



Addendum to Australia Post's Response to Public Submissions

2 November 2009

TABLE OF CONTENTS

1. INTRODUCTION	3
2. PRODUCTIVITY	5
2.1 Productivity Performance, Reporting and Comparison	6
2.2 Future Productivity	7
2.3 Alternative Lodgement Solutions / PIP2.....	9
3. VOLUME DEMAND	11
3.1 Letter Volumes and Forecast.....	12
4. LETTERS PRICING	13
4.1 Opposition to the Price Increases	14
4.2 Price Impact and Elasticity	15
4.3 Proposed Timing.....	16
4.4 Frequency, Duration and Quantum of Future Price Increases	17
4.5 Price Discounts and Structure	18
5. IMPACT OF PRICE CHANGES	21
5.1 Australia Post's Promotion of Letter Mail / Direct Mail.....	22
5.2 Functions, Markets and Obligations.....	23
5.3 Service and Performance	23
6. RATE OF RETURN	25
6.1 Rate of Return	26

1. INTRODUCTION

This Addendum to Australia Post's (AP) Response to Public Submissions, has been prepared by AP to provide the Australian Competition and Consumer Commission (ACCC) with a response to issues raised by the Major Mail Users of Australia Limited (MMUA) in its public submission to the ACCC Issues Paper, a copy of which was provided to AP on 19 October 2009.

The scope of this document is limited to issues relevant to the ACCC's consideration of AP's *Draft Notification* of July 2009, as such, issues raised by the MMUA that AP considers are 'out of scope' (eg not related to the ACCC's assessment of the proposed prices under section 95G(7) of the Trade Practices Act, 1974 – TP Act) are not addressed.

The aim of this document is to assist the ACCC in its consideration of AP's draft notification by providing a combined response to the issues raised by the MMUA.

Information within this document is consistent with information within AP's:

- Draft Notification – 20 July 2009;
- Response to Issues Paper – September 2009; and
- Response to Public Submissions – 13 October 2009.

Where the MMUA has raised an issue that is similar to an issue already raised and addressed within AP's *Response to Public Submissions*, to make it easier for the reader we have inserted all, or part, of our original response rather than making a cross reference to the relevant section within that document.

In preparing this document, issues raised have been:

- summarised or posted as a direct quote from the original submission (typographical errors in the direct quotes have not been corrected); and
- grouped where similar (for readability).

2. PRODUCTIVITY

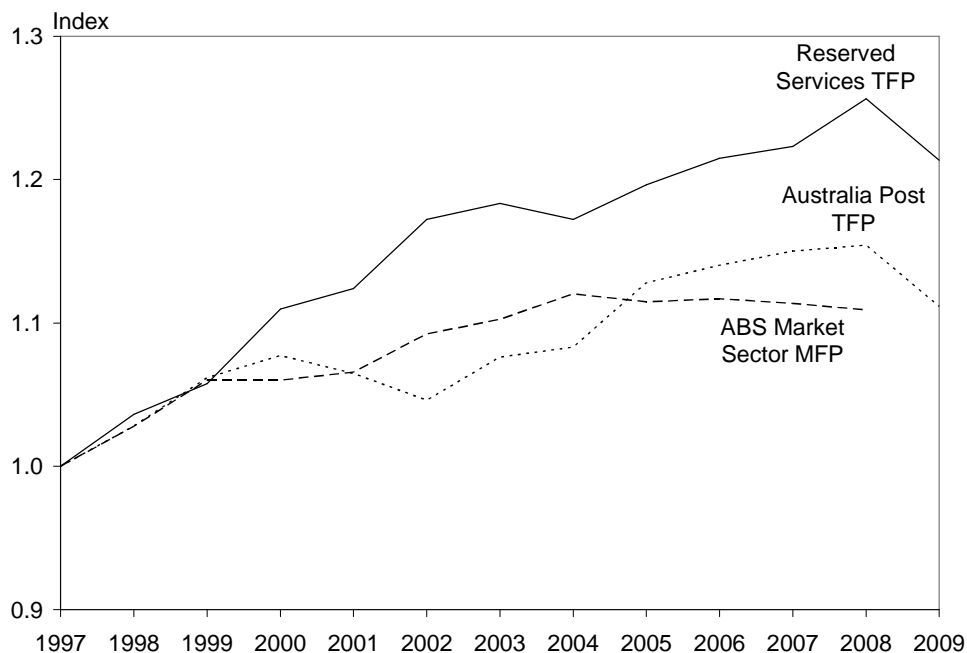
2.1 Productivity Performance, Reporting and Comparison

Page 2	Believes AP has failed to make better use of available and emerging technology to change Bulk PreSort methodologies between the last price increase and today.
Page 6	'...there should be an understanding that the Australia Post processing and delivery network has heavy fixed costs where every mailpiece going through the network reduces the per unit cost of processing.'
Page 23	With respect to the reports provided by AP in support of the draft notification, the MMUA has '...not been in a position to examine in detail the 2009 reports', and suggests that 'What is needed is an independent panel of experts and industry stakeholders to validate Australia Post's data and forecasts;'
Page 25	States that through working with AP's customers and in particular the MMUA's own network, the consensus of opinion is that AP's network was '... once the world's benchmark with the introduction of FuturePOST (and winners of the Mail World Awards accordingly) they no longer are...'
Page 27	Notes that mailing houses have '...incurred heavy costs to introduce plant and machinery ...in order to facilitate a standardised preparation, lodgement and acceptance system that is the equal, if not the best, available in the world.'

