**APPENDIX:**

**Required information to be provided by An Post by 29 November 2012. This information is required from An Post because the information cannot be obtained from any source other than An Post and the information is required in order to enable ComReg carry out its statutory functions and objectives set by the 2011 Act.**

1) **An Post to confirm in writing that it has provided all information it has in its possession, including all updates to information previously provided to ComReg, that relate to the price application.**

An Post's Response:
An Post has provided to ComReg all the information that is available and relevant to the Price Application. This included historical information based on the audited Regulatory Accounts, Five Year Forecasts and updates as required, full co-operation with both Frontier Economics and Analysys Mason which allowed them to conclude their respective reports and all questions directly sent from the ComReg team.

The only areas in which An Post was unable to answer all the information requested were:

- Market research on SME's attitude to the price proposals. An Post is strongly of the view that this research would only serve to suggest that SMEs would not welcome a price increase and therefore of no real benefit to the analysis of the Price Application. This is discussed under Question 4 below.
- An Post had not undertaken separate industrial engineering studies to estimate cost information for every price point (see our response to Question 5 below). An Post has provided a detailed level of information for each service which it provides. Notwithstanding this, An Post has also endeavoured to provide estimates for the vast majority (over 90% by volume) of price points and proposes to undertake further work in advance of the next phase of Price changes.

2) **An Post to provide full justification for the updated 2013 and 2014 growth rates. In particular, please provide an explanation of the differences between these figures and those used in the initial price application. Please also include an explanation as to why these growth rates do not differ between stamp, meter and bulk, despite the differences between these in 2012. This explanation should cover both domestic and international outbound mail.**

An Post's Response:
Forecasts by their very nature require judgment and estimation. They are not an exact science. In its budget for 2012, An Post included a forecast decline in mail volumes of 5% for this year. Volume declines in the first few months of the year suggested that an overall volume decline in the order of 7% for the full year would materialise[1]. However, the rate of decline stabilised for the second half of the year

[1] As highlighted to ComReg in our meeting of 23 May 2012

and it now appears that the overall decline for the current year will be closer to 6%. Please note that the volume decline stabilised in the period following the 1 May 2012 price increases as discussed further under the response to Question 15.

An Post originally forecast that mail volumes would continue to decline by 3% p.a. thereafter (from 2013 onwards).

The Frontier Report concluded that "*An Post's forecast is at the low end of the range of international comparisons considered*"[2]. Their assessment was that An Post's forecast appeared optimistic.

An Post has considered this evidence and the higher than expected decline in the current year and decided that the following changes will be reflected in its forecasts:

| Mail Volumes | 2012 | 2013 | 2014 |
|---|---|---|---|
| Overall forecast - Application 3 February 2012 | -5% | -3% | -3% |
| Overall forecast - updated 19 October 2012 | -6% | -5% | -5% |

Cumulatively, this will result in a decline in mails volumes of c. 35% in 2014 compared with the peak in 2007.

The support for the updated forecasted decline in mail volumes is as follows:

- The 2013 budget has since been prepared with inputs from both Sales and Marketing and Finance and an estimated 5% decline in mail volumes was considered an appropriate target based on the information available.
- Frontier Economics compared An Post with Royal Mail and quoted their forecast decline of 5% p.a.
- IPC have since issued their annual Global Postal Industry Report which shows that declines in the period 2008-2011 for IPC members was 3.4% on average per annum[3]. See Schedule 1 attached.

An Post has set out its estimates for 2012-2014 in Figure 12 of its Price Application. Letter, Flats, Packets and Parcels are all estimated to decline at different rates reflecting the historical trend and the possible opportunities that will arise. Over the recent past, customers have migrated between payment methods as they endeavoured to find the service that suited their needs. With the proposed broadening of the payment method differential, An Post does not anticipate similar action by customers in the future and therefore believes that the different trends between payment methods will not continue into the future and therefore expects a convergence in the rate of decline by payment method.

---

[2] Comreg document 12/109a, Review and Assessment of An Post's application for changes to the charges for postal services within the scope of the universal postal service, Frontier Economics, P.39

[3] IPC Global Postal Industry Report, October 2012, P.26 (extract attached at Schedule 1)

**3) An Post to provide full details (including pricing) for the insurance universal postal service. An Post to confirm that the cost of insurance is €0.23.**

An Post's Response:
An Post will provide an insurance service as required by the Regulations. Insurance will be available on standard services (Letters, flats, packets and parcels). Insurance will be charged at a flat fee plus the appropriate postage for the item.

