

**Price Control Mechanism for MaltaPost plc and Revised  
Postal Tariffs for Financial Years 2014 and 2015**

*Response to Consultation and Decision Notice*

**Final Decision**

MCA/D/13-1777

**Publication Date:**

24<sup>TH</sup> DECEMBER 2013

## EXECUTIVE SUMMARY

In November 2012, the Malta Communications Authority (hereafter 'the Authority' or 'MCA') published a decision notice entitled "Price Control Mechanism for MaltaPost plc and Revised Postal Tariffs" (hereafter "November 2012 decision notice"). The November 2012 decision notice presented the Authority's final decisions on a price control mechanism for MaltaPost's financial year 2013 (hereafter "PC2013") and proposed the setting up of a subsequent regulatory period featuring a forward looking price control mechanism for financial years 2014 and 2015 (hereafter "PC2014/2015"). On these grounds, following finalisation of PC2013, the MCA moved on to set up the parameters of PC2014/2015 and published a consultation document on the subject on 14<sup>th</sup> November 2013.

The consultation period ran till the 12<sup>th</sup> of December 2013, with one respondent, MaltaPost, submitting its response. This document reports the response received from MaltaPost, the MCA's comments in this regard and presents the Authority's final position.

The core objective of PC2013 was to steer certain tariffs towards their cost-oriented tariffs levels and address differences in contribution to profitability between services. Latest developments indicate that similar to what happened during the financial year 2013, expected decreases in profitability of international mail and declining volumes of domestic mail are still ongoing.

The price control objectives for PC2014/2015 remain similar to those set for PC2013. The final form for PC2014/2015 detailed in this decision notice builds on the foundations of PC2013 and sets both product-specific as well as overall price control parameters for universal service products/services.

On 25th September 2013, MaltaPost submitted a final request for tariff revisions. The MCA tested whether MaltaPost's requests fit within the parameters of PC2014/5 and as detailed in the tables below, the Authority is approving some of the tariffs proposed by MaltaPost in full and some others in part. The MCA did not approve MaltaPost's proposals to increase the tariffs of the business reply service and P.O. boxes. The approved tariff revisions shall come into force from 1<sup>st</sup> January 2014.

**Approved tariff revisions for mainstream products/services**

<b>PRODUCT</b>	<b>MALTAPOST PROPOSED</b>	<b>MCA APPROVED</b>
<b>Domestic Single Piece Letter Mail</b>		
50 – 100g	€0.42	<b>€.42</b>
<b>Domestic Bulk Letter Mail</b>		
50 – 100g	€0.36	<b>€0.36</b>
<b>Local Parcels</b>		
0 – 2kgs	as per domestic letter mail	<b>as per domestic letter mail</b>
2 – 20kgs	€9.00	<b>€9.00</b>
<b>European Outbound Mail</b>		
Align with UPU's PGE standard as follows:		
0 – 30g	€0.59	<b>€0.59</b>
31 – 60g	€1.25	<b>€1.25</b>
<b>Domestic Registered Mail</b>		
Advice of delivery	€1.70	<b>€1.20</b>
<b>International Registered Mail</b>		
Registration fee	€4.25	<b>€3.00</b>
Advice of delivery	€2.50	<b>€2.00</b>
<b>Domestic Newspapers</b>		
0 – 100g	as per domestic letter mail	<b>€0.18</b>
per additional 50g		<b>€0.15</b>
<b>Outbound Newspapers</b>		
Per 20g		
Zone A	as per outbound letter mail	<b>€0.30</b>
Zone B		<b>€0.40</b>
Zone C		<b>€0.49</b>
Zone D		<b>€0.68</b>

**Approved tariff revisions for ancillary services**

<b>PRODUCT</b>	<b>MALTAPOST PROPOSED</b>	<b>MCA APPROVED</b>
<b>Express Delivery Fee</b>		
Letters	€1.60	<b>€1.60</b>
Parcels	€2.50	<b>€2.50</b>
<b>Certificate of Loss or Damage</b>	€5.00	<b>€2.00</b>
<b>Certificate of Posting of Unregistered Postal Articles</b>		
Domestic items	€5.00	<b>€1.20</b>
Outbound items	€5.00	<b>€2.00</b>
<b>Return of Undeliverable Mail</b>	Charge rate applicable for original requested service	<b>Charge rate applicable for original requested service</b>