AP refers to the draft notification and the independently researched and prepared Economic Insights reports that provide the detail and evidence regarding AP's productivity achievements over time.

As illustrated in the following Graph¹, over the period 1997 to 2009, AP's total and reserved service total factor productivity (TFP) results outperform Australian economy multifactor productivity.

Graph 1 – Australia Post's TFP indexes and ABS MFP indexes 1997 - 2009

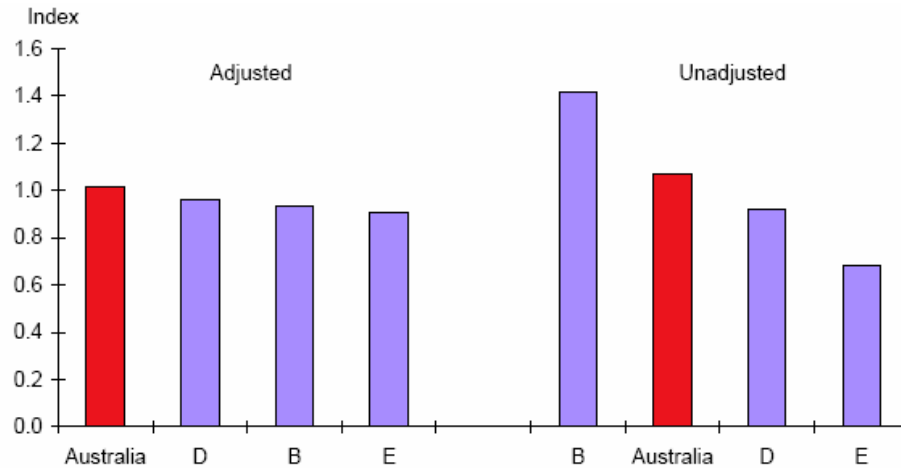


¹ Economic Insights, Australia Post's Aggregate and Reserved Service Productivity – 2009 Update, Page 28

As we noted in section 5 of our *Response to Issues Paper*, the international Benchmarking of Postal Services Productivity report provides a valuable source of information in reviewing the relative performance of businesses within the same industry.

Chart 1 provides a comparison of AP's TFP adjusted for mail and customer density (2008 or latest year) against several of the postal authorities that participated in the international study.

Chart 1 – TFP adjusted for mail density and customer density²



In commenting on this result, Economic Insights noted³

‘It should be noted that this adjustment is likely to be conservative as Australia Post has not included route length associated with rural deliveries by roadside mail contractors in its route length data supplied (but contract street deliveries are included). Including rural contractor route lengths could be expected to significantly reduce Australia Post’s relative customer density and, hence, increase its relative TFP score when the adjustment is made.’

Economic Insights also concluded that⁴;

‘... Australia Post has shown the most consistent improvement in TFP of the seven postal services reviewed. Importantly, Australia Post improved its ranking when formal statistically based adjustments were made for differences in mail and customer density with its TFP level being ranked either first or second after the adjustments were made.’

2.2 Future Productivity

Page 20	Suggests the ACCC should push AP to ‘... engage properly with private industry to find ways and means where its fixed cost structures can be modified to better provide the CSOs for lower costs.’
Page 21	Sees the forecast growth in delivery points is reasonable ‘We would not question Australia Post’s forecasts: obviously their knowledge of such matters is worthy of acceptance.’

² Economic Insight, Benchmarking of Postal Service Productivity, page iv

³ Ibid, page 26 & 27

⁴ Ibid, page iv

Page 22	Notes that the 'MMUA does not have sufficient knowledge on the internal workings of Australia Post's accounting systems ...' to be able to answer a question relating to fixed & invariant costs and variation from changes in volume.
Page 22	Believes that 'mail lodgement and processing; transport; labour and final mailbox delivery' are the elements within the functions where costs are more variant with changes in volume.
Page 25	Does not believe FDD in isolation will be effective in constraining growth in AP's operating expenditure over time.