The compensation levels are proposed as follows:

| | **Maximum Compensation level** |
|---|---|
| Ireland | €350 |
| UK | €75 |
| EU | €75 |
| Rest of World | €35 |

The maximum compensation level in cases where there is no declared value is €20.

The cost details were provided in Appendix 3 to the An Post letter of 2 November 2012. This correspondence also sets out a cost of administration. The cost of insurance is in the order set out.

The proposed price for the new specification of the registered service is c. €4.80 plus postage. With the insurance element added, An Post is proposing a rate of €5 plus postage for the insurance service. Both services will be required to be processed in a similar manner, in terms of counter costs, manual handling and obtaining a signature from the recipient. The insurance service will require signature in order to prevent abuse of the service if appropriate controls are not in place.

**4) An Post to provide all materials, research, sales manager documentation in its possession that relates to the affordability of the proposed price increases for its business customers.**

An Post's Response:
An Post has not commissioned independent research into affordability for SMEs. This would be an extremely difficult task to undertake as some customers currently avail of discounts (of varying sizes) whereas others do not. Some SMEs use stamps, some meters and some bulk services. The proposed increases on different services, including percentage increases, are not uniform so it would be difficult to assess who would be satisfied based on all these differences.

An Post has reviewed other research which is available and which has already been mentioned to ComReg including the following:

- There has been no adverse reaction to the May 2012 increases (see response to Question 15 below)

- Research conducted by The Research Perspective Ltd., on behalf of ComReg[4], which listed reliability as the most important aspect of the service that drives satisfaction levels amongst organisations
- Price elasticity of demand estimates prepared by Indecon
- ComReg will be undertaking a public consultation which will give all interested parties a chance to give their views on the proposals. In its response to the consultation on the Draft Postal Strategy Statement, ComReg set out the effectiveness of consultations by stating that *'consultations are open to all interested parties to respond to and in the past postal service users have responded in numbers to ComReg's consultation'*.[5]

An Post has proposed a number of incentives in the overall package to mitigate the impact of price increases on both the SME sector and larger businesses. These include:

- The increase in the level of the automatic payment method discount for letters to 5c
- The proposed introduction of the 5% discount for the online purchase of 300 stamps
- The proposed reduction in the volume threshold to allow meter customers to avail of the discounts available.
- The requirements of the legislation also provide possibilities for businesses to avail of access to the An Post network at lower prices.

An Post is confident that these measures will result in An Post receiving the financial benefit it is seeking and SMEs continuing to view the services as good value for money.

**5) An Post to provide full supporting explanation and rationale as to how it made its cost estimate for each price point charge it proposes to charge and why these estimates are appropriate for ensuring that prices are cost oriented. For example, the explanation will address why "50% of collection, transport and delivery costs varying with weight (excluding common costs)" was considered to be appropriate by An Post and not another % or another methodology.**

<u>An Post's Response:</u>
Since the submission of the An Post Price Application, there has been substantial correspondence between ComReg and An Post in relation to the allocation of costs to every price point. Prior to the Price Application, ComReg were silent on this issue.

It is worthwhile providing the background so that all interested parties can form a view on the issue with the full facts.

[4] ComReg document 10/102 – Findings from qualitative research into the national need for communication and distribution services, page 39
[5] ComReg document 12/116a Response to Consultation: Draft Postal Strategy Statement 2012-2014, paragraph 38

Traditionally, all An Post's mail prices were based on weight alone. However, in 2002, following a Consultation, this changed to reflect the fact that format was the most significant driver of cost rather than simply weight. In other words, a packet of 100g was more expensive to process and deliver than a letter of the same weight. This was recognised by ComReg in its consultation document 02/15 which stated that *"information suggested that it is the format of the item rather than the weight that determines the cost*"[6]. An Post has moved to this format based pricing mechanism since 2003. This move to format based pricing means that the letter format is priced at the same tariff (there are no weight differences)[7]. Approximately 90% of all volumes are letters. Allocating costs to weight is therefore not an issue for the vast majority of An Post's volumes.

In December 2006, ComReg issued the Accounting Direction[8]. One of the requirements of the accounting Direction is:-

*"A detailed report must be prepared by An Post annually in connection with the Regulatory Accounts, setting out for each price point a detailed estimate of the costs of providing the service"*[9]

Following the issue of the Accounting Direction, An Post was required to provide to ComReg a timed Programme for Compliance with the Direction[10]. On 5 February 2007, An Post provided this plan to ComReg. In relation to the particular section (Section 3.2), An Post stated:

*'At present, cost information at the level of each individual weight step is not available. A significant project will need to be undertaken to establish this information.'*

On 10 March 2008, ComReg issued to An Post a Review of An Post's Accounting Data, prepared by LECG. This document made no reference to the requirement to produce accounting information by every individual price point.

On 24 October 2008, ComReg issued a letter to An Post stating the following:

*'ComReg will shortly issue a proposed draft template, setting out how, in its view, the Regulatory Accounts need to be presented in order to <u>fully</u> comply with the accounting Direction (<u>including supplementary schedules and additional information).'</u>* (emphasis added)

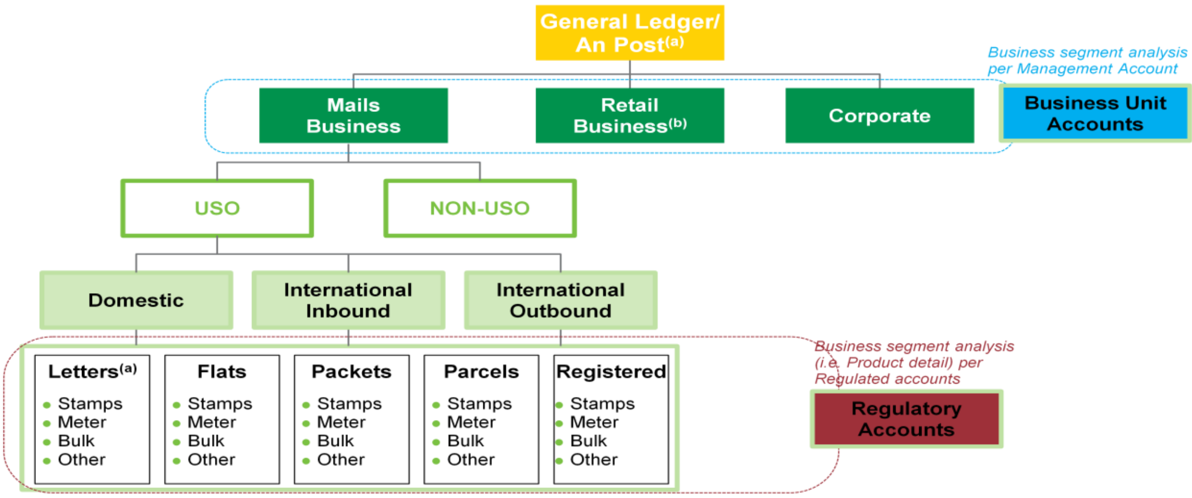
These templates did not require An Post to provide the costing information at each price point. A subsequent letter of 12 December 2008 also did not mention this aspect as an item to be included in the work programme for the future.

---

[6] Section 4.2.7 of ComReg document 02/15
[7] In May 2012, An Post implemented changes to universal service tariffs for items weighing more than 50g. This was a necessity for An Post. The intention is that all standard stamped letters will be priced at the same tariff
[8] ComReg document 06/63
[9] Section 3.2 of the Accounting Direction
[10] Section 6.1 of the Accounting Direction

In fact, this issue has not come up at all for five years since the issue of the Accounting Direction until this current Price Application was submitted.

An Post allocates costs to a very detailed level. The diagram below demonstrates the level of allocation undertaken by An Post at present.




Costs are allocated initially into Business Units and are then allocated by:

- Geographic segment (domestic, inbound international or outbound international)
- By format (letters, large envelopes, packets and parcels)
- By payment method (stamped, metered or bulk)
- And finally by weight for two categories (less than or greater than 50g)

As each allocation is undertaken the level of precision decreases. This is an unavoidable consequence in allocating costs to more granular levels. To allocate costs to more weight steps requires an element of estimation.

If An Post's level of allocation is compared with Royal Mail, a similar level of detail emerges.

*"Where applicable, each product and/or service, or a group of similar services, shall be divided into a range of SPHCCs which identifies, and differentiates between, all the applicable and relevant measured characteristics which affect how processing an item of that product and/or service, or group of products and/or services, incur costs. The measuring characteristics shall, as a minimum, include the following-*

*(a) Format (e.g. letter, large letter, packet etc.);*
*(b) Class (e.g. First Class, Second Class, Third Class etc.);*
*(c) Payment method (e.g. stamped, metered, account, PPI etc.); and*
*(d) Handling (e.g. mechanised versus manual etc.)"*[11]

[11] Securing the Universal Postal Service, Annex 11, Regulatory Accounting Guidelines, Paragraph 8.22, March 2012

The costs per the Regulatory Accounts compared with the current and proposed tariffs are set out in Schedule 2. This quite clearly demonstrates the cost orientation of the tariffs.

However, in order to provide ComReg with all the details requested, An Post has provided an <u>estimate</u> as requested for the vast majority of its volumes. This estimate was prepared without any further industrial engineering studies being undertaken and was prepared as a management estimate. The results of this are displayed at Schedule 3.

The methodology was to use the Regulatory Accounts costs per unit for less than 50g and greater than 50g.

Then, it was necessary to determine which pipeline activities are impacted by weight and which are not. An Post used a report prepared by CERP[12] to assist in this assessment. Table 6.5 of this report shows the most appropriate cost drivers for each of the pipeline activities. Weight is used for collection, transport and distribution but not for sortation. Therefore An Post calculated its estimate based on this assessment.

The estimate used for domestic and outbound is different. This is due to outbound delivery cost (the rate that is paid to the other postal operator for delivering the item on behalf of An Post) being based on weight. Therefore, An Post estimated the costs as follows:

| | **Domestic** | **Outbound** |
|---|---|---|
| % of Direct Collection costs | 50% | 50% |
| % of Transport costs | 50% | 50% |
| % of Delivery Costs | 50% | 100% |
| % of Sortation costs | 0 | 0 |
| Equates to % of Total Costs | 30% | 70% |

The overall total cost for the service is set so the task is to re-distribute the cost over the weight categories based on the proportion of mail in each weight category. Based on an estimated percentage varying with weight, that element was calculated for each weight category based on the midpoint for that weight step. The remaining element which does not fluctuate with weight was then added to the total. The mark-up to reflect the allocation of common costs was then applied.

Sensitivity analyses of various estimates were also prepared. The first weight step does not change as we have already captured the detail. For example, stamp domestic flats sensitivity analysis can be demonstrated below.

| Stamp Flats - Sensitivity Analysis | **20%** | **30%** | **40%** |
|---|---|---|---|
| 100g | [✂] | [✂] | [✂] |
| 250g | [✂] | [✂] | [✂] |
| 500g | [✂] | [✂] | [✂] |

12 CERP, Recommendation on best practices for Cost Accounting Rules III, 7 May 2009

The Regulatory Accounts have the cost for the first weight step so that remains unchanged.  The estimate then seeks to allocate the remaining costs of the service across the other price points.  This is why as the higher percentage varying with weight will increase the higher weight step, the reallocation of costs slightly reduces the 250g weight step (as the total cost is the constraint).  This table demonstrates that the estimate used (30%) is reasonable.

An Post has provided cost per price point details for the vast majority of mail as set out in the following table:-

| **Geographic Segment** | **Payment Method** | **Format** | **2011 Volume (m)** | **%** | **No of Price Points** | **No. of Weight categories in Regulatory Accounts** | **Estimated cost calculated for all price points** |
|---|---|---|---|---|---|---|---|
| Domestic | Stamp | Letter | [✂] | 14.8% | 1 | 1 | Yes |
| | | Flats | | 1.0% | 3 | 2 | Yes |
| | | Packets | | 0.4% | 5 | 2 | Yes |
| Domestic | Meter | Letters | | 18.4% | 1 | 1 | Yes |
| | | Flats | | 2.2% | 3 | 2 | Yes |
| | | Packets | | 0.4% | 5 | 2 | Yes |
| Domestic | Bulk (Disc 6) | Letters | | 32.3% | 1 | 1 | Yes |
| | | Flats | | 0.1% | 3 | 2 | Yes |
| Domestic | All other Bulk | Letters | | 19.3% | 1 | 1 | Yes |
| Domestic | Business Reply | Letters | | 1.6% | 1 | 1 | Yes |
| Outbound | All | Letters | | 4.3% | 1 | 1 | Yes |
| | | Flats | | 0.6% | 3 | 1 | Yes |
| | | Packets | | 0.6% | 5 | 1 | Yes |
| Price point information provided | | | | 96% | | | |
| Total 2011 USO Domestic and Outbound Volumes (excl elections) | | | | | | | |

An Post does not agree with ComReg that all prices must be either at or below cost.  This is not what cost oriented means.  There is no legal basis for ComReg's interpretation and this is the first time that ComReg has made such an assertion.

Some prices are higher than the costs of providing the service and provided they comply with the Tariff Principles, this is not an issue.  An Post is maintaining or reducing some prices in heavier weight steps.  In particular,

- The ceiling on parcel prices has been reduced to the 5kg rate (i.e. the 6kg to 20kg tariffs are now capped at the 5kg rate providing significant reductions to customers)

- No increases were implemented in the 1-2kg weight step for packet tariffs

- No increases in the Outbound International Zone 2 and Zone 3 packet tariffs for 500g to 1kg and 1kg to 2kg.

The rebalancing of these tariffs is a gradual exercise.  Apart from the reductions noted above, An Post previously reduced parcel prices for heavier weight items (in the last round of price changes in March 2008, there were significant reductions in Parcel prices for Zones 3 and 4). An Post has also reduced the number of weight steps in the lower end with the elimination of the 25g and 50g weight steps.

An Post is prepared to undertake additional industrial engineering studies during the course of 2013 and prepare a statement of cost per unit compared with price in advance of the introduction of a price cap mechanism. This, it is hoped, will provide ComReg with additional assurances on cost reflectivity prior to the next phase in the development of mail prices.

**6) An Post to provide all materials in its possession that relate to the proposed discounts for meter customers and buying stamps online. These materials would include costing and profitability analysis.**

<u>An Post Response:</u>
An Post has provided to ComReg in its response dated 4 May 2012, the support for both these proposed discounts. An Post is very aware of minimising the impact of price increases on business, where justified, and to try to encourage the continued use of the postal service. This is the very point which Frontier make in its report commissioned by ComReg[13]. In particular, they state in their report that while there is no substantial affordability issues for consumers, the evidence is less clear cut for SMEs. Therefore, while ComReg wants a cost oriented service, An Post is obliged to take affordability into account as well. This is a more subjective test. However An Post is attempting in these initiatives to minimise the increase for these key business segments.

In addition to the automatic payment method discount which is set out in our response to Question 11 below, meter customers will be able to reduce the impact of the proposed increases as follows:-

- Increased access to discounts

  An Post is also proposing to reduce the volume threshold required for meter customers to avail of discounts. It is proposed to reduce the current threshold from 350 to 200 items. This is expected to result in more SMEs availing of the current discounts for meter customers.

- 5% discount for online purchase of stamps (300)

  An Post is also proposing a discount of 5% on 300 stamps purchased online. This will allow An Post to avoid the counter serving element of the Revenue Collection costs incurred[14]. The 5% discount is a 3.25c discount per stamp. The savings represent the reduction in counter serving and scale payments costs. It is difficult to estimate the extent of the savings as many customers may still require assistance at the counter in circumstances where they are unsure of the service they require, the weight or price. [✂]

[13] ComReg document 12/109a
[14] Please note that an Post has agreed to re-categorise Postage Stamp sales from Collection to Revenue Collection. Therefore the total cost of revenue collection is 9c per item. The counter serving element of this can be avoided by purchasing online.

7) **An Post to provide all materials in its possession that relate to the specification of the "Deferred Delivery" universal postal service.**

An Post's Response:
An Post has the new Regulation SI 280 of 2012 in its possession.

An Post recognises that it must comply with this Regulation and is proposing a service which it believes complies with the Regulation. An Post understands that ComReg will need to approve the terms and conditions of the service. It is unfortunate that there has been no further dialogue in relation to this issue.

An Post must act in a manner that protects the Universal Service. For this reason, it is proposing that Discount 6 (deferred service requiring machineability and with an auto-sort of greater than 85%) should be the service that is the specified Universal Service. This is by far the most commonly used service.

If this service and its terms and conditions are not approved by ComReg as the "Deferred Delivery" service there will be serious consequences for both An Post and the provision of the Universal Service. These consequences are:

- Many customers will face a substantial increase as other bulk services will be priced higher than this service as they do not generate the same cost savings. As many customers are VAT exempt, they will be faced with either a higher price for the Universal Service or another service which potentially attracts VAT, which they may not be able to reclaim. For example, if Discount B (for letters) is the USO "Deferred Delivery Service", the proposed rate for that service is 49c. A VAT exempt customer (which represent c. 50% of the mail volumes) would therefore have a choice of a VAT exempt rate of 49c or a 45c rate which may attract VAT[15] (i.e. 55c). This is compared with a current rate of 41c. This is a 20% increase in tariffs and will potentially drive many customers to other communication channels.
- Even if the discount A rate was reduced to 45c (although given the cost avoided criterion it is difficult to see how this could be justified), the terms and conditions would provide no incentive for mailers to keep the presentation of their mail to the current standard as no auto-sort read rate would be required. In this case, An Post would not be able to derive the full benefits from its recent significant investment in automation equipment and in fact could end up putting additional video-coding and manual resources back into the operation rather than removing these resources. ComReg is required to provide incentives for the efficient provision of the Universal Service.

An Post in setting out its terms and conditions, re-iterates the following points for this service

- Minimum volume requirement of 2,000 items
- Machineable with a minimum auto-sort rate of 85%

[15] An Post are awaiting confirmation from the Revenue Commissioners on the correct VAT treatment for bulk services not specified as Universal Services but which remain within the scope of the Universal Service

- Acceptance at 4 Mail centres for a J+2 service. Acceptance at any of a further 39 acceptance point which will attract a further day’s delay

**8) An Post has notified a bulk mail product that An Post considers to be within the scope of the universal postal service and which An Post has called “Downstream Access”. ComReg does not agree that this bulk mail service should be called “Downstream Access” as it leads to unnecessary confusion with the negotiated access under S.33 of the 2011 Act. An Post is to provide full details on the proposed pricing and take-up for this new bulk mail product.**

<u>An Post’s Response:</u>
[✂]

**9) An Post to provide all materials, papers / presentations, financial analysis in its possession that relate to addressing the losses on International Inbound which are c. €17 million per annum.**

<u>An Post’s Response:</u>
[✂]

**10) An Post to provide full explanations for the differences in cost per unit between the per unit cost of “proof of delivery facility” (using historic registered service cost data) and the per unit cost of standard letter and the per unit cost of standard parcel. These full explanations will demonstrate that the proposed pricing for the new “proof of delivery facility” is cost oriented. In this respect, for example, the explanation should address why registered has a per unit common cost allocation of €3.16 compared to a per unit common cost allocation of €0.22 to standard letter.**

<u>An Post’s Response:</u>
An Post has set out in Appendix 3 to its letter of 2 November the breakdown of the costs per unit of the registered service (old specification) compared with the standard service.

The specific question asked relates to common costs. These are allocated on an equi-proportional mark up basis as required. Therefore the ratio of direct and indirect costs allocated determines the amount of common cost allocated. In both cases, other than rounding, the common costs mark-up is [✂]%.

The reasons for the differences in direct and indirect costs are due to the following:

- The registered service is handled over the counter, consequently it requires recording by the counter clerk
- The registered item is processed by hand at all times rather than by machine. This is for security reasons.
- The registered service requires the recipient to sign for the item. This involves knocking at the door and waiting for a response and for the signature to be

obtained. This is compared with a simple insertion through the letterbox for a standard item.

- If an item is missing and a complaint made, insurance may be payable. We have estimated the costs of insurance to eliminate this from the cost to reflect the revised specification.

These factors, when taken into account, mean that the registered service costs substantially more than the standard service.

**11) An Post to provide any material in its possession that relate to the introduction of a meter payment discount for flats and packets.**

<u>An Post's Response:</u>
The CERP Recommendations on Cost Accounting states that 'Postage mode' (i.e. payment method) is a driver of costs for both collection and sortation[16] activities. An Post had clarified this to Frontier in previous correspondence[17].

