



Australian
Competition &
Consumer
Commission

Australia Post's 2010 price notification

Issues paper

April 2010



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Contents

1	Introduction	1
2	Australia Post’s 2010 price notification	3
2.1	The ACCC’s role in the regulation of postal services	4
2.2	The ACCC’s approach to assessing price notifications	5
2.3	Making a submission to the ACCC.....	6
3	Issues on which ACCC is seeking comment	7
3.1	Australia Post’s financial model	7
3.1.1	Australia Post’s forecast reserved letter volumes	7
3.1.2	Australia Post’s costs	10
3.1.3	Future Delivery Design program	12
	Appendix — Australia Post’s current and proposed prices	14

1 Introduction

On 1 April 2010, Australian Postal Corporation (Australia Post) provided the ACCC with a price notification (2010 price notification) proposing to increase the prices of the letter services that are exclusively reserved to it by statutory monopoly ('reserved services').

Australia Post is proposing to increase the basic postage rate (BPR) by 5c, from 55c to 60c, and to increase the prices of large Ordinary Letters, small Ordinary Letters, small PreSort letters and large PreSort letters, effective 28 June 2010.

In 2008, the ACCC did not object to a price rise by Australia Post, which raised the basic postage rate from 50c to 55c.

In 2009, the ACCC objected to further price increases proposed by Australia Post (2009 draft price notification).

In objecting to the proposed price increases the ACCC indicated that there were several key areas that needed to be addressed prior to Australia Post lodging any further price notifications. The ACCC considered that Australia Post had not adequately addressed the linkages between volumes, costs and prices¹ and had not demonstrated that it had fully exhausted cost-based responses to its expectation of declining letter volumes.² The ACCC also identified a number of deficiencies with Australia Post's demand and cost forecasts.

The ACCC noted that Australia Post had reached a critical point where it needed to re-examine its cost structure and the approach it takes to meeting its delivery obligations into the future. The ACCC's view was that funding the maintenance of Australia Post's existing cost structure through regular price increases as the letter business declines was not a sustainable strategy.³

For the longer term, this will also raise more fundamental questions as to the appropriate approach to the pricing of reserved services in an environment where demand is declining, (for example, the extent to which the various services contribute to shared costs).

In lodging its 2010 price notification, Australia Post has stated that:⁴

- The depth and duration of the decline in letter volumes has been significantly greater than Australia Post anticipated in 2009, despite the continued growth in the number of delivery points it is required to service;
- The further decline in letter volumes has led to Australia Post ramping up its efforts in cost reduction; and
- Australia Post is undertaking a fundamental review of its business model to ensure it is a sustainable business which can continue to meet its community service obligations.

¹ ACCC, *ACCC View on Australia Post's draft price notification, December 2009*, p. 163.

² ACCC, *ACCC View on Australia Post's draft price notification, December 2009*, p. 1.

³ ACCC, *ACCC View on Australia Post's draft price notification, December 2009*, p. 163.

⁴ Australia Post's covering letter to ACCC for 2010 formal price notification, p. 1.

Australia Post has also indicated that it has aimed to address the concerns raised by the ACCC in relation to its demand and cost forecasts.

The ACCC takes a consultative approach to its assessment of price notifications, and is seeking the views of industry and consumer stakeholders on Australia Post's 2010 price notification.

The purpose of this issues paper is to outline important elements of Australia Post's 2010 price notification, and identify those issues on which the ACCC would be assisted by the views of industry and consumer stakeholders.

In particular, as the ACCC will consider the extent to which the proposed price increases will enable Australia Post to recover the costs of providing reserved letter services, it would be assisted by comments on the demand for reserved letter services, and the drivers of Australia Post's costs. The ACCC also welcomes the views of industry and consumer stakeholders on any other issues related to Australia Post's 2010 price notification.

Following this consultation process, the ACCC will consider submissions received before it makes a final decision on Australia Post's proposed price increases.

Submissions should be addressed to:

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

By email: postalservices@acc.gov.au.

If you have any questions about the process, or about making a submission to the ACCC, please contact the ACCC's Infocentre on 1300 302 502, or send an email to postalservices@acc.gov.au.

2 Australia Post's 2010 price notification

Australia Post's 2010 price notification details Australia Post's proposal to increase the prices of those letter services over which it has a statutory monopoly — known as reserved services. Australia Post's reserved services extend to:

- the collection, within Australia, of letters for delivery within Australia
- the delivery of letters within Australia.⁵

There are a number of exceptions to Australia Post's reserved services, including letters weighing over 250g and letters that are carried for a charge at least four times the BPR.⁶

In particular, Australia Post summarises the major elements of its 2010 pricing proposal in its price notification as follows:

- increase of 5 cents to the BPR (to 60 cents);
- increase to other Ordinary Letter prices (e.g. large, seasonal greeting) to maintain relativity to the BPR; and
- increase to PreSort Letter prices of an average of 2.8 cents (GST Exclusive):
 - Small PreSort an average increase of 2.6 cents (GST Exclusive); and
 - Large PreSort an average increase of 5.0 cents (GST Exclusive).⁷

A detailed table of Australia Post's proposed prices can be found in the Appendix.