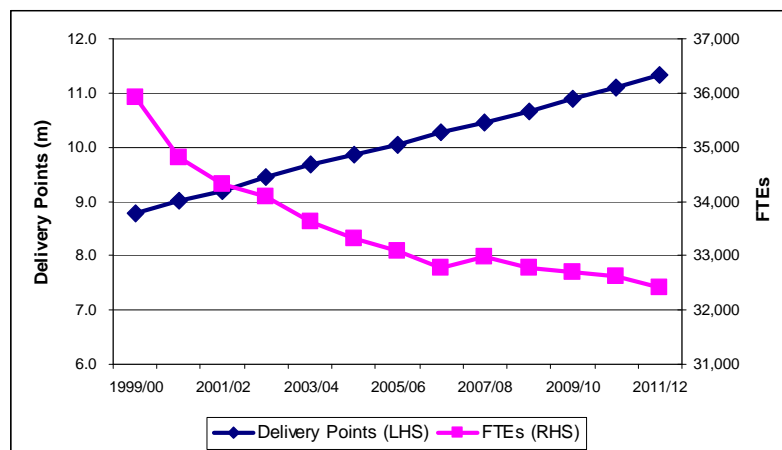
Section 9 of the draft notification examined trends and drivers of the cost base, noting in particular the large role played by input price escalation as a cost driver.

Section 11 reviewed initiatives undertaken at a local, state and national level that continue to drive productivity. These include major process redesign and technology change – with extensive detail on the Future Delivery Design (FDD) program at Appendix 17 – through to relatively small scale process improvements at many points across the network.

Results of such initiatives (actual and forecast) include:

- sustained reductions in labour numbers, despite growth in non-reserved parts of the business and the additional resource demands imposed by the continued increase in the number of delivery points (around 200,000 per annum as illustrated in Graph 2 below); and

Graph 2 – Growth in delivery points



- within the domestic reserved letter service labour numbers are forecast to reduce as follows.

Table 1 – Labour costs as a % of total costs

Financial Year	Labour numbers – domestic reserved letter service
2007/08	19,923
2008/09	19,799
2009/10	19,719
2010/11	19,374
2011/12	19,031

As noted in the draft notification, FDD is particularly significant as a major national program that is critical to providing a sustainable model of delivery operations and containing delivery cost growth. It provides for:

- re-engineering delivery process to eliminate part of the in-door manual processing function;
- improving operational flexibility, and hence AP's ability to adjust resources in the largest function of the business, in response to future letter volume declines; and
- addressing other cost, OH&S and operational pressures that arise from the current high dependence on motor cycle delivery.

As set down in Appendix 17, key elements of FDD include:

- technology change involving improved address recognition software for our Multi Line Optical Character Reader (MLOCR) processing equipment ;
- automated processing of small letters to street delivery sequence using the existing barcode sorter machines as well as the acquisition of new equipment;
- reconfiguring indoor and outdoor delivery operations in order to achieve the savings from the reduction in manual sorting and sequencing in delivery centres
- implementation of round commencement and cessation is remote from the delivery centre, creating more opportunities for part time street delivery postie roles
- the deployment of new delivery modes (electric buggies, bikes and tricycles) to assist the outdoor postie roles, eliminate motorcycle accident risks, appeal to a wider job market for new recruits, and expand the postie's carrying capacity.

FDD is only one of a number of productivity enhancing programs to ensure that the postal business has a viable future, albeit one of the more significant programs. But as set down in the draft notification, it underlines the scale of change currently underway in the network to contain cost and provide options, within the prescribed performance standards, to respond more flexibility to ongoing volume and cost pressures.

2.3 Alternative Lodgement Solutions / PIP2

Page 3	Believes that prices increases sought until Australia Post has ‘... taken full advantage of the as yet untapped residual benefits available in the FuturePOST project (which began in the 1990s) and those of their own proposals for Alternative Lodgement Solutions...’
Page 10 & 25	States AP rejected, without proper consultation, the <i>Advanced Network Integration</i> proposals and has instead been considering its own <i>Alternative Lodgement Solutions</i> (ALS) since March 2007. Opposes consideration of increases until ALS proposals are decided on and suggests ACCC should reject FDD Program until such time as either MMUA’s proposals or those of the Revenue Protection Group are written into it.’
Page 18	Australia Post has not followed through on all the potential cost savings that are available to it from the earlier FuturePOST project, nor has it been prepared to deal seriously with all the costs savings that MMUA proposed in 2007 through our <i>Advanced Network Integration</i> and <i>e-Pre Lodgement Advice</i> proposals, nor has it advance appropriately its own 2007 proposals for <i>Alternative Lodgement Solutions</i> (PIP2).
Page 25	‘...this current price increase for Bulk PreSort Mail should be deferred for further consideration until such time as the result of the PIP2 Project’s investigations are determined and available in a public report.’

The comments around Alternative Lodgement Solutions and PIP2 require some context. The Process Improvement Program (PIP) is an ongoing program that focuses on working with customers and industry suppliers (eg Mail Houses) to improve the acceptance process of mail, in particular PreSort letters.

