sizes as follows:

- Letters (broadly speaking, thin items half the size of A4 size);
- Large Letters (broadly speaking, A4 size items up to an inch thick); and
- Packets (bulky items).

JP has submitted its notification of the new proposals under Condition 20.2 of its Class II Postal Services Licence (the ‘Licence’). Whilst normally new prices would be notified at least 21 days in advance of coming into effect, given the significance of the SBP proposal, both the JCRA and JP agreed that a longer notification and consultation period was appropriate in this instance. Under Condition 20.3 of JP’s Licence, the JCRA may, after consultation, determine the maximum level of charges JP may apply for Licensed Services or Postal Services provided to fulfil the Universal Service Obligation (‘USO’) in such a manner to ensure that prices:

- enable JP to have sufficient resources to fulfil the USO;
- are not excessive;
- are not predatory; and
- in the case of Postal Services provided to fulfil the USO, they are affordable.

The JCRA therefore considers that given these duties, and the scope of the pricing structure and changes proposed by JP, postal users should be given the opportunity to comment on whether they agree that the proposals are in the best interests of postal users in Jersey. This approach is consistent with the approaches taken by both Postcomm in the UK and the Office of Utility Regulation (‘OUR’) in Guernsey when SBP was considered to be introduced in those jurisdictions.

¹ JP claim that this is due to a combination of factors e.g. competition from Guernsey and Switzerland, media substitution and strong buyer power.

When SBP was introduced in the UK in 2006, it did not lead to higher overall prices but it resulted in a ‘rebalancing’ of tariffs. In general, letters became cheaper whilst packets became more expensive.

However, JP is requesting an overall increase of 2% across all formats. This means that if SBP is to be introduced in Jersey, which JP wishes to introduce on 8 May 2010, customers posting letters will see little or no impact, customers posting light large items will pay up to 27% more, whilst customers posting packets will pay approximately 10% more. In total, JP forecasts that it will earn an extra 3.8% (£257,000) in revenues from the introduction of SBP. JP has carried out an impact analysis which shows that 66% of its customers will see little or no change after the introduction of SBP and its new prices compare favourably with Royal Mail and Guernsey Post.

SBP has been introduced in a number of countries such as the UK, Isle of Man, Denmark, Germany, Ireland, Australia, Japan, and the United States. In the UK, SBP was adopted in August 2006 and in Guernsey, it is due to be introduced in April 2010. JP believes that the SBP model operated by Royal Mail is a sound basis on which to base its proposals. Royal Mail handles all of JP’s off-Island mail, and recharges JP based on SBP pricing formats. As Royal Mail represents by far JP’s biggest expense, JP believes that it makes sense to align its method of calculating prices on the same basis to that of Royal Mail’s. JP states that if it does not implement SBP, it would continue to significantly under recover its costs because Royal Mail charges JP on a SBP basis.

In summary, JP proposes to:

- introduce SBP for local, UK, European and International letters up to 2kg, simplifying tariffs where possible;
- simplify its tariffs between 2kg and 10kg;
- introduce a new 3 day “standard” delivery service for local letters;
- continue to offer cost reflective business tariffs lower than public tariffs; and
- align its public tariffs with its bulk straight line prices.

It should be noted that JP’s submission does not affect the bulk business tariffs which are excluded from the JCRA Price Control and which have been size-based since 2005.

JP have stated that they will work with their customers in identifying what they can do to minimise the impact of the proposed new price structure, having already completed this with their logistics customers for bulk mail products.

JP has demonstrated to the JCRA that its current SBP proposal is compliant with the price control on core postal services introduced on 1 January 2008.

2. Summary of JP's proposed pricing structure

The following is a summary of JP's proposed new prices under SBP. Details of the proposed prices are shown in Annexes 1, 2 and 3 of Appendix 1 to this Consultation paper.

Letters: C5 or under. Up to 100g. Less than 5mm thick*.

For example: most letters; postcards; bills and statements; some brochures and catalogues; most greetings cards.

**5mm thick is the equivalent of 12 pieces of standard A4 paper folded in half in a C5 envelope.*

		Weight (g)	Jersey		UK, IOM & Other CI's	
			Current	Proposed	Current	Proposed
Standard 3 day service	Stamp	Up to 100	n/a*	36p	n/a	n/a
	Account	Up to 100	n/a	34p	n/a	n/a
Priority next day service	Stamp	Up to 100	37p	39p	42p	45p
	Account**	Up to 100	36p	36p	41p	40p

** Product not available*

***Postage Account & Franking Meter customers*

Large Letters: C4 or under. Up to 750g. Less than 25mm thick.

For example: letters containing unfolded A4 paper; most brochures, catalogues and company reports; CDs & DVDs.