In support of its price notification, Australia Post has provided the ACCC with a financial model that assesses the extent to which the proposed price increases will recover Australia Post's allowable revenue. Australia Post states that:

The proposed prices have been modelled in an environment where:

- delivery points continue to increase by around 2 % (200,000) per annum;
- there is reduced potential for significant productivity improvements;
- letter volumes are forecast to decline by an average of 4.3 per cent per annum over the period of the notification; and
- Australia Post is required to fund its CSOs and meet its regulated performance standards.^{8,9}

⁵ *Australian Postal Corporation Act 1989* (Cth) (the APCA), section 29.

⁶ APCA, section 30.

⁷ Australia Post, *Supporting Information to Australia Post's Notification of Domestic Reserved Letter Service Price Changes* (Australia Post's 2010 price notification), p. 7.

⁸ Regulations made under section 28C of the APCA detail the prescribed performance standards that Australia Post is required to meet.

Australia Post has suggested that there are a number of factors that make it appropriate to submit a formal price notification at this time. Australia Post has indicated that the depth and duration of the decline in letter volumes has been significantly greater than anticipated at the time of the 2009 draft price notification, despite the continued growth in the number of delivery points that Australia Post is required to service.¹⁰

Further, Australia Post has indicated that although it had begun to respond to the volume declines, with cost reductions, at the time the 2009 draft price notification was lodged, the further decline in letter volumes has led it to ramp up its efforts in cost reduction.¹¹

Finally, Australia Post has advised that it is undertaking a fundamental review of its business model to ensure that it is a sustainable business which can continue to meet its Community Service Obligations.¹²

Australia Post's proposed price increases are the same as those proposed in its 2009 draft price notification. Australia Post has indicated that the same environmental pressures noted in its draft notification are still valid, and as such it is not seeking to recover the revenues foregone by a later than planned implementation date for the price increases.¹³

However, Australia Post has advised that in light of the forecast cost reduction over the period of this notification, the 2011/12 price increases identified as part of its 2009 draft price notification, may now no longer be required.¹⁴

2.1 The ACCC's role in the regulation of postal services

The ACCC has three specific responsibilities in the regulation of postal services. These are:

- monitoring for the presence of cross subsidies between Australia Post's reserved and non-reserved services;
- assessing proposed price increases for Australia Post's reserved services; and
- inquiring into certain disputes regarding the terms and conditions under which Australia Post supplies bulk-mail services.

To assist in undertaking these roles, the ACCC can issue record-keeping rules (RKR) that require Australia Post to keep specified records and provide them to the ACCC.

The ACCC issued one RKR in March 2005 which established a regulatory accounting framework for Australia Post. The primary purpose of the RKR is to enable the ACCC to monitor for the presence of cross subsidy.

⁹ Australia Post's 2010 price notification, p. 7.

¹⁰ Australia Post's covering letter for 2010 price notification dated 1 April 2010, p. 1.

¹¹ Australia Post's covering letter for 2010 price notification dated 1 April 2010, p. 1.

¹² Australia Post's covering letter for 2010 price notification dated 1 April 2010, p. 1.

¹³ Australia Post's 2010 price notification, p. 6.

¹⁴ Australia Post's 2010 price notification, p. 5.

The ACCC has released four reports monitoring the presence of cross subsidy, for the 2004-05, 2005-06, 2006-07 and 2007-08 financial years. These reports are available on the ACCC's website.

2.2 The ACCC's approach to assessing price notifications

In 1992, Australia Post's reserved letter services were declared by the Minister (Treasurer) to be notified services and Australia Post to be a declared person in relation to those notified services pursuant to section 95X of the TPA. As a result of this declaration, to increase the prices of its reserved services, in accordance with section 95Z of the TPA, Australia Post must provide the ACCC with a locality notice, and receive a response to that locality notice from the ACCC stating that it does not object to the price increases or to price increases lower than Australia Post's proposed price increases.

Section 95ZH of the TPA enables the Minister to direct the ACCC to give special consideration to specified matters in performing its functions under Part VIIA of the TPA. In 1990, the Minister issued Direction 11 requiring the ACCC to give special consideration to, amongst other things:

- Australia Post's obligation to pursue a financial policy in accordance with its corporate plans...and in particular the pricing targets and Government endorsed financial targets contained in Australia Post's corporate plan; and
- Australia Post's functions and obligations (including its CSOs).

A detailed outline of the operation of the legislative framework and the ACCC's processes in assessing price notifications is contained in the ACCC's *Statement of Regulatory Approach to Assessing Price Notifications*, June 2009, which is available on the ACCC's website.

As set out in section 95ZB of the TPA, there is an 'applicable period' of initially 21 days within which the ACCC is to make its assessment starting on the day on which the notification was lodged. Subsection 95ZB(2) allows for the period to be longer than 21 days with the agreement of the notifying firm.