As part of this program AP will continue to investigate alternative lodgement & acceptance practices that improve the process for both parties; from APs perspective the focus is on ensuring an efficient robust revenue collection process.

AP is currently working with two major mail houses and the MMUA in evaluating a specific initiative. At this point it is not clear what the potential benefits (and implementation costs) may be. The next stage in the evaluation is to continue a detailed analysis with the mail houses, with a view to scoping out a cost benefit analysis – from both the perspective of the mail houses and AP. The MMUA’s claim that AP has allocated funding ‘... in the millions of dollars ...’ is incorrect. While AP has engaged independent consultants to assist in the evaluation process, to date the spend is less than \$50k. Consistent with standard AP practices, each stage of the evaluation requires justification for ongoing funding. It should be noted that AP’s decision on continuing this initiative will be based on the potential positive impact across the letter value chain – not just on AP’s acceptance costs.

AP notes the desire to improve lodgement quality and is constantly providing advice to customers through the operational acceptance staff and account managers. AP has national procedures and processes that underpin lodgement acceptance for mail.

3. VOLUME DEMAND

3.1 Letter Volumes and Forecast

Page 5	'Every single one of our Generator and Mailing House members is using much more than paper-mail in its communications.'
Page 8	'The migration from paper-mail to digital means of communication is speeding up through all industry segments and it is difficult to see where it will end.'
Page 8	'Some of our members anticipate that within 5-years from now they will not be in the "paper-mail" market space...'
Page 10	'...the truth of the matter is that there is competition – fierce, unforgiving, unrelenting digital technology options - ...'
Page 20	States that the trend for actual mail volumes for the 14 months to August 2009 is downward (with the exception of Christmas Domestic Mail).
Page 23	With respect to the providing comment on the efficiency of AP's operating costs MMUA states '...the realities of dropping mail usage is seen to be of far more interest than such work.'

The above comments are noted and they would appear to be consistent with the information on domestic reserved letter demand in section 7 and Appendix 9 of our draft notification.

At a high level, an average rate of decline of 2.3% per annum over the next three years is forecast; which compares with an average growth of 0.3% since 2000 and a forecast decline of 3.8% in 2008/09. These volume forecasts are also consistent with what other postal administrations are expecting. Furthermore, based on the results of the first three months of 2009/10 volumes are currently trading below the forecast level – closer to the declines experienced in the last six months of 2008/09.

We would also note that the revenue from the proposed prices does not fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate level of return. Further, any variation in volume or cost forecasts is highly unlikely to substantially close the gap.

4. LETTERS PRICING

4.1 Opposition to the Price Increases

Page 2	'...we are opposed to the granting of a price increase for Bulk PreSort Mail...'
Page 3	'Australia Post should not be given a price rise.'
Page 7	'Our contention is that Australia Post should be denied any further increase in the price of the postage stamp and Bulk PreSort Mail'

As noted in our draft notification, AP believes the proposed prices are appropriate and necessary and specific to PreSort letter prices, represent only the second general increase since 1992.

The proposed prices were developed pursuant to AP's Letter Pricing Principals and were modelled in an environment where:

- domestic letter volumes are forecast to decline by an average of 2.3% per annum over the 2009/10 to 2011/12 years;
- there is reduced potential for significant productivity improvements;
- AP does not want to exacerbate volume decline through pricing; and
- AP is required to continue meet its Prescribed Performance Standards.

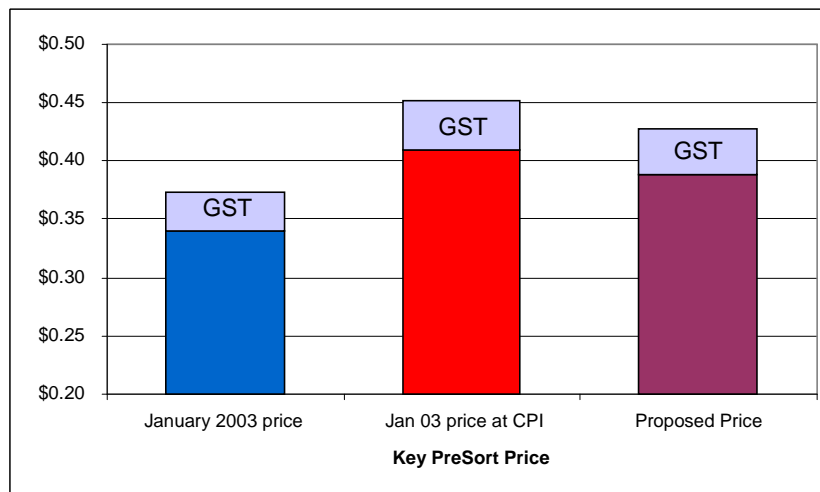
We believe that the prices:

- maintain a simple pricing structure for Ordinary Letters;
- better reflect the differences in costs within, and between, Ordinary Letters and PreSort Letters;
- provide appropriate incentives for customers to adopt efficient lodgement and payment channels; and
- will maximise volumes of machine efficient letters.