		Weight (g)	Jersey		UK, IOM & Other CI's	
			Current	Proposed	Current	Proposed
Standard 3 day service	Stamp	Up to 100	n/a	54p	n/a	n/a
	Account**	Up to 100	n/a	52p	n/a	n/a
	Stamp	101-250	n/a	81p	n/a	n/a
	Account**	101-250	n/a	78p	n/a	n/a
Priority next day service	Stamp	Up to 100	37p	60p	42p	72p
	Account**	Up to 100	36p	58p	41p	68p
	Stamp	101-250	97p	90p	£1.33	96p
	Account**	101-250	94p	86p	£1.29	91p

* Product not available

**Postage Account & Franking Meter customers

Packets: More than 353mm long or 250mm wide. Up to 10 kilos. More than 25mm thick.

For example: Most books; VHS cassettes; parts and samples; most cylindrical packages.

		Weight (g)	Jersey		UK, IOM & Other CI	
			Current	Proposed	Current	Proposed
Standard 3 day service	Stamp	Up to 100	n/a	72p	n/a	n/a
	Account**	Up to 100	n/a	69p	n/a	n/a
	Stamp	101-250	n/a	99p	n/a	n/a
	Account**	101-250	n/a	95p	n/a	n/a
Priority next day service	Stamp	Up to 100	37p	80p	42p	£1.30
	Account**	Up to 100	36p	77p	41p	£1.24
	Stamp	101-250	97p	£1.10	£1.33	£1.70
	Account**	101-250	94p	£1.05	£1.29	£1.60

**Postage Account & Franking Meter customers

JP is also proposing to continue to offer a 60g business tariff and high volume postal account tariff for mail delivered between the Channel Island's and the UK to support both small and medium-sized businesses.

3. Projected Impact of SBP

JP states that 89% of local mail will see a lower price as a result of the new pricing structure (based on a mix of priority and standard services being used).

	% of mail	Average increase	
Letter	89%	-2%	(1)p
Large Letter	9%	27%	14p
Packet	2%	10%	11p
Total	100%	2%	1p

JP also states that for almost 94% of customer mailings to the UK, IOM & other CI's, the price increase are in the range of 2%-10%.

	% of mail	Average increase	
Letter	76%	2%	1p
Large Letter	18%	3%	2p
Packet	6%	10%	28p
Total	100%	4%	3p

4. Summary of Projected JP Implementation Plan for SBP

JP would like to introduce SBP on 8 May 2010. As detailed in Appendix 1, JP has provided in its submission a summary communication plan for the introduction of SBP. JP has stated that it is investing significantly to ensure that SBP is successfully communicated and understood by all of its customers by April 2010. To achieve this, JP has advised the JCRA that they will employ a range of marketing techniques across a number of communication channels including publishing a series of press releases, using post office staff to educate customers, advertising in the local media and producing direct mail leaflets to every household in Jersey.

5. The purpose of this Consultation

The goal of this consultation paper is to illicit views and comments on the scope and form of the new proposals. Attached is a copy of JP's submission which consultees should refer to for more details. In particular, the JCRA is seeking views about:

- the general principle of a move towards a greater importance for the size and format of mail items, and a reduction in the importance of the weight of mail items, for determining postal prices; and
- views of customers and interested parties about the impact on customers of SBP, including the appropriate notice period required before any SBP proposal is introduced, and the

appropriate procedures for JP to communicate the changes associated with any introduction of SBP to all customers.

In particular, the JCRA invites views on the following questions:

Q1. Do consultees agree with JP that the advantages of introducing SBP outweigh the disadvantages? If not, please explain.

Q2. The JCRA would welcome customers and interested parties' views about the ease of understanding and applying JP's SBP proposals. In particular, the JCRA would welcome views about the relative ease of applying SBP compared to applying JP's existing weight based pricing structure?

Q3. The JCRA would welcome comments from customers on the degree to which they believe they will be affected by the above price proposals.

Q4. The JCRA would welcome views on whether JP's implementation plan is sufficient and whether JP has identified all the relevant issues to deciding whether SBP will be introduced in a manner that avoids unreasonable changes for users of the service.

Q5. Do consultees agree with JP's planned implementation of SBP, in particular whether postal users in Jersey are given enough notice of the planned changes to come into effect in May 2010?

Q6. Any additional views concerning SBP that may not be covered by the proceeding questions are also welcome.

The views expressed in response to this consultation will inform the JCRA's decision about how to proceed with Jersey Post's SBP proposal, and ultimately whether to accept it. It is important to note that this consultation paper largely reflects JP's proposal to the JCRA. The JCRA has not made a determination with respect to SBP and will not do so until after taking full account of the responses to this consultation.

In order to ensure that all interests will be taken into account, the JCRA strongly urges all interested parties, be it in their capacity of consumers, suppliers or competitors, to respond as fully as possible to this consultation document, as the responses will be used to inform the development of a proposed decision by the JCRA. The final submission date for comments is no later than **5 p.m. on Friday 5 March 2010**.

Submissions should be clearly marked "Comments on Jersey Post: Proposal to introduce Size-Based Pricing Consultation Paper" and may be supplied either in hard copy or electronically, addressed (as appropriate) to:

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Unless clearly marked as confidential, all responses will be published on the JCRA's website.