

28 September 2023

Postal Services Team  
Australian Competition and Consumer Commission  
[postalservices@acc.gov.au](mailto:postalservices@acc.gov.au)

To whom it may concern

**WSAA SUBMISSION TO CONSULTATION ON AUSTRALIA POST'S  
DRAFT PRICE NOTIFICATION**

Thank you for the opportunity to provide a submission on the draft price notification by Australia Post.

The Water Services Association of Australia (WSAA) is the peak body for water utilities in Australia. Our members provide water and wastewater services to over 24 million people and many of Australia's largest industrial and commercial enterprises. Based around our vision of 'customer driven, enriching life', WSAA facilitates collaboration, knowledge sharing, networking and cooperation within the urban water industry.

Nationally water bills across Australia have been flat or slightly declining since 2013. However, as an industry we face significant cost pressures.

Our members, water utilities around Australia, are major users of postal services. We estimate that we send 25 to 30 million paper bills each year. Utilities are encouraging customers to move to digital channels to pay their bills, however, many customers still prefer to receive paper bills. This includes vulnerable groups such as the elderly. Overall around 60 percent of bills are paper.

Therefore the proposed increase from \$1.20 to \$1.50 for ordinary small letters would have a significant impact on customers. We estimate that nationally the cost would be around \$8 million annually. This is in addition to \$4-5 million increase in 2022.

As a regulated industry, water utilities understand the need for cost recovery. We also understand the cost pressures faced by all industries and the need for manageable price increases. However, our research and experience shows that customers find bill spikes difficult to manage. Our industry favours long-term sustainable price paths that provide certainty to utilities and our customers.

In this context we oppose the 25 per cent stamp price increase proposed by Australia Post. Any necessary increases should be phased in to allow residential and business customers time to adjust.

WSAA would like to make particular comments in relation to cost allocation to the letter service. The ACCC states that 'When assessing the proposed price increase, the ACCC will consider Australia Post's recovery of efficient costs, including a reasonable rate of return, and how the company's common costs are allocated to the relevant letter segments.

WSAA considers that the appropriate allocation of common costs is particularly relevant to the inquiry. Many of Australia Post's services are in competitive markets, while the letter service is a reserved monopoly service. As a firm, Australia Post must earn a reasonable return on its investment across its operations. However, this does not imply that genuinely

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common costs should simply be pro-rated against each product line. Indeed, in a declining segment it would be unusual in commercial markets for that segment to contribute the same amount to common costs as growing segments. WSAA makes the point that so long as the letter service covers the incremental costs of its provision it cannot be said to be making a loss (incremental cost includes direct operating costs and directly attributable capital costs). WSAA suggests that incremental cost is the relevant test for assessing whether the letter service is financially viable. If revenue exceeds incremental costs it will be contributing to common costs and the overall profitability of the firm (for more information on cost allocation please see the Productivity Commission's Cost Allocation and Pricing Research paper [COSTAL18.PDF \(pc.gov.au\)](#)).

Australia Post's submission suggests that it has adopted a version of fully distributed costs where costs are pro-rated across products by the level of activity:

"Australia Post uses an Enterprise Profit Model (EPM) to calculate the operational cost of 'reserved' and 'non-Reserved' services provided by Australia Post. The model is a fully absorbed costing model."

WSAA suggests the ACCC closely examine this practice in light of the above discussion.

If you have any questions about this submission please contact WSAA's Deputy Executive Director, Stuart Wilson ([stuart.wilson@wsaa.asn.au](mailto:stuart.wilson@wsaa.asn.au)).

Yours sincerely

A handwritten signature in black ink, appearing to read 'A Lovell'.

**Adam Lovell**  
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