As shown on the following page, the proposed key PreSort price⁵ (of 42.7c) is 5% below what the January 2003 price would be had it increased in line with CPI. Furthermore, if since 1992 this category had increased inline with CPI it would be around 60c .

⁵ small letter, regular delivery, barcode direct tray, same state

Figure 1 – Proposed key PreSort price compared to 2003 increased at CPI



4.2 Price Impact and Elasticity

Page 5	Although has varying estimates as to how soon and how fast the migration to digital communication will occur and to what ultimate extent the present day paper-mail volumes will change assures '...that it is happening and that increasing the price of postage without offering any new services or inducements for its use will only hasten the ...' examination of the cost-effectiveness of paper-mail in comparison to other communication options available.
Page 10	'...as Australia Post slowly but surely pushes the price into areas that make the e-alternatives a better business deal.'
Page 16	Believes AP is seeking annual increases and that that these annual increases will '...only hasten the migration of present day paper-mail users across to the many current e-communication options available...'
Page 16	Sees an increase in postage price as a '...pathetically inadequate strategy... that will only drive Bulk PreSort Mail customers further away...'
Page 20	'The communication budget allocation is, according to our members' reports, not typically increasing and therefore an increase in postage costs will make the transition to ...alternatives more attractive...'
Page 26	References that the many different industries within the paper-mail continuum (paper, printing, software, plant & equipment, transport, mailing houses and so on) report that 'there has been a quantum shift as to the impact of the postage cost.' Stating that whereas 10 years ago PreSort Mail was inelastic, today 'PreSort Mail is very much price elastic.'

As noted in our draft notification, Australia Post believes the proposed prices are appropriate and necessary. They were developed to ensure the increases were appropriately balanced across all letter price points to ensure an appropriate level of revenue from Australia Post's domestic reserved letter service.

Within Australia, letter demand has historically been price inelastic for small price changes. As part of AP's last price notification we commissioned Diversified Specifics to review price elasticity within Australia. The findings of that report indicate that, while letter volumes overall appear to have been inelastic to the low levels of price change experienced in the past decade or two, the elasticity does vary by the type of mail. Typically, social and transactional mail has a lower level of elasticity, whereas for promotional mail elasticity is higher.

This is consistent with behaviour overseas, as identified in a recent report by Direct Communications Group⁶, which observed as follows:

- from a review of 45 studies that presented price elasticity estimates for postal operators in six countries only one estimated a price elasticity of greater than -1 (and that relates to a mail category that is unique to the US market); and
- price elasticity measures for postal products ranged between -0.2 and -0.8, with the price elasticity for promotional mail being higher than transactional mail.

The comments made regarding the hastening of transition to electronic alternatives are noted. As mentioned above, our concern on this matter is a major reason why we believe that large upfront price increases over a longer period should be avoided and why the proposed prices do not seek to fully recover the sum of efficient costs of providing the domestic reserved letter service plus an appropriate rate of return.

4.3 Proposed Timing

Page 2	Sees AP as audacious in '...asking for a price increase in these times of economic pressures ...'
Page 7	'If there is to be an increase in postage prices, it should be timed for either 1 January or 1 July to match with industry's normal budgeting...'
Page 9	'We question the commercial wisdom of a price increase at a time of shrinking use of the product concerned...'

AP lodged a draft notification in July 2009 proposing price changes to the domestic reserved letter service in January 2010. Prior to lodging the draft notification, AP undertook consultation with a broad group of key customers and stakeholders from late April 2009 to understand whether the proposed prices would result in a significant disadvantage to a particular market segment. The invitation to participate in the consultation process was extended to the MMUA on several occasions however, the MMUA declined each invitation.

In setting the prices, we have been cognisant of the current economic environment and although the proposed prices will not generate revenue in excess of the required revenue as based on efficient costs and a reasonable rate of return, we do consider that the proposed prices and date of effect are appropriate and necessary, and as such consider it unrealistic that the prices be deferred.

⁶ A Review of Price Elasticity Models for Postal Products, Direct Communications Group, 2007

4.4 Frequency, Duration and Quantum of Future Price Increases

Page 16	Considers the information provided within AP's draft notification regarding future increases does not provide certainty to customers as is full of 'ifs' and 'maybes' and qualifications.
Page 16	Reminds the ACCC that '...last year the MMUA put a suggestion to the ACCC and Australia Post to the effect that a less formal regime might be considered in line with annual review of pricing and that there be a form of 3-year notice provided to give the business mail industry ample time to plan for cost increases.' Notes that AP '...summarily rejected the approach.'
Page 16	Believes AP will be seeking annual increases starting from 2009/10 and '...if it can get away with it without having to subject itself to the checks and balances imposed by legislation...'
Page 17	'...MMUA is vehemently opposed to any action that would provide Australia Post with any avenue of escape from the current legislation's requirements of a separate Notification for each price increase sought.'
Page 18	With respect to sharing of volume risk between AP and key customers MMUA's attitude is 'absolutely no sharing.'
Page 18	Sees AP as getting 'upwardly mobile pricing' based on anticipated inability of AP to control costs.