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## 1. Introduction

On 14<sup>th</sup> November 2013, the MCA published a Consultation and Proposed Decision entitled 'Consultation and Proposed Decision on a Price Control Mechanism for MaltaPost plc and Revised Postal Tariffs for Financial Years 2014 and 2015' (hereafter 'the public consultation'). The consultation document built on the foundations of PC2013 and, after taking into consideration the latest developments, proposed an updated price control mechanism for financial years 2014 and 2015. It also proposed a number of tariff adjustments required to achieve the price control objectives.

The consultation period ran till the 12<sup>th</sup> of December 2013, with one respondent, MaltaPost, submitting its response. This document reports the response received from MaltaPost, the MCA's comments in this regard, as well as the Authority's final position.

Sections 2 and 3 below deal with the price control mechanism and the tariff revisions respectively. Each of these sections contains:

- A summary of the MCA's proposals in the public consultation; and,
- A report on the consultation and the MCA's final position.

## 2. PRICE CONTROL MECHANISM

The characteristics and state-of-play of the market under review precondition the preference towards one price control model over another. In this regard, in arriving at its proposals on the price control mechanism, the MCA considered the following factors:

- Mail volumes;
- Developments under the UPU framework for cross-border terminal dues;
- Profitability and pricing aspects of the universal service area; and,
- Full market opening of the postal sector.

The MCA's assessment of the above factors had concluded that expected decreases in profitability of international mail and declining volumes of domestic mail pose a systematic threat to the long-term sustainability of the universal postal service. This pointed towards the need for further cost-oriented tariff increases. Taking into consideration the effects of increases approved under PC2013, the MCA proposed a price control mechanism for financial years 2014 and 2015 as detailed hereunder.

### 2.1 SUMMARY OF PROPOSED PRICE CONTROL MECHANISM

#### 2.1.1 FORM OF PRICE CONTROL

For PC2014/2015, the MCA proposed to apply the same price control model adopted under PC2013. This was a delimited ex ante price approval model.

##### Delimited ex ante price approval models

Under these models, each request for a change in prices by the regulated body must be supported by cost analysis for the national regulatory authority (hereafter 'NRA') to decide if the proposed prices are in line with expected costs. The level of detail to be submitted by the regulated undertaking and the depth of analysis exercised by the NRA is significantly influenced by the reliability and relevance of the regulatory accounts.

Accordingly, delimited price approval models may range between:

- individual detailed cost accounting investigations by the NRA for each price change proposal ('intensive ad hoc price approval investigations'); to
- models whereby the NRA needs to be satisfied that holistic price change proposals are consistent with the results of regulatory accounts and cost accounting systems that have been appropriately audited and subjected to regulatory scrutiny ('reasonably considered, holistic price approval methods').

Over the last years, the MCA has finalised the following two important regulatory work streams to allow it to make informed decisions going forward:

#### a) Review of MaltaPost's Cost Accounting System

The MCA carried out a detailed review of the cost accounting system employed by MaltaPost to ensure a fair attribution and allocation of revenues and costs for different postal services. This review was undertaken to ensure that the system meets all the regulatory requirements, and thus increase the level of confidence in the reliability of the results presented in the regulatory accounts - which in turn represent the basis of the underlying information required to make inference on price control mechanisms and individual tariff reviews. Apart from being reviewed by the MCA, MaltaPost's cost accounting system and regulatory accounts are also audited on an annual basis by MaltaPost's external independent auditors.

#### b) Development of Control Model to simulate financial performance

The MCA also developed a control model of MaltaPost's regulatory accounts. The objective of the model was to form the basis for both a transparent analysis of the tariff requests by MaltaPost as well as the price control framework. In practice such a tool gives the Authority the faculty to simulate the impact of changes of certain key variables, such as prices and volumes, on MaltaPost's services.

Given the above, the MCA had concluded that the most suitable form of price control mechanism for the intermediate-term is a flexible "reasonably considered, holistic price approval system". Further details of its implementation are given in following sections.