In recognition of the fact that processing meter and bulk letters provides benefits to An Post due to the higher levels of machineability and auto-sort rates achieved, an automatic payment method discount will apply. This is similar to the UK and many other jurisdictions which also provide these automatic discounts for this reason.

The cost details for meter letters are as follows:

| | Stamp Letter | Fully Paid Meter and Bulk Letters |
|---|---|---|
| Cost per unit 2013 forecast | [✂] | [✂] |
| Cost per unit 2011 | [✂] | [✂] |
| Proposed Price | 65c | 60c |

The above demonstrates the costs avoided for meter and bulk letters(combined) compared with stamp letters. The saving arises from both the sortation and collection stages. The above also demonstrates the difficulty in considering costs avoided particularly as volumes are declining and costs per unit are increasing.

However, manual flats and packets do not have sortation savings benefits due to the payment method in the same way that letters have.

**12) An Post to provide full explanation for the fall in forecast cost savings by the end of 2012 from €103m to €99.5m.**

<u>An Post's Response:</u>
An Post has provided some details of the delays in achieving the full targeted savings at our meeting of 23 May 2012. This was confirmed in the minutes of this meeting, prepared by ComReg.

An Post had originally planned for a reduction of 450 FTEs in 2012. It is still anticipated that reductions close to this target will be achieved. As of the date of writing there are over 300 reductions achieved with a further 150 planned between

[16] Ibid
[17] Exchange of emails dated 3 and 9 October 2012

now and the end of the year. The voluntary nature of exit schemes makes predicting the exact timing of labour cost savings difficult.

Therefore, due to the timing of these exits the full forecast cost savings will not now be achieved for this year. However, the full annualised impact for all the 2012 FTE reductions will be achieved next year.

**13) An Post to confirm in writing that the proposed tariff for Metered Letters and Bulk and Business Reply Letters is 0.60, as stated in the updated Pricing Application and "App 2 Revenue and Volumes Model 2010-2014", and not 0.65, as stated in "App 1 Proposed Prices".**

An Post's Response
The hardcopy of the document sent to ComReg on 19 October contained the correct information (i.e. the proposed rate for metered and business reply letters is €0.60). The softcopy contained an error which stated that the proposed rate for Metered and Business Reply letters is €0.65.

For the avoidance of doubt, a full version of Appendix 1 to the Price Application is attached to this letter (Schedule 10).

**14) An Post to provide any material in its possession that relates to past and future e-substitution by its top 20 customers.**

An Post's Response
An Post has already provided to ComReg all the details it has about the top customers. Frontier analysed this and based part of their assessment on this analysis.

However, please find attached at Schedule 5 an updated list of the top 20 customers for the year to date compared with the corresponding period last year. One customer shows an increase in spend but this is simply due to a transfer of mail from the terminal dues system and therefore should be excluded from any analysis.

This should be read in conjunction with the response to Question 15 and Schedule 6 which shows the level of decline for bulk mail customers.

An Post's opinion remains that both its growth estimates and its elasticity estimates are reasonable.

**15) Following the price increases of 1 May 2012, all material in An Post's possession relating to the impact on volumes and profitability as a result of those price increases.**

An Post's Response
Please see attached in Schedule 6, the monthly stamp, meter and bulk income compared with the corresponding period last year. An estimate of the price impact is also provided which, when subtracted, shows the underlying decrease in revenue in the period.

This schedule demonstrates that mail volume decline in the 6 months (May to October 2012) was less than 5%. This compares with the first four months of the year which had an estimated volume decline of almost 8%.

Therefore, in An Post's view, there has been little adverse reaction to the May 2012 increases from any customers.

This is further supported by:

- the fact that there has been no significant decline in the top 20 customers' spend (See Schedule 5)
- there has been no calls into our Customer Services Department relating to price increases
- the Sales team have not reported any adverse reaction from customers.

Please note that revenue derived volumes are calculated on an annual basis as the sampling plan is an annual plan. Therefore it is not possible to be more precise with this analysis beyond what is shown in schedule 6.

**16) An Post to provide the proposed terms and conditions (including the schedule of charges) for the universal postal services specified in the Communications Regulation (Universal Service) Regulations 2012 (SI 280 of 2012). This was requested by ComReg in correspondence dated 6 September 2012 and most recently in correspondence dated 26 October 2012.**

<u>An Post's Response:</u>
A 'tracked changes' version of the Schedule of Charges is attached at Schedule 7. The Terms and Conditions will follow as soon as possible.

**17) To assist ComReg's review of cost orientation, An Post is to provide the cost per unit detail as set out in the table on the next page with full supporting explanations for material (>5%) annual changes in cost per unit by individual category (e.g. Pay: collection).**

<u>An Post's Response:</u>
This is the first time this particular schedule is requested for 2008-2009, and for all years splitting the pay and non-pay costs by pipeline. Due to the implementation of new systems, which we have kept ComReg briefed on, this has been a time-consuming task involving re-loading of data from previous periods into the new software.

An Post has, however, provided the details requested at Schedule 8.

All pay and non pay categories are consistent over the 4 years.

**18) An Post to provide cost estimates for:**

- **a) Business reply letters**
- **b) Business reply large envelopes**
- **c) Business reply packets**
- **d) International outbound parcel: Zone 2, Zone 3, Zone 4**
- **e) Sending books abroad: Zone 2, Zone 3, Zone 4**
- **f) International outbound proof of delivery: Zone 2, Zone 3, Zone 4 for letter/packet/parcel respectively**
- **g) IBMS: by letter/flat/packet by country where increase charge sought**

<u>An Post's Response:</u>
Business Reply letters, flats and packets cost details are available in the Regulatory Accounts.

They are as follows:

| **Business Reply** | **Letters** | **Flats** | **Packets** |
|---|---|---|---|
| Cost per unit (€) - 2011 | [✂] | [✂] | [✂] |

For International outbound parcels, including items sent under the 'Sending Books Abroad' service, estimated costs are as follows,

| € | **Zone 2** | **Zone 3** | **Zone 4** |
|---|---|---|---|
| 3kg | [✂] | [✂] | [✂] |
| 4kg | [✂] | [✂] | [✂] |
| 5kg | [✂] | [✂] | [✂] |

The above costs are primarily terminal dues and air conveyance costs.

The IBMS costs are included in Schedule 9. These costs are also primarily terminal dues and air conveyance costs.

**19) In relation to the amended forecast, An Post to provide full explanation to support the amended forecast and to provide all materials in its possession justifying that amended forecast made. These materials should also include a sensitivity analysis of different forecast(s) outcomes if they were made.**

An Post's Response:
An Post has provided files to ComReg which will allow it to calculate any number of volume and revenue scenarios, in particular:

- Any combination of prices
- Any elasticity estimate
- Any growth rate
- Any estimate of migration to access arrangements
- Any combination of the above

There are many combinations that are possible.

An Post presented ComReg with its estimate of variations in elasticity estimates (See Figure 19 of the Price Application).

In relation to cost estimates these are based on the latest up to date assumptions at the time of preparation.

If there are particular scenarios which ComReg wishes An Post to calculate, please set out the details and we will be pleased to oblige.

**20) In relation to the amended forecast, An Post to explain the forecast volume losses on "Deferred before noon" letters which are forecast to happen regardless of the proposed price increase**

**21) In relation to the amended forecast, An Post to explain the forecast volume losses on "Early presentation" letters which are forecast to happen regardless of the proposed price increase.**

An Post's Response to both Question 20 and 21:
All bulk mail discounts were estimated to decline as set out in Figure 12 to the Price Application, i.e.

| | 2012 | 2013 | 2014 |
|---|---|---|---|
| Letters | (5%) | (5%) | (5%) |
| Flats | (7%) | (6%) | (6%) |
| Packets | 0% | 0% | 0% |

The above is the forecast before the impact of the price increase.

In addition, [✂]% of bulk mail letters are forecast to be presented under an access arrangement.

**List of Schedules (Schedules 1-9 are confidential)**

1. Extract from Global Postal Industry Report, IPC, October 2012
2. Comparison of Costs per the Regulatory Accounts with Proposed Prices
3. Comparison of estimated costs per weight step category with proposed prices
4. Inbound International losses split between UPU and REIMS/Bilaterals
5. Comparison of Top 20 Bulk customers 2012 versus 2011
6. Stamp, Meter, Bulk sales May 2012 to date
7. ‘Tracked changes’ version of the Schedule of Charges for Universal Services
8. Cost per unit by Pipeline and by Pay and Non Pay categories
9. IBMS costs
10. Appendix 1 to the Price Application