We have a history of pricing restraint. The proposed prices represent only the third increase to Ordinary Letters prices (including the basic postage rate (BPR)) and the second general increase to PreSort prices since 1992. If the BPR and the key PreSort price had increased in line with CPI, they would now be around;

- for the BPR – 70c; and
- for the key PreSort price – 60c.

While opportunities to drive significant new productivity growth are becoming harder to identify, a number of initiatives and programs are planned to deliver further efficiency gains during the pricing period. Notwithstanding this, consistent with our previous approach we will be proposing smaller more frequent increases, as opposed to larger price increases over longer periods to avoid such demand shocks that may result from larger infrequent price rises.

Supporting this approach are a number of arguments:

- domestic reserved letters volumes are forecast to decline by an average of 2.3% per annum over the 2009/10 – 2011/12 period. A large price rise could be a catalyst towards an increased customer uptake of alternative communication media;
- we believe large upfront price increases should be avoided, this is noted in some submissions and is consistent with feedback from users of non-reserved letter products (ie Print Post and Unaddressed Mail), whose preference is for modest increases at more frequent intervals; and

- application of a large upfront price increase, over a three year pricing period could generate inadequate revenue for the domestic reserved letter service in forward years due to changing market conditions and circumstances out of AP's control.

As noted in our draft notification (sections 3 and 6), to determine whether price changes beyond January 2010 are necessary we will need to undertake an appropriate robust assessment that takes into consideration relevant factors within the market environment (closer to the actual date). This assessment will also consider the relevant issues related to individual product categories and the impact that any price change would have upon particular customer and market segments.

In the event that we believe price changes beyond January 2010 are necessary we would undertake consultation with key customers and stakeholders prior to finalising the pricing proposal, and as stated in our draft notification lodge a separate notification.

4.5 Price Discounts and Structure

Page 4	Suggests a single category of Bulk Mail is no longer appropriate. Pricing should focus on the varying use of paper-mail.
Page 5 & 6	Cannot understand why AP has not addressed, within the current pricing proposal, the fact that it is dealing with at least 9 groups of content based paper-mail.
Page 6	Suggests AdPost '...should be reintroduced as part of Australia Post's obligation to Australian commerce...'
Page 6	Proposes that postage prices should reflect the savings to AP that very high volume lodgements can bring
Page 6	Suggests that 'We would envisage that the technology-driven system changes that are foreshadowed in the PIP2 discussions...would be a suitable mandatory requirement to access the pricing structures needed.'
Page 7	Australia Post should be denied any further increase in the price of the postage stamp and Bulk PreSort Mail until it returns with proposals for incremental pricing based on smarter use of paper-mail.
Page 8	Access to Bulk PreSort discount should be restricted to Mailing Houses and or Mail Generators with QA accreditation under the BMP Program or be a sliding scale with the greatest level of discount being applicable only to BMP status.
Page 8 & 9	'Bulk Mail – MMUA's main focus of interest -...' 'with 60 percent of the product being easily attached to a quality assurance inducement for its users, why does Australia Post not pursue that option instead...'
Page 10 & 26	AP's current pricing structure for Bulk PreSort Mail '...is no longer an appropriate way to price a product that is under market attack from digital technologies ...' States Small and Large approach is simplistic.
Page 26	Notes MMUA did not discuss the elements of AP's draft notification with AP due to the 'unwillingness on our members' part'.

AP has a formal determination of prices for domestic reserved letters (including PreSort letter prices) as published in the 'Post Charges' rates booklet. The prices for domestic reserved letters apply for all customers, recognising the need for;

- equal treatment of customers in a regulated market; and
- transparency, certainty and fairness to all Australian businesses.

The proposed prices were developed pursuant to AP's Letter Pricing Principles which provide for a balanced approach to the determination of domestic letter prices. The Pricing Principles recognise our CSO, but also the need to ensure the pricing structure reflects commercial and market needs – which includes the recognition that PreSort letter prices, in addition to requirements of the APC Act (regarding bulk interconnection prices), reflect the level of work saved by AP through work carried out by customers. This fact is demonstrated in Appendix 10 of the draft notification which indicates a relatively similar contribution level (as measured in ROR) between PreSort Letters and Other Letters.