### 2.1.2 SCOPE OF PRICE CONTROL

Any postal service offered by MaltaPost which falls within the scope of the universal service is to be subject to ex ante price control until competition has developed sufficiently in the provision of any of these services.

MaltaPost may request the MCA to remove ex ante price control obligations if it believes that competition has developed sufficiently in the provision of services within a postal market (or its various market segments). In such cases, following a market analysis procedure of the related postal market (or its various market segments), the MCA will consult with all stakeholders before concluding that particular parts of the market can be deemed to be effectively competitive. However, it will be the MCA's responsibility to determine whether removal of ex ante price control on postal services should be permitted or not.

During the term of the price control period, in filing for the MCA's approval of new postal services including their pricing, MaltaPost must provide a memorandum containing:

- A clear description of the service to be offered;
- A clear statement of the prices, terms and conditions (including quality of service); and
- Any discounts or special considerations that will be offered and the requirements that must be satisfied to obtain these discounts.



### 2.1.3 DURATION OF PRICE CONTROL

In the November 2012 decision notice setting out PC2013, the Authority had stated that following the conclusion of PC2013 it would be working towards the implementation of a forward looking framework covering the financial years 2014 and 2015. Since then, the MCA has put in place the required analytical tools to adequately monitor a forward-looking price control. These tools allow the price control to focus more on the expected changes in revenues and costs in the medium term and hence allow taking a more proactive approach to the required tariff adjustments going forward.

However, the effectiveness of such tools relies heavily on forecasts of key variables which have a direct impact on cost and revenues streams. In this regard, following a thorough review of the forecasting methodologies by the MCA, MaltaPost submitted forecasts covering financial years 2014 and 2015 for volumes of core products, terminal dues payable and receivable as well as employee costs.

With the necessary infrastructure in place and required information available, the MCA proposed this price control mechanism to cover financial years 2014 and 2015. This would provide commercial visibility to MaltaPost and more price stability to its customers

### 2.1.4 FIRST LEVEL CONTROLS – SPECIFIC CEILINGS AND FLOORS

The previous price control mechanism set specific controls on certain products intended to drive towards more balanced price structures and the Authority's price control objectives. In setting them, the MCA took consideration of;

- Cost-accounting data and volume forecasts for individual products;
- The need to ensure that products can be provided on a sustainable and efficient basis; and
- The necessity to have tariffs which are conducive towards a smooth transition to a competitive environment.

In arriving at the proposed first level controls for PC2014/5, the MCA re-considered these aspects in the light of the tariff revisions resulting from PC2013 and the latest forecasts submitted by MaltaPost. The indications are that the financial performance of domestic single piece mail, domestic bulk mail and domestic registered mail recovered markedly, and that tariffs are now closer to their cost-oriented levels. These services are the most frequently used by the average household consumers and business customers and, in view of this, the MCA sought to limit significant increases for these services by proposing the First Level controls summarised in Table 1.

**Table 1 – First level controls**

PRODUCT	TYPE OF CONTROL	CONTROL LIMIT
<b>Domestic Single Piece Mail</b> 0 – 50g	Ceiling	Current tariff
<b>Domestic Bulk Mail</b> 0 – 50g	Ceiling	Current tariff
<b>Domestic Registration Fee</b>	Ceiling	Current tariff

## 2.1.5 SECOND LEVEL CONTROLS – THE WIDER UNIVERSAL SERVICE

Similar to the approach taken under PC2013, in respect of other products within the scope of the universal service and not subject to First Level controls, the MCA will be allowing a degree of flexibility for MaltaPost to apply prudent judgment in proposing tariffs that promote the efficient and sustainable provision of the Universal Service.

This notwithstanding, all tariff proposals by MaltaPost will still be subject to ex ante approval tied to an overall profitability measure. In assessing MaltaPost's proposed tariffs which are not subject to First Level controls, the MCA will use its available tools to understand the effect that these will have on the profitability of the universal postal service and ensure that any approved increases will contribute towards a more even distribution of profits across services.

In this regard, the MCA had commissioned a study to determine the fair rate of return applicable in the local context which included benchmarking of various international operators and stress-testing.

