

2 October 2002

Ms Margaret Arblaster  
General Manager – Transport and Prices Oversight  
Australian Competition and Consumer Commission  
Level 35 / 360 Elizabeth St  
MELBOURNE VIC 3000

Dear Ms Arblaster

### **Australia Post Response to Preliminary View**

The purpose of this letter is to respond to the ACCC's Preliminary View of the proposed prices for reserved letter services contained in Australia Post's draft notification of April 2002.

While Post has concerns about the modelling approach used by the ACCC, it accepts the general outcomes of the Preliminary View. Given this, it agrees in principle with the ACCC's process of allocating price increases to ordinary mail in preference to bulk mail, which is consistent with Post's initial intention to increase ordinary mail prices by a higher amount than bulk mail prices.

Post will accordingly submit a formal notification that is broadly in line with the Preliminary View. The proposed prices in the formal notification will include changes to prices in addition to those endorsed in the Preliminary View. The additional changes have been discussed with industry. They are designed to confer benefits to users and to allow Post to take full advantage of its barcode sorting equipment and realise additional productivity gains. The proposed changes are discussed in the attachment to this letter. In line with the Preliminary View the changes are designed to be revenue neutral on the outcomes of the ACCC's model.

Post's concerns about the modelling approach used by the ACCC include that the model:

- does not reflect Post's Government-endorsed financial target;
- adopts inflated rather than real asset values;
- does not appropriately take into account Post's CSOs, taxation and dividend arrangements; and
- results in revenues that do not provide, in Post's view, an adequate return for the letters business.

Post wishes to work with the ACCC to develop a model that is more appropriate for the postal industry and which would be used to assess future notifications. Post may wish to seek price changes earlier than the 5 year period proposed by the ACCC.

Post will submit its formal notification of proposed prices by COB 4 October 2002. Please do not hesitate to contact me if you wish to discuss Post's notification or any other issue associated with this letter.

Yours sincerely

**Gary Lee**  
**Group Manager Letters**

## RESPONSE TO PRELIMINARY VIEW

### EXPLANATION OF PROPOSED PRICES / PRICE CHANGES IN POST'S FORMAL NOTIFICATION

#### 1. Introduction

This Attachment details the alterations to Post's proposed price changes which will be submitted in Post's formal notification.

#### 2. Prices not objected to in the Preliminary View

##### 2.1 Changes to Current Prices:

- Small Ordinary Letter, 45 cents to 50 cents.
- Small Seasonal Greeting Card, 40 cents to 45 cents.
- Small Local Delivery Service, 41 cents to 46 cents.

##### 2.2 Introduction of New Prices:

- All Clean Mail prices (Small and Medium 5mm).
- PreSort residue (unbarcoded) prices for Small, Medium 5mm, Medium 20mm and Large.

2.3 All the proposed prices noted above will be included in Post's formal notification.

#### 3. Revisions to the Preliminary View Prices

##### 3.1 PreSort Letters

3.1.1 Post proposes to adopt the following structural changes to prices for PreSort letters as contained in its initial proposal:

- Changes to Existing Categories:  
Broadbanding of the 0-50g and 50-125g weight steps into a single 0-125g weight step for the PreSort Medium and Large Letter size categories.
- Introduction of a new category:  
Creation of a new Medium 5mm category, which will be smaller (in width, length and thickness) than the current Medium category.

- A comparison of the new Medium 5mm category to the current Medium 20mm category is shown in the table below.

Dimension/Attribute	Medium 5mm	Medium 20mm
Length (mm)	240 mm	260 mm
Height (mm)	162 mm	180 mm
Thickness (mm)	5 mm	20 mm
Maximum Weight (g)	125 g	250 g

3.1.2 The pricing rationale for these structural changes is described briefly below:

#### Broadbanding of Weight Steps

- This initiative will result in all of Post's Bulk Letter products consistently using 0-125g as the first weight step.
- Customer benefits from broadbanding are:
  - Simplified processing through elimination of one weight step.
  - As customers need a minimum of 300 letters (or 4kgs) in one PreSort category to access the lowest Direct Tray price, combining two weight steps will result in more mail qualifying for the Direct Tray price.

#### Introduction of new Medium 5mm category

- The introduction of the Medium 5mm category will provide a new letter category that will be 100% processable through Post's MLOCR and BCS network.
- The new category will be attractive to promotional and transactional mailers alike who will reconfigure current Medium 20mm letters to comply.
- Advertisers frequently use the Medium Letter size to enhance the value of their offers. Lowering the average price for the category will be attractive to this group.

3.1.3 These changes to the price structure are revenue neutral.

### 3.2 Ordinary Large Letters

3.2.1 Post proposes to apply revised prices for Ordinary Large Letters with two aims:

- To simplify payment by pricing in 5 cent multiples.
- To simplify the presentation of Post's products by pricing in multiples of the BPR.

### 3.2.2 The rationale for these changes is as follows:

#### Prices in 5 cents multiples

- As noted by the ACCC in the Preliminary View, it is practical that the price of stamps be a multiple of 5 cents.
- The 98 cent and \$1.47 prices, for 0-125g and 125-250g Ordinary Large Letters respectively, are often the subject of customer complaints that the prices are not a multiple of currency units.

#### Price multiples of the BPR

- Prior to the GST, Post's Ordinary Letter price structure was in multiples of the BPR. This simplified the assessment of postage price by customers.
- Self-assessment is a benefit for both Post and customers as it enables customers to prepare mail easily in their premises and to lodge mail in Street Post Boxes.
- Ensuring the first weight step for Ordinary Large Letters is a multiple of the BPR was also part of Post's objective to simplify the assessment process of greeting cards:
  - Nov to Dec (Seasonal Greeting Cards):
    - Small size; 1x = 45 cents
    - Large size; 2x = 90\* cents

\* A reduction from the current price of 98 cents

  - Jan to Oct:
    - Small size; 1x = 50 cents
    - Large size; 2x = \$1.00
- Post has been working with the Greeting Card Industry to produce a simple means of identifying the applicable postage price for a greeting card. This proposal was based on using 1 stamp for a small greeting card and 2 stamps for a large greeting card. Greeting cards are expected to carry a symbol identifying this system.

3.2.3 While the revised proposal results in a revenue increase, the increase is within the scope of the Preliminary View.

### 3.3 Large Prepaid Envelopes

3.3.1 Post proposes to apply price changes to Large Prepaid envelopes that:

- Round single unit prices to the nearest 5 cent multiple.
- Align the bulk discount for multiple purchases to that applying for Small Prepaid envelopes.

3.3.2 Given the low volumes associated with Large Prepaid envelopes, the revenue impact of these price changes is not material.

3.4 Local Delivery – Medium and Large Letter Sizes

3.4.1 Post proposes to apply price changes for Local Delivery letters that:

- Round single unit prices to the nearest 5 cent multiple.
- Broadband the 0-50g and 50-125g weight step to ensure consistency with other Bulk Letter services.

3.4.2 The rationale for these changes is to ensure consistency within Post's price structure for Bulk Letters.

3.4.3 Given the low volume of Medium and Large Local Delivery Letters, the revenue impact of these price changes is not material.