The comments made regarding the Bulk Mail Partner program (BMP) need some context. BMP consists of three major elements:

- Customer Barcode Quality Assurance (CBOA) – a tool made available to the industry since 2000 that allows AP and customers to assess the accuracy of Delivery Point Identifier (DPID) assignment and barcode print quality (confirming eligibility for PreSort letter prices);
- Process Improvement Program (PIP) – introduced in 2001 to improve the integrity of the volume reconciliation processes; and
- Electronic Lodgement of Mailing Statements (eLMS) – commissioned in 2001 to enhance the lodgement and billing process.

These elements were linked together under the umbrella of BMP to provide a consistent national process, which includes the common reporting of identified issues via the Lodgement Quality System (LQS) – a system commissioned by AP to enable nationally consistent management of lodgement issues. BMP has ensured a greater level of conformity to existing product conditions, for which AP recognises the operational savings achieved through lower prices (eg PreSort letter prices).

As Economic Insights noted⁷ in reference to AP's domestic reserved letter service productivity improvement;

'...more than all of the benefit over the last seven years have been passed on to consumers in the form of real price reduction'.

Furthermore, as can be seen in the following table, for users of the PreSort letter service the difference (and effective discount) between the BPR and the key PreSort price has increased

⁷ Economic Insights', Measuring the Allocation of Australia Post's Reserved Service Productivity Dividend, page ii

Table 2 – Comparison of BPR and key PreSort price

Year	BPR	Key PreSort Price	Key PreSort as % saving from BPR
1992	45.0c	38.3c	15%
1999	45.0c	36.0c	20%
2003 ⁸	45.5c	34.0c	25%
2008 ⁹	50.0c	36.3c	27%
2010 (Proposed) ¹⁰	54.5c	38.8c	29%

In regard to the suggestion to reintroduce the 'AdPost' discount (a lower price that previously applied to promotional mail), AP does not believe that the presence of a discount in itself provides an incentive to use mail as an advertising medium – when a discount has been in place for some time it becomes the price, not an incentive.

To promote mail as communication channel, AP has committed to a program of work that is made up of a number of initiatives to ensure the mail channel is seen as a relevant and contemporary part of the broader communications and messaging market. A high level overview of the program, which includes specific AP initiatives as well as those developed in conjunction with industry participants, is covered in section 7.1 of the draft notification and section 5.1 of this addendum.

⁸ Price shown is GST Exclusive

⁹ Ibid

¹⁰ Ibid

5. IMPACT OF PRICE CHANGES

5.1 Australia Post's Promotion of Letter Mail / Direct Mail

Page 6	Questions why money is spent by AP on sponsorship rather than on a '...measurable commercial benefit offered to the actual mailer for smarter use of paper-mail.'
Page 16	States that the draft notification has a lack of vision as to ways and means of providing paper-mail answers or alternative strategies to combat move to e-delivery.

As noted in our draft notification, AP has a significant investment in the traditional mail market; one that it needs to protect and one which it needs to continue to manage on a commercial basis. To support the mail market AP has committed to a program of work to promote the mail channel to ensure it is seen as a relevant and contemporary part of the broader communications and messaging market. This includes responding to community and business expectations regarding the environment and the role it plays in the letter value chain. Specifically AP will continue to:

- engage with major customers to enhance the value proposition of transactional mail – including through the promotion of 'transpromotional' letters;
- promote the mail channel for marketing communications, including via the 'Open Up To Mail' mail channel advertising campaign (promotional mail);
- develop and promote new products and services across the letter value chain (data services, preparation, delivery and delivery management) that increase the value of the mail channel
 - o this can involve developing new AP products, or
 - o working with other letter value chain participants to identify and promote industry innovations; and
- remind our customers of the joy that 'keeping in touch' (by sending and receiving personal mail) provides over and above other newer types of social messaging.

AP's efforts in promoting the mail channel have been recognised by the following Awards:

- Global Envelope Alliance's Global Achievement Award (January 2009) – recognition of 'the extraordinary job' Australia Post is '...doing to grow direct mail and constantly promote the value of mail.'
- World Mail Awards 2008 – AP won the award in the 'growth' category for successfully encouraging the use of mail as a promotional channel, and
- Print On Demand Industry's Award – the award was given in the 'TransPromo' category for use of strategic segmentation and digital personalisation.

5.2 Functions, Markets and Obligations

Page 3	Believes the use of AP's reserved services network by non-reserved services provides '...a supremely advantageous foundation of financial security and stability...' aiding the profitability of the non-reserved services
Page 11	Notes that AP 2009 is much more than AP 1989. '... it has shifted in emphasis and practice to positions that go far beyond its original singular functional role as the deliverer of CSO services.'
Page 11	"Its secondary area of interest, the commercial areas of the non-reserved services.'
Page 24	Believes that the costing base used to calculate the price increases is clouded and goes on to question the validity of the analysis underpinning the annual cross subsidisation reports as some of the information is withheld by AP and the ACCC on the grounds of being commercial-in-confidence.

The MMUA's notion of what AP's principal and secondary function is, is incorrect.

As was noted in section 4 of the draft notification, AP's functions are detailed in section 14 to 16 of the APC Act. The principal function (section 14) is to supply postal services within Australia and between Australia and places outside Australia. This is not limited to just reserved postal services.

Furthermore, in carrying out our function(s) we have specific obligations under sections 26-28 of the APC Act. These obligations; Commercial, Community Service and General Governmental, govern the way we execute our functions.

In regard to the claims that non-reserved services are benefiting from the reserved services we would draw the MMUA's attention to the ACCC's report on the assessment of cross-subsidy in AP which is released annually. Consistent with previous years, the ACCC found that the regulatory accounts for 2007/08 did not provide evidence of cross-subsidy from AP's reserved services to non-reserved services.

5.3 Service and Performance

Page 10	Draft notification has 'No proposals for faster deliveries.'
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Our customer service standards continue to be high. This is evidenced primarily through consistently high delivery and service performance and customer satisfaction levels.

Performance against the regulated performance standards is subject to independent audit by the Australian National Audit Office. As noted in our draft notification, in 2007/08, AP continued to meet its regulated performance standards and provide an efficient and effective postal service to the Australian community.

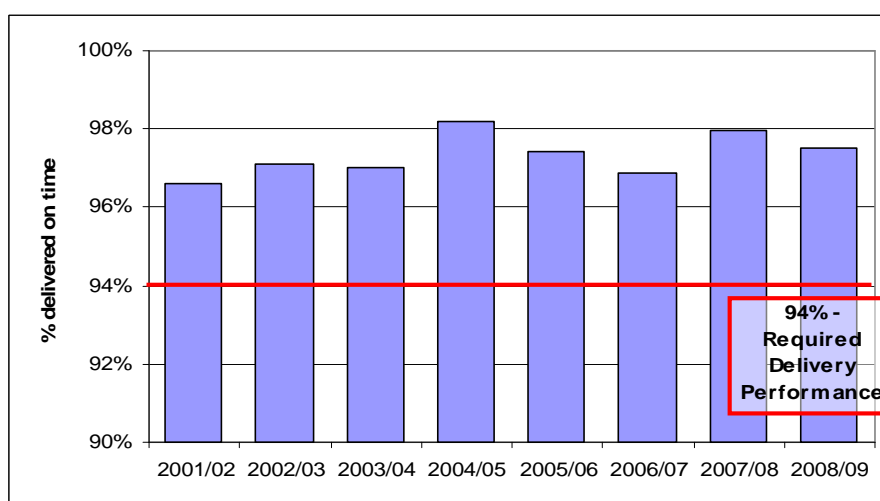
In 2008/09, AP continued to meet its regulated performance standards as detailed in Table 2 below.

Table 3 - Performance Standards 2008/09

Standard	Required Performance	Actual Performance
Number of Street Posting Boxes	10,000	16,055
Delivery Timetables	Maintained	Maintained
On time delivery of non Bulk Letters	94%	95.5%
Points to receive deliveries five days per week	98%	98.8%
Points to receive deliveries no less than twice a week	99.7%	99.9%
Retail Outlets	4,000 (2,500 in rural and remote areas)	4,433 (2,541 in rural and remote areas)

In addition to non-bulk letters, the delivery performance of bulk letters is also independently monitored. Figure 2 below shows the delivery performance since 2000/01. As with the delivery performance of non-bulk letters, in each year AP has exceeded the required delivery performance standard.

Figure 2 Delivery Performance – Bulk letters 2000/01 to 2008/09



AP also has a number of key forums to gauge and respond to broad customer issues including the:

- Stakeholder Council – comprising community and business representatives and as such covering a broad range of customer viewpoints; and
- Licensee Advisory Council (LAC) – comprising licensees from across Australia and AP management. The LAC discusses key business opportunities including responding more effectively to customer needs.

6. RATE OF RETURN

6.1 Rate of Return

Page 24

References the ACCC's comments from its Final Decision of July 2008 and questions 'what is a reasonable return on and of capital when it is applied to a statutory monopoly'

Rate of return issues have been covered in section 12 of AP's draft notification and section 9 of AP's response to the ACCC Issues Paper.

As noted in the ACCC's Statement of Regulatory Approach, the ACCC considers that the criteria in section 95G(7) of the TP Act will generally be met by economically efficient prices which reflect;

- An efficient cost base;
- A reasonable rate of return on capital.

The rate of return applied is in the form of a WACC reflecting the weighted costs of different sources of funds. As noted in the draft notification, we expect that the ACCC's analysis of the proposed WACC will include a review of the recent analysis and decisions determined for the wholesale electricity industry by the Australian Energy Regulator. Further, AP also commissioned a new review of its WACC by independent financial experts Value Adviser Associates Pty Ltd.