## 2.1.6 ADMINISTRATIVE ASPECTS

### 2.1.6.1 PRICE PROPOSALS

Following completion of the latest forecasts submitted to the MCA, MaltaPost put forward its tariff requests for financial years 2014 and 2015. The MCA's assessment of the proposals submitted by MaltaPost was presented in the public consultation and is reproduced in section 3.2 below.

### 2.1.6.2 RELEASING OF PRODUCTS/SERVICES FROM PRICE CONTROL

During the price control period, if the MCA finds any postal product/service to be effectively competitive in terms of the market analysis procedure referred to in Section 2.1.2 above, the MCA will determine whether the removal of ex ante price control on such products should be permitted. For any products freed from ex ante price control, MaltaPost will not be required to submit tariff requests for the MCA's approval. However, the MCA will still take into consideration the profitability of these products when assessing the overall profitability target for the universal service.

### 2.1.6.3 RE-OPENING MECHANISM

In the event of unforeseen circumstances deemed as being outside MaltaPost's control, MaltaPost will be able to apply for a re-opening of the price control mechanism. The MCA will take into account MaltaPost's representations made and decide, depending on materiality, whether to reopen the price control immediately or compensate for these deviations in the subsequent price control period.

### 2.1.6.4 ADJUSTMENT MECHANISM

With a view to have a forward looking and dynamic price control mechanism, the proposed ex ante price control system takes into consideration volumes and expense forecasts provided by MaltaPost. Given the inherent limitation of forecasts, the MCA foresees a risk that it may grant tariff increases which could result in excessive returns for MaltaPost. Consequently, an adjustment mechanism is being envisaged to correct for such deviations. Depending on the materiality of any excessive returns, the MCA may choose one (or a combination) of the following modes of adjustments:

- Offsetting by limiting scope for adjustment in the subsequent price control mechanism; or,
- Offsetting through re-adjustment of other tariffs.

Equally, the MCA recognises there is a risk that forecasted profits may not materialise. In such circumstances, MaltaPost may apply the re-opening mechanism provided for under Section 2.1.6.3.

## 2.2 REPORT ON CONSULTATION AND MCA'S POSITION

With regard to the price control mechanism, MaltaPost's response touched on the following aspects:

- Form and duration of price control;
- First level controls; and,
- Re-opening mechanism.

Below is an overview of MaltaPost's response followed by the MCA's respective comments and position.

### 2.2.1 FORM AND DURATION OF PRICE CONTROL

#### MaltaPost's response

Whilst welcoming the MCA's intention to implement a forward looking framework covering financial years 2014 and 2015, MaltaPost stressed the importance of adopting a longer term and more flexible approach to enable it to plan the required investment.

### MCA's comments and position

PC2013 departed from a previous price control approach based on detailed cost accounting investigations for each tariff revision request by MaltaPost to a model which takes a more holistic approach and which allows additional flexibility to MaltaPost. It is the MCA's intention to gradually move towards a longer and more flexible price control approach. PC2014/15 is another step in this direction. In fact, PC2014/2015 is now extending the duration over two financial years. Also, PC2014/2015 is limiting the scope of First Level controls and consequently allowing more flexibility to MaltaPost.

Forecasts and reliable estimates of price elasticity are critical when considering a longer-term duration. Until now, MaltaPost was not able to produce reliable price elasticity estimates. This was driven by the fact that not enough price changes have occurred in the past to permit a robust estimation of the required parameters. Consequently, MaltaPost is encouraged to analyse in detail the effect of tariff increases approved under PC2013 and PC2014/15 for consideration in price elasticity estimates that would be needed under a longer-term price control mechanism.

Regarding forecasts, given that MaltaPost has submitted scientific volume forecasts for the first time under PC2014/2015, the MCA believes it is appropriate for both MaltaPost and the MCA to gain more experience in working with volume forecasts prior to considering a longer duration. Also, given the need to manage staggered tariff adjustments that lead to more cost-oriented tariffs, the MCA is of the opinion that, for the time being, the price control approach and duration proposed in the consultation are the most adequate.

## 2.2.2 FIRST LEVEL CONTROLS

### MaltaPost's response

With respect to the ceiling on domestic single piece letter mail, MaltaPost argued that this service still operates at a loss and that it cannot agree with the MCA's conclusion that no further changes are required before financial year 2016.

### MCA's comments and position

One of the MCA's price control objectives is to ensure a transition towards cost-oriented tariffs and address the issue of unbalanced price structures in the universal service area. PC2013 initiated this process of transition which is being sustained under PC2014/5.

In this respect, PC2013 recognised that domestic single piece letter mail was operating at a loss and approved significant tariff increases across all weight-steps of the service. Also, PC2014/5 is allowing for further increases in weight-steps over 50g. These increases are expected to contribute substantially in bringing the tariffs closer to their cost-oriented levels and lead to more favourable returns from domestic single piece letter mail.

Tariff increases for domestic single piece mail approved under PC2013 came into force on 1<sup>st</sup> April 2013, whilst increases approved under this price control will come into force in January 2014. Consequently, the MCA does not have full visibility of the effect that these increases will have on the profitability of domestic single piece mail. Also, given the unavailability of reliable price elasticity

estimates, the MCA believes it is opportune to understand the impact of the latest tariff increases on demand and profits of the service prior to allowing further increases in the 0-50g weight-step.

On these grounds, the MCA maintains that the First Level control imposed on the 0-50g category of domestic single piece mail will remain effective for the duration of PC2014/15.

## 2.2.3 RE-OPENING MECHANISM

### MaltaPost's response

MaltaPost stated that even though the consultation allows for the re-opening of the price control mechanism, it expects that this exercise would be carried out irrespective of the occurrence of "unforeseen circumstances". It therefore requested that in addition to the tariff revisions proposed in the consultation, further changes are required to be effective as from 1<sup>st</sup> October 2014.

### MCA's comments and position

In the discussions leading to the proposed PC2014/15, MaltaPost was invited to submit forecasts for those variables which it expected to affect its profitability over the duration of the price control mechanism. Consequently, MaltaPost submitted forecasts for volumes of mainstream products, terminal dues receivable and payable as well as labour costs. The tariff revisions proposed in the consultation document take into consideration those forecasts and allow for a fair and reasonable return on the universal service.

On the basis of the forecasts and information made available to it, the MCA does not agree with MaltaPost's view that further changes are required to be effective as from 1<sup>st</sup> October 2014. This notwithstanding, PC2014/5 allows for a re-opening of the price control mechanism on two instances. The first one being in the event of unforeseen circumstances which were not anticipated by MaltaPost and deemed to be outside of its control. Secondly, section 5.6.4 of the public consultation stated that, given the inherent limitations of forecasts, MaltaPost may apply for the re-opening mechanism if it anticipates that forecasted profits do not materialise.

A re-opening application will only be considered by the MCA if the application is supported by:

- an analysis of deviations from forecasts submitted under PC2014/2015;
- detailed financial/profitability forecasts showing clearly the anticipated return from the universal service for financial years 2014 and 2015 if the price control mechanism is not re-opened;
- the additional tariff increases which MaltaPost wants to be considered and their estimated impact on revenues; and,
- detailed financial/profitability forecasts showing clearly the anticipated return from the universal service for financial years 2014 and 2015 if the requested additional increases were to be approved.

The MCA will consider an application from MaltaPost to re-open the price control mechanism only if it includes all the information listed above. The MCA will take into account MaltaPost's

representations made and then, depending on materiality, decide whether to reopen the price control immediately or compensate for these deviations in the subsequent price control mechanism.

### 3. TARIFF REVISIONS

#### 3.1 MALTAPOST'S PROPOSED REVISIONS TO TARIFFS

As stated in the consultation document, MaltaPost submitted its latest request for tariff revisions on 25th September 2013. Table 2 summarises the proposed tariff revisions for a number of mainstream products and services. Table 3 summarises other proposed tariff revisions for a number of ancillary services provided by MaltaPost.

Also, MaltaPost requested that some products be grouped with existing mainstream products for a more accessible price list. These are presented in Table 4. The groupings requested by MaltaPost comprised:

- The grouping of locally registered newspaper post with letter mail; and
- The grouping of local parcels weighing up to 2kgs with domestic letter mail. MaltaPost also proposed that local parcels weighing more than 2kgs and less than 20kgs are charged a fixed price of €9.00.

**Table 2 - Proposed tariff revisions for a number of mainstream products and services**

<b>PRODUCT</b>	<b>CURRENT TARIFF</b>	<b>MALTAPOST PROPOSED</b>
<b>Domestic Single Piece Letter Mail</b>		
0 – 50g	€0.26	€0.26
50 – 100g	€0.32	<b>€0.42</b>
>100g, up to 2kg, for each additional 50g	€0.20	€0.20
<b>Domestic Bulk Letter Mail</b>		
0 – 50g	€0.24	€0.24
50 – 100g	€0.30	<b>€0.36</b>
>100g, up to 2kg, for each additional 50g	€0.20	€0.20
<b>Domestic Registered Mail</b>		
Registration fee	€0.90	€0.90
Advice of delivery	€0.90	<b>€1.70</b>
<b>International Registered Mail</b>		
Registration fee	€2.25	<b>€4.25</b>
Advice of delivery	€1.75	<b>€2.50</b>
<b>European Outbound Mail</b>		
0 – 20g	€0.37	<b>Align with UPU's PGE standard as follows: 0 – 30g &gt; €0.59 31 – 60g &gt; €1.25</b>
21 – 40g	€0.67	
41 – 60g	€0.97	
>60g, up to 2kg, for each additional 20g	€0.30	€0.30
<b>Business Reply Service</b>		
License per item	€23.29	<b>Up to €50.00</b>
Postage	€0.05	€0.05
<b>P.O. Boxes</b>		
Small	€46.59	<b>Up to €60.00</b>
Medium	€69.98	<b>Up to €90.00</b>
Large	€116.47	<b>Up to €150.00</b>
Extra large	€163.06	<b>Up to €200.00</b>



Sharing fee	€23.29	Up to €30.00
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**Table 3 - Proposed tariff revisions for a number of ancillary services**

<b>PRODUCT</b>	<b>CURRENT TARIFF</b>	<b>MALTAPOST PROPOSED</b>
<b>Express Delivery Fee</b>		
Letters	€0.82	<b>€1.60</b>
Parcels	€1.21	<b>€2.50</b>
<b>Certificate of Loss or Damage</b>	€1.16	<b>€5.00</b>
<b>Certificate of Posting of Unregistered Postal Articles</b>		
Domestic items	€0.12	<b>€5.00</b>
Outbound items	€0.23	<b>€5.00</b>
<b>Return of Undeliverable Mail</b>	No fee	<b>Charge rate applicable for original requested service</b>

**Table 4 Proposed products to be grouped with existing mainstream products**

<b>PRODUCT</b>	<b>CURRENT TARIFF</b>	<b>MALTAPOST PROPOSED</b>
<b>Local Parcels</b>		
0 – 1kg	€1.16	<b>0 – 2kg &gt; as per domestic letter mail</b> <b>2 – 20kgs &gt; €9.00</b>
1kg – 3kg	€1.77	
3kg – 5kg	€2.33	
5kg – 10kg	€2.80	
<b>Domestic Newspapers</b>		
Annual fee	€58.23/€116.47	<b>as per domestic letter mail</b>
0 – 100g	€0.12	
per additional 50g	€0.05	
<b>Outbound Newspapers</b>		
Annual fee	€58.23/€116.47	<b>as per outbound letter mail</b>
Per 20g		
Zone A	€0.21	
Zone B	€0.28	
Zone C	€0.33	
Zone D	€0.47	

### 3.2 SUMMARY OF MCA'S ASSESSMENT AND PROPOSED DECISIONS ON TARIFFS

As detailed in the public consultation, in arriving at its proposed decisions on tariffs, the MCA undertook a forward-looking assessment on the tariff requests received in terms of their fit with the parameters of PC2014/2015 presented in section 2 above. In its assessment, the MCA tested the proposed tariffs to ensure their sustainability over the price control period. Apart from the revisions proposed, our assessment had concluded that no further changes in universal service tariffs would be required before financial year 2016.

This section deals first with the MCA's proposals on MaltaPost's requests presented in Tables 2 and 4, followed by the MCA's proposals on the tariffs featured in Table 3.

#### 3.2.1 REVISIONS TO TARIFFS OF MAINSTREAM PRODUCTS/SