

Attention Mr Anthony Wing
 General Manager—Transport and General Prices Oversight
 Australian Competition and Consumer Commission
 GPO Box 520
 MELBOURNE VIC 3001

Centrelink response to Postal Increases

5.1.1 - Australia Post contends that, while the price changes will reduce the effective discount provided to users of the PreSort service, it is not expected to reduce the incentive for customers to access the PreSort letter service.

Australia Post has forecast no change to overall (i.e. aggregate) PreSort mail volumes as a result of the proposed prices and product design changes.?

The ACCC seeks comments on the impact the proposal is expected to have on demand for Australia Post's reserved services. In particular:

Do you think that the increase in the price of Off Peak letter services and the proposed price differentials with Regular (PreSort) letter services are appropriate?	<ul style="list-style-type: none"> • No. • The Off Peak services, even though have changed delivery times, are not uniform nationally to warrant generators of mail to use.
<p>To what extent do you expect the proposal to result in users migrating mail volumes from Regular to Off Peak mail?</p> <p>Would the migration be due to:</p> <p>a) the price differential</p> <p>b) the product design changes or</p> <p>c) both?</p>	<p>No migration will occur in the short term for Centrelink.</p> <ul style="list-style-type: none"> • The service changes to Off Peak are not across the board, “...result in some mail paths having a longer delivery time (e.g Hobart to Darwin). AP does not expect this to be a major impediment or negative as the volumes over these paths are low”.... Centrelink still issues mail from some states that requires delivery in other states. i.e. Brisbane Metro to Adelaide, Perth, Hobart Darwin. • The infrastructure that Centrelink would have to put in to enable the mail to be ‘sorted’ from Pre Sort to Off Peak within running jobs, would far outweigh the savings. e.g. Changing job status, printing more ‘Off Peak’ envelope types, ensuring we have envelopes with the Off Peak logo in all envelope types, changing outer envelopes within jobs. • Most Centrelink mail is time critical. The Off Peak services are not equal amongst all states and major cities. Some customers of the generators of mail will be disadvantaged. • Centrelink is likely to continue to use Off Peak services for magazines, these are not time critical and can be processed using the correct envelopes as an isolated job. However this is only 1% of Centrelink’s output.
_ Do you expect the proposed price changes to affect overall (i.e. aggregate) PreSort volumes?	<p>The price changes to pre sort mail will affect Centrelink, as this will be a considerable expense, with no increase to service delivery. Rather than spending more tax payers money to fund more infrastructure to use Off Peak, Centrelink is likely to ramp up the work to reduce paper mail, and provide customers with other forms of communication rather than mail. This in turn will reap a saving for Centrelink and the Government.</p>

5.1.2 Expected costs impact of PreSort proposal

<p>The volume effects of Australia Post's proposal (i.e. migration) will impact the extent to which Australia Post will be able to generate its forecast cost efficiencies.</p> <p>In this regard, Australia Post submits that, in itself, the migration from Regular to Off Peak will not provide a significant cost saving opportunity, but contends that there will be a longer term benefit of greater network flexibility as a result of encouraging this migration.</p> <p>Nonetheless, Australia Post submits that there will be some cost savings in the short term as Australia Post realises savings as a result of the change in mode of transport used for interstate carriage (e.g. from air transport to road/surface transport).</p>	
Do you expect Australia Post to benefit from cost savings as a result of its proposal?	Not sure how this price increase, no better service to pre sort can generate cost efficiencies. However we do understand that the new urban spread does put a pressure on Aust Post current infrastructure. This is all dependant on mail generators picking up on Off Peak services which still has a price increase.
Do you expect the proposal (i.e. product design changes, migration of volumes from Regular to Off Peak) to impact Australia Post's costs structure over time?	If mail generators pick up on the migration, the proposal may push out timelines in days for off peak. We cannot see any reduction in mail cost – presort or offpeak.
To what extent do you expect Australia Post to benefit from greater network flexibility as a result of the proposal?	Cannot see the greater network flexibility in this. AP are putting up their prices and delivering 'some' Off Peak mail in shorter time frames. The changes that mail generators are required to make far outweigh the network flexibility/cost savings that AP is expecting.
<p>5.2.1 Structure of Australia Post's proposed PreSort prices</p> <p>As part of its assessment of Australia Post's draft proposal, the ACCC is interested in the impact of the proposed PreSort price changes on competition. One way of assessing this impact is by examining the changes in relative prices (i.e. price differentials).</p> <p>For example, Australia Post is proposing the following overall price structure:</p> <ul style="list-style-type: none"> • Ordinary letter prices are unchanged at 60 cents • small Clean Mail letter prices increase from 51 cents to 53.5 cents (4.9 per cent) • small (PreSort) Regular letter (delivered in the state of lodgement) prices increase from 42.7 cents to 45.7 cents (7.0 per cent) • small (PreSort) Off Peak letter (delivered in the state of lodgement) prices increase from 41.6 cents to 42.4 cents (1.9 per cent). <p>The key difference between the above products is the level of costs saved by the customer for Australia Post.</p> <p>The ACCC seeks comment on the effects, including competition effects, of the changes to the structure of Australia Post's prices. In particular:</p>	
Are the price differentials	

proposed by Australia Post between its PreSort and Other (e.g. Ordinary, Clean Mail) reserved letter prices appropriate?	No. There is no competitive tension in the work AP does, there are no other options for delivery of paper mail. This will highlight the need to reduce paper and reduce costs in customer communication.
In particular, do the price differentials reflect the costs avoided by Australia Post (in other words, the work saved) due to the pre-processing services (e.g. barcoding, sorting and delivery of bulk mail to a specified post office) performed by customers?	Generators of mail are paying BMP mailhouses to pre-process mail before it is lodged with AP to attract the pre sort prices. The price differentials do not reflect the costs avoided by AP, the costs are now being borne by the customer. Mail generators are paying the mailhouses (as part of the BMP requirements) to pre process mail to achieve a particular mail rate. Mail generators if the price increase is passed will be paying mailhouses for the privilege of paying more for postage.
_ Do you expect the proposed prices to impact Australia Post's competitors in related markets for non-reserved services, including competition in the provision of mail pre-processing services?	No, Australia Post provide a very good service of delivery. This mail generator does not ask Australia Post to provide pre-processing services. They continually strive to ensure the network of delivery processes are provided to the Australian Public and Mail generators.

5.2.2 Other proposed price changes

Australia Post submits that the changes to the PreSort product design and price structure will also affect Acquisition Mail and Charity Mail.

In addition to special eligibility conditions, access to these services requires the same presentation requirements as 'general' PreSort letters.

In respect of the proposed increases to Clean Mail, Australia Post submits that as the Clean Mail price is aligned to the Regular Unbarcoded Residue price, an increase to that price results in a change in the Clean Mail price. Thus, it submits that maintaining the same price between (Regular) Unbarcoded Residue and Clean Mail ensures the price incentive for PreSort is not diminished.

Australia Post is also proposing to increase the Reply Paid annual fee from \$65 to \$80. The Reply Paid service is a marketing tool offered to business to encourage responses, or provide a return service, where return postage is offered free. Australia Post submits that the proposed change in the annual fee provides a more appropriate contribution towards covering the administration and maintenance costs of the Reply Paid service (a recent review by Australia Post of the service highlighted that 5 per cent of the Reply Paid service accounts generated over 75 per cent of the Reply Paid revenue)

The ACCC seeks comment	Any generators of mail will not agree to prices increases. If we take the price increase for presort mail in isolation, normal price
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on whether the proposed price changes for Acquisition Mail, Charity Mail, Clean Mail and the Reply Paid annual fee are appropriate and justified.	increases for services are accompanied by better/faster/more secure service. What is the value add for the generators of mail in this increase in costs.
5.3.1 Australia Post's proposed revenue <p>The proposed changes in Australia Post's PreSort pricing structure, whereby the prices of both Regular and Off Peak services are increasing, and the resultant changes in the mix of Regular/Off Peak is expected by Australia Post to generate additional \$33.2 million in PreSort reserved services revenue, or an average increase of 3.8 per cent, in 2011-12.</p> <p>The primary component of this increase is the increase in prices, but the impact on total revenue depends importantly on the resultant changes in the PreSort volume mix. Australia Post's estimate assumes a change in the Regular/Off Peak mix from 83:17 to 51:49. As the Off Peak service is cheaper, the change in mix alone would reduce the aggregate revenue.</p> <p>If the existing volumes and mix continued, on the other hand, the average revenue increase is estimated to be 6.3 per cent. This issue has a significant effect on Australia Post's overall cost recovery.</p> <p>Australia Post expects to generate an additional \$3.3 million as a result of the changes to its other letter services (i.e. those not relating to PreSort) in 2011-12.</p>	
The ACCC seeks comment on whether it is appropriate for Australia Post's proposal to result in additional reserved services revenue.	As a monopoly in this field. It is appropriate for any company to expect additional revenue. However this should only be justified if the service is improved. AP are using this monopoly to raise their prices, offer no improvement except slight improvement to Off Peak, that Centrelink cannot use without investing time and resources to use.
5.3.2 Australia Post's cost of capital <p>In assessing Australia Post's proposed price increases, the ACCC has regard to whether the revenue generated by its reserved services is sufficient to cover the efficient costs of providing its reserved services, including a return on capital.</p> <p>See Issues Paper for further ACCC comments on this area</p>	
The ACCC seeks comment on Australia Post's return on capital and on whether Australia Post's proposed WACC parameters are appropriate?	Seeking clarification from finance/accounting area