Table 1 provides an indicative timeframe for the ACCC's assessment of Australia Post's price notification.

Table 1 — Indicative timeframe for the ACCC assessment of Australia Post's 2010 price notification

Date	Process
1 April 2010	Australia Post price notification lodged with the ACCC
13 April 2010	ACCC releases issues paper
30 April 2010	Closing date for submissions on the issues paper
28 May 2010	ACCC final decision

2.3 Making a submission to the ACCC

To facilitate an informed, transparent and robust consultation process, the ACCC prefers that all submissions are publicly available. Accordingly, submissions will be treated as public documents and posted on the ACCC's website, unless prior arrangements are made with the ACCC to treat the submission, or portions of it, as confidential.

Submissions should be provided to the ACCC by COB Friday, 30 April 2010.

The ACCC will accept submissions by email or by post. However, it is preferred that submissions be made by email. If submissions are provided in PDF format, parties are asked, for accessibility reasons, to also provide a copy in Microsoft Word format.

Submissions should be addressed to:

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

By email: postalservices@acc.gov.au

If you have any further questions about the process, or about making a submission to the ACCC, please contact the ACCC's Infocentre on 1300 302 502, or send an email to postalservices@acc.gov.au.

3 Issues on which ACCC is seeking comment

Industry and consumer stakeholders are invited to make submissions on the issues identified by the ACCC in this issues paper, and on any other issues relevant to the ACCC's assessment of Australia Post's 2010 price notification.

In considering the issues raised by the ACCC in regards to Australia Post's 2010 price notification, industry stakeholders and interested parties should review Australia Post's 'Supporting Information to Australia Post's Notification of Domestic Reserved Letter Service Price Changes' document (referred to in this issues paper as Australia Post's 2010 price notification), and the supporting consultancy report from Diversified Specifics on Australia Post's forecast demand for Australia Post's letter services. These documents are available in the 'postal services' section on the ACCC's website, www.accc.gov.au.

As the ACCC will consider the extent to which the proposed price increases will enable Australia Post to recover the costs of providing reserved letter services, it would be assisted by comments on the demand for letter services, and the drivers of Australia Post's costs.

In addition to this the ACCC would also be assisted by comments on the extent to which Australia Post has addressed the issues identified by the ACCC in response to its 2009 draft price notification. These issues, along with extensive guidance regarding the type and quality of information that should be provided in support of any future price notifications, are outlined in the *Australia Post's Draft 2009 Price Notification: ACCC View December 2009* document (referred to in this issues paper as the ACCC's 2009 View). This document is also available in the 'postal services' section on the ACCC's website.

The ACCC notes that a number of matters that were addressed as part of the ACCC's review of Australia Post's 2009 draft price notification (e.g. weighted average cost of capital, asset base and capital expenditure, and the structure of Australia Post's proposed price increases) have either been accepted by Australia Post or have not changed materially in Australia Post's 2010 price notification. As a result, and for the purposes of this assessment, the ACCC does not intend to reconsider these issues in detail. However, the ACCC welcomes views on any issues related to Australia Post's proposal, and will consider all views in its assessment.

The following sections highlight some of the revised and additional material that Australia Post has provided as part of its 2010 price notification as well as identifying specific questions on which the ACCC is seeking input.

3.1 Australia Post's financial model

Australia Post has provided the ACCC with a financial model that forecasts that it will under recover its allowable revenues over the period 2009/10 to 2011/12 even with the additional revenues generated by the implementation of the proposed price increases.

In accordance with previous practice, the ACCC intends to carefully scrutinise the components of Australia Post's financial model covering the period 2009/10 to 2011/12.

3.1.1 Australia Post's forecast reserved letter volumes

Australia Post has provided the ACCC with forecasts of volumes for reserved letter services for the period 2009/10 to 2011/12. Australia Post's volume forecasts, if considered

reasonable, will be used to calculate the revenue that Australia Post is expected to earn as a result of its proposed price increases.

In response to Australia Post’s 2009 draft price notification, the ACCC raised concerns about the deficiencies in Australia Post’s letter volumes forecasts, which were largely attributable to a lack of transparency.¹⁵

The ACCC emphasised that Australia Post needed to adopt an independently verifiable approach to forecasting demand for its reserved letter services that can be exposed to sensitivity analysis around key economic assumptions.¹⁶

In support of its 2010 price notification, Australia Post has provided the ACCC with revised forecasts of volumes for reserved letter services for the period 2009/10 to 2011/12. Australia Post has indicated that its revised volume forecasts reflect an “enhanced methodology ...adopted to address the concerns noted by the ACCC in its View of 2009”.¹⁷

Table 2 below provides the forecast change in volumes over the period 2008/09 to 2011/12 from the 2010 price notification compared to that provided in Australia Post’s 2009 draft price notification.

Table 2 - Australia Post’s forecast reserved letter volumes 2008/09 to 2011/12¹⁸

	2008/09 Full Year	2009/10 Dec YTD	2009/10 Full Year	2010/11 Full Year	2011/12 Full Year
Current – Actual/Forecast (%)	(3.9%)	(6.9%)	(5.8%)	(3.5%)	(3.5%)
2009 draft notification (%)	(3.9%)	(4.3%)	(2.3%)	(2.0%)	(2.7%)

Australia Post has broadly described its methodology for forecasting volumes as a two part process including:

- econometric models providing baseline volume forecasts; and
- augmentation of the baseline forecasts to incorporate management opinion and further market intelligence.¹⁹

Australia Post has indicated that a comprehensive set of potential drivers were examined during the development of the econometric models by Diversified Specifics, with the variables tested identified largely through the knowledge gained from previous studies.²⁰

¹⁵ ACCC, *ACCC View on Australia Post’s draft price notification, December 2009* (ACCC’s 2009 View), p. 166.

¹⁶ ACCC’s 2009 View, p. 166.

¹⁷ Australia Post’s 2010 price notification, p. 8.

¹⁸ Australia Post’s 2010 price notification, p. 11.

¹⁹ Australia Post’s 2010 price notification, p. 9.

²⁰ Australia Post’s 2010 price notification, p. 9.

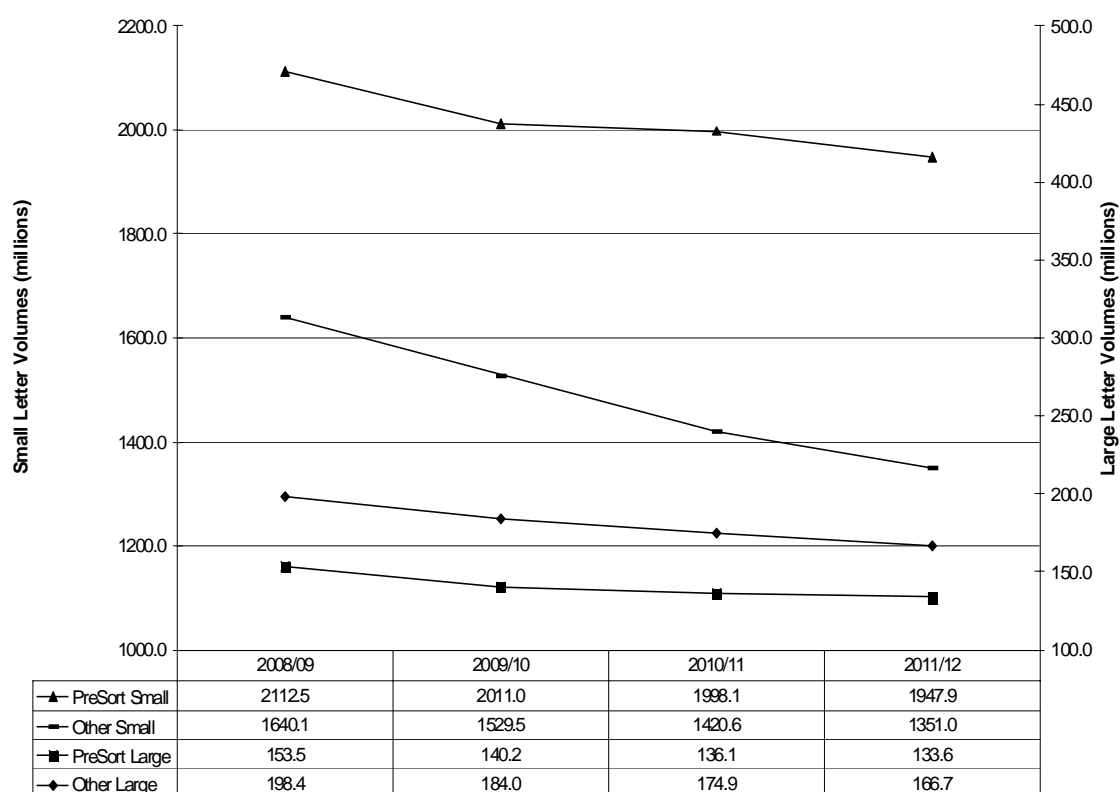
Further detailed information about these models is included on the ACCC website (refer to Diversified Specifics, *Domestic Letter Segment Forecasts: 2009/10 – 2011/12*).

Australia Post’s final forecasts are derived by augmenting the baseline forecasts (from the econometric models) with management opinion and market intelligence.²¹ This augmentation reflects the impact of factors that are not incorporated within the econometric model, but which through management opinion and market intelligence are known to be having an impact upon letter volume growth.²²

Australia Post has forecast volumes for its reserved letter services to decline by 505.3 million letters over the period 2009/10 to 2011/12, with an average annual volume decline of 4.3 per cent per annum.²³

Chart 1 below illustrates Australia Post’s actual and forecast reserved letter volumes for the period 2008/09 to 2011/12. Australia Post also provides a breakdown of its reserved letter volumes for the period 2008/09 to 2011/12 by transactional, promotional, and social letter segments in its price notification.²⁴

Chart 1 — Australia Post’s forecast volumes for the four major reserved letter services for 2008-09 to 2011-12²⁵



²¹ Australia Post’s 2010 price notification, p. 9.

²² Australia Post’s 2010 price notification, p. 9.

²³ Source: Australia Post’s 2010 price notification, p. 34.

²⁴ Australia Post’s 2010 price notification, p. 12.

²⁵ Source: Australia Post’s 2010 price notification, p. 34.

Australia Post has forecast that each of its four major reserved letter services (PreSort small, PreSort large, Other small, Other large) will decline over the period 2008/09 to 2011/12. Analysis of the volume forecasts in Appendix 2 of Australia Post's 2010 price notification indicates that Australia Post expects that small Other letters (including ordinary) will decline by an annual average of 6.3 per cent over the period, with volumes expected to decline by 289.1 million letters to 1351 million in 2011/12.²⁶ Australia Post has forecasted that small PreSort letters will also decrease over the period, with an annual average decline of 2.7 per cent. Large letters have also been forecasted to decline with large Other letters (including ordinary) expected to fall by an annual average of 5.6 per cent, and large PreSort letters expected to decline by 4.5 per cent over the period.²⁷

The ACCC seeks comments on Australia Post's forecasts of reserved mail volumes for the period 2009/10 to 2011/12.

- Do you agree with Australia Post's volume forecasts by category of reserved letter service? Are these forecasts reflective of the long-term trend of demand for Australia Post's mail services and your expectations about future usage?
- Do you consider that Australia Post's forecasts reflect the current economic climate and its effect on volumes of Australia Post's reserved letter services?
- Do you think that the long-term trend toward consolidation, rationalisation, and substitution will be affected by any future changes in economic activity?

3.1.2 Australia Post's costs

In its assessment of Australia Post's price notification, the ACCC considers the extent to which the proposed price increases will recover the efficient costs of providing reserved letter services.

In objecting to the price increases in Australia Post's 2009 draft price notification, the ACCC considered that Australia Post had not adequately addressed the linkages between prices, volumes and costs.²⁸ The ACCC indicated that Australia Post needed to produce a plan to manage its cost base and to outline how it proposes to optimise its costs in response to forecast volume declines.²⁹

In assessing Australia Post's 2009 draft price notification, the ACCC was constrained in making an assessment on Australia Post's operating costs as its forecasts had not been derived using a statistically rigorous and transparent methodology.³⁰ However, the ACCC noted that it was concerned that Australia Post's forecast declines in letter volumes appeared to have had very little impact on its cost base.³¹

²⁶ Source: Australia Post's 2010 price notification, p. 34.

²⁷ Source: Australia Post's 2010 price notification, p. 34.

²⁸ ACCC's 2009 View, p. 163.

²⁹ ACCC's 2009 View, p. 167.

³⁰ ACCC's 2009 View, p. 74.

³¹ ACCC's 2009 View, p. 79.

The ACCC's view was that funding the maintenance of Australia Post's existing cost structure through regular price increases as the letter business declines was not a sustainable strategy.³²

In the longer term, this will also raise more fundamental questions as to the appropriate approach to the pricing of reserved services in an environment where demand is declining, (for example, the extent to which the various services contribute to shared costs).

In its 2010 price notification, Australia Post has indicated that while it had begun to respond to volume declines at the time of its draft notification, it has now ramped up its cost reduction efforts in response to the further decline in letter volumes.³³

The ACCC's analysis of the cost forecasts contained in Appendix 2 of Australia Post's 2010 price notification indicates that Australia Post's domestic reserved letter service operating costs (including depreciation) are forecast to increase by 2.5 per cent in 2009/10 to 1983.3 million and then decrease by 1.1 per cent to 1961.2 and by 1.5 per cent to 1931.6 in 2010/11 and 2011/12.³⁴ In comparison, Australia Post's 2009 draft price notification forecast cost increases of 4.5 per cent in 2009/10 and further cost increases of around 1 per cent in both 2010/11 and 2011/12.³⁵

Australia Post has forecast that its labour usage for the business as a whole will be reduced by 765 full time equivalents (FTEs) to 31,525 FTEs in 2009/10.³⁶ Australia Post has indicated that in the three years to 2011/12 it plans to reduce labour usage in the traditional areas of its business (e.g. those associated with domestic reserved letters service).³⁷

Further details of Australia Post's cost forecasts are provided on pages 13-23 of Australia Post's 2010 price notification.

The ACCC seeks comments on the efficiency of Australia Post's costs of providing its reserved letter services.

- What are your views on the efficiency of Australia Post's cost base, in particular its operating costs?
- Do you consider that Australia Post's price notification demonstrates that it has *fully* exhausted cost-based responses to its expectation of declining letter volumes? If you do not consider that Australia Post has fully exhausted cost-based responses, to what extent do you think it has done so?
- What are the areas where Australia Post is able to reduce its costs, while still meeting its CSOs and performance standards?

³² ACCC, *ACCC View on Australia Post's draft price notification, December 2009*, p. 163.

³³ Australia Post's covering letter for 2010 formal price notification dated 1 April 2010, p. 1.

³⁴ Source: Australia Post's 2010 price notification, p. 34.

³⁵ ACCC's 2009 View, p. 59.

³⁶ Australia Post's 2010 price notification, p. 17.

³⁷ Australia Post's 2010 price notification, p. 19.

3.1.3 Future Delivery Design program

Australia Post has recognised that it faces a challenge in containing growth in its delivery costs in the face of declining letter volumes; ongoing growth in delivery points and network geography; and rising workforce ageing and OH&S risks arising from a current high dependence on motorcycles for outdoor street delivery.³⁸ Australia Post submits that the Future Delivery Design Program (FDD) is Australia Post's response to its delivery challenge and a way of setting the future direction for delivery operations.³⁹

In its 2009 View the ACCC noted, in relation to Australia Post's FDD program, that:

- in comparison to a number of international postal operators, Australia Post continued to appear slow in deploying automated sequencing.⁴⁰ In recognition of this the ACCC concluded that Australia Post did not appear to have an efficient cost base in the area of small letter sequencing and there should be a reduction in Australia Post's current and forecast operating expenses to better reflect efficient labour costs;⁴¹ and
- the rationalisation of the delivery centre (DC) network and the implementation of remote commencement and cessation (RCC) would seem to provide some potential for savings and as a result Australia Post's current cost base may be higher than its cost base in the long term.⁴²

In its 2010 price notification, Australia Post notes that it has accelerated the pace and scope of its FDD program, including the speed at which automated small letter sequencing is being deployed.⁴³ It notes that in light of the ACCC's concerns, it has reviewed program priorities and governance to bring forward and accelerate, as far as practicable, those elements where current assessments suggest the largest savings contributions can be made.⁴⁴

The main features of Australia Post's FDD Program are outlined in detail on pages 24-29 and in Appendix 7 of its 2010 price notification.

Australia Post notes that the essential points of difference in relation to its FDD program between the 2009 draft price notification and the 2010 price notification are:⁴⁵

- an acceleration of the rollout of machine-sequenced letters using both existing and proposed new sorting equipment;
- the use of SBD (Separate bundle delivery) during the outdoor delivery process; and

³⁸ Australia Post's 2010 price notification, p. 24.

³⁹ Australia Post's 2010 price notification, p. 24.

⁴⁰ ACCC's 2009 View, p. 89.

⁴¹ ACCC's 2009 View, p. 91.

⁴² ACCC's 2009 View, p. 92.

⁴³ Australia Post's 2010 price notification, p. 24.

⁴⁴ Australia Post's 2010 price notification, p. 25.

⁴⁵ Australia Post's 2010 price notification, p. 25

- a greater level of savings anticipated from rollout of a DRO (Delivery round optimisation) process and software tool.

As a result of these changes, and as illustrated in Table 3 below, Australia Post now expects savings out to 2013/14 to be \$69.8 million, which is significantly above the \$29.2 million expected in 2009.⁴⁶ Australia Post notes that the anticipated increase in savings is dependent in part on high level estimates until the detailed state implementation planning is completed.⁴⁷ Net savings in 2010/11 are negatively affected by implementation and planning expenses associated with the accelerated machine sequencing rollout and project costs related to the other initiatives described above.⁴⁸

Table 3 – comparison of projected FDD savings over 2008/09 to 2013/14⁴⁹

	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Totals
2009 draft notification (\$m)	(0.4)	4.4	4.0	5.8	6.0	9.4	29.2
2010 price notification (\$m)	(2.9)	10.1	2.6	24.1	19.2	16.6	69.8
Savings change (\$m)	(2.5)	5.7	(1.4)	18.3	13.2	7.2	40.6

The ACCC seeks comments on Australia Post's proposed FDD program.

- Are the key elements of Australia Post's FDD program appropriate? Are there other projects that Australia Post could implement to reduce its costs and improve the efficiency by which it provides reserved letter services?
- Do you consider the pace of Australia Post's current level of implementation of technological change (such as automated letter sequencing) is adequate?
- Will the FDD be effective in constraining growth in Australia Post's operating expenditure over time?

⁴⁶ Australia Post's 2010 price notification, p. 25.

⁴⁷ Australia Post's 2010 price notification, p. 25

⁴⁸ Australia Post's 2010 price notification, p. 25

⁴⁹ Australia Post's 2010 price notification, p. 25.

Appendix — Australia Post's current and proposed prices

Ordinary Letters

	Current	Proposed Prices	
		Amount	% Change
Small Letters			
Ordinary - (eg Stamped)	\$ 0.55	\$ 0.60	9.1%
Metered / Imprint	\$ 0.54	\$ 0.58	7.4%
Clean Mail (up to 125g)	\$ 0.48	\$ 0.51	6.3%
Seasonal Greeting Cards	\$ 0.50	\$ 0.55	10.0%
Large Letters			
Seasonal Greeting Cards			
Up to 125g	\$ 1.00	\$ 1.10	10.0%
Ordinary Letters			
Up to 125g	\$ 1.10	\$ 1.20	9.1%
Over 125 up to 250g	\$ 1.65	\$ 1.80	9.1%
Over 250 up to 500g	\$ 2.75	\$ 3.00	9.1%
Metered / Imprint			
Up to 125g	\$ 1.08	\$ 1.16	7.4%
Over 125 up to 250g	\$ 1.62	\$ 1.74	7.4%
Over 250 up to 500g	\$ 2.70	\$ 2.90	7.4%
Clean Mail			
Small Plus Size			
Up to 125g	\$ 0.75	\$ 0.80	6.7%

Notes/Comments: Ordinary Letters

Small, 55c to 60c; Large in multiples of 60c

Metered / Imprint from 54c to 58c, with Large rounded to multiples of 58c

Seasonal Greeting Card prices available during November and December

PrePaid Envelopes

	Current Prices			Proposed Prices			% Change		
	Single	1-4 Packs of 10	5+ Packs of 10	Single	1-4 Packs of 10	5+ Packs of 10	Single	1-4 Packs of 10	5+ Packs of 10
Plain Envelopes									
Small (DL and C6)	\$ 0.65	\$ 6.34	\$ 6.18	\$ 0.70	\$ 6.83	\$ 6.65	7.7%	7.7%	7.7%
C5 Size	\$ 1.30	\$ 12.68	\$ 12.35	\$ 1.40	\$ 13.65	\$ 13.30	7.7%	7.7%	7.7%
C4 Size	\$ 2.50	\$ 24.38	\$ 23.75	\$ 2.70	\$ 26.33	\$ 25.65	8.0%	8.0%	8.0%
B4 Size	\$ 2.90	\$ 28.28	\$ 27.55	\$ 3.20	\$ 31.20	\$ 30.40	10.3%	10.3%	10.3%
One Rate to the World Postcard									
	\$ 1.50	NA	NA	\$ 1.60	NA	NA	6.7%	NA	NA
Window Faced									
Small (DL and C6)	NA	Pk of 50 \$ 32.20	Bx of 500 \$ 309.50	NA	Pk of 50 \$ 34.70	Bx of 500 \$ 333.50	NA	Pk of 50 7.8%	Bx of 500 7.8%

Notes/Comments:

Non-reserved products (over 250g or more than four times the BPR) are shaded

All prices are GST Inclusive, except for External Territories where they are as stated but GST free.

Schedule 1

Local Delivery (only available in specified postcodes)

	Current	Proposed Prices	
		Amount	% Change
Small Letters			
Up to 125g	\$ 0.51	\$ 0.56	9.8%
Medium Letters			
Up to 125g	\$ 0.70	\$ 0.80	14.3%
Over 125 up to 250g	\$ 0.95	\$ 1.10	15.8%
Large Letters			
Up to 125 g	\$ 0.90	\$ 1.00	11.1%
Over 125 up to 250g	\$ 1.30	\$ 1.45	11.5%
Over 250 up to 500g	\$ 1.45	\$ 1.60	10.3%

Reply Paid

	Current	Proposed Prices	
		Amount	% Change
Small			
Barcoded	\$ 0.42	\$ 0.43	2.4%
Unbarcoded	\$ 0.63	\$ 0.65	3.2%
Annual Fee	\$ 65.00	\$ 65.00	0.0%
Large			
Up to 125g	\$ 1.20	\$ 1.30	8.3%
Over 125 up to 250g	\$ 1.75	\$ 1.90	8.6%
Over 250 up to 500g	\$ 2.85	\$ 3.10	8.8%

PreSort Letters

Note: all prices are GST Inclusive, except for External Territories where they are as stated but GST free.

Regular Delivery	Same State BDT			Other State BDT			Residue			Unbarcoded Residue		
	Current	Proposed Price		Current	Proposed Price		Current	Proposed Price		Current	Proposed Price	
		Amount	% Var		Amount	% Var		Amount	% Var		Amount	% Var
Size / Weight												
Small Letters												
Up to 125g	\$ 0.399	\$ 0.427	7.0%	\$ 0.410	\$ 0.438	6.8%	\$ 0.449	\$ 0.477	6.2%	\$ 0.480	\$ 0.510	6.3%
Charity Mail	\$ 0.344	\$ 0.372	8.1%	\$ 0.355	\$ 0.383	7.9%	\$ 0.394	\$ 0.422	7.1%	\$ 0.480	\$ 0.510	6.3%
Small Plus												
Up to 125g	\$ 0.509	\$ 0.550	8.1%	\$ 0.531	\$ 0.572	7.7%	\$ 0.619	\$ 0.660	6.6%	\$ 0.750	\$ 0.800	6.7%
Medium												
Up to 125g	\$ 0.630	\$ 0.693	10.0%	\$ 0.674	\$ 0.737	9.3%	\$ 0.768	\$ 0.831	8.2%	\$ 0.905	\$ 0.968	7.0%
Over 125 up to 250g	\$ 0.823	\$ 0.913	10.9%	\$ 0.911	\$ 1.001	9.9%	\$ 1.015	\$ 1.106	9.0%	\$ 1.158	\$ 1.249	7.9%
Large												
Up to 125g	\$ 0.773	\$ 0.825	6.7%	\$ 0.817	\$ 0.869	6.4%	\$ 0.938	\$ 0.990	5.5%	\$ 0.982	\$ 1.034	5.3%
Over 125 up to 250g	\$ 1.103	\$ 1.155	4.7%	\$ 1.191	\$ 1.243	4.4%	\$ 1.323	\$ 1.375	3.9%	\$ 1.433	\$ 1.485	3.6%
Over 250 up to 500g	\$ 1.543	\$ 1.595	3.4%	\$ 1.675	\$ 1.727	3.1%	\$ 1.763	\$ 1.815	2.9%	\$ 1.983	\$ 2.035	2.6%
Off Peak Delivery												
Size / Weight												
Small Letters												
Up to 125g	\$ 0.388	\$ 0.416	7.2%	\$ 0.399	\$ 0.427	7.0%	\$ 0.432	\$ 0.465	7.6%	\$ 0.465	\$ 0.505	8.6%
Charity Mail	\$ 0.328	\$ 0.356	8.5%	\$ 0.339	\$ 0.367	8.3%	\$ 0.372	\$ 0.405	8.9%	\$ 0.465	\$ 0.505	8.6%
Small Plus												
Up to 125g	\$ 0.498	\$ 0.539	8.2%	\$ 0.520	\$ 0.561	7.9%	\$ 0.608	\$ 0.649	6.7%	\$ 0.720	\$ 0.795	10.4%
Medium												
Up to 125g	\$ 0.597	\$ 0.671	12.4%	\$ 0.630	\$ 0.704	11.7%	\$ 0.729	\$ 0.820	12.5%	\$ 0.850	\$ 0.963	13.3%
Over 125 up to 250g	\$ 0.757	\$ 0.875	15.6%	\$ 0.801	\$ 0.919	14.7%	\$ 0.949	\$ 1.084	14.2%	\$ 1.059	\$ 1.238	16.9%
Large												
Up to 125g	\$ 0.751	\$ 0.803	6.9%	\$ 0.784	\$ 0.836	6.6%	\$ 0.905	\$ 0.979	8.2%	\$ 0.960	\$ 1.029	7.2%
Over 125 up to 250g	\$ 1.026	\$ 1.089	6.1%	\$ 1.092	\$ 1.155	5.8%	\$ 1.235	\$ 1.331	7.8%	\$ 1.334	\$ 1.474	10.5%
Over 250 up to 500g	\$ 1.301	\$ 1.375	5.7%	\$ 1.389	\$ 1.463	5.3%	\$ 1.521	\$ 1.650	8.5%	\$ 1.741	\$ 1.925	10.6%

Impact Mail	Postcode Direct Tray			Area Tray			Residue		
	Current	Proposed Price		Current	Proposed Price		Current	Proposed Price	
		Amount	% Var		Amount	% Var		Amount	% Var
Small - up to 125g									
Same State	\$ 0.600	\$ 0.640	6.7%	\$ 0.640	\$ 0.680	6.3%	\$ 0.700	\$ 0.740	5.7%
Other State	\$ 0.610	\$ 0.650	6.6%	\$ 0.650	\$ 0.690	6.2%	\$ 0.710	\$ 0.750	5.6%
Small Plus - up to 125g									
Same State	\$ 0.850	\$ 0.900	5.9%	\$ 0.900	\$ 0.950	5.6%	\$ 1.000	\$ 1.050	5.0%
Other State	\$ 0.860	\$ 0.910	5.8%	\$ 0.910	\$ 0.960	5.5%	\$ 1.010	\$ 1.060	5.0%

Acquisition Mail	Same State BDT			Other State BDT			Residue			Unbarcoded Residue		
	Current	Proposed Price		Current	Proposed Price		Current	Proposed Price		Current	Proposed Price	
		Amount	% Var		Amount	% Var		Amount	% Var		Amount	% Var
Off Peak Delivery												
Small - up to 125g	\$ 0.280	\$ 0.300	7.1%	\$ 0.300	\$ 0.320	6.7%	\$ 0.432	\$ 0.465	7.6%	\$ 0.465	\$ 0.505	8.6%
Small Plus - up to 125g	\$ 0.390	\$ 0.415	6.4%	\$ 0.410	\$ 0.435	6.1%	\$ 0.608	\$ 0.649	6.7%	\$ 0.720	\$ 0.795	10.4%

Notes/Comments - PreSort Letters

Small PreSort

Charity Mail prices for Barcoded items set at a specific cent reduction from "non-charity" small PreSort (Regular 5.5c and Off Peak 6c)

Non-reserved products (over 250g or more than four times the BPR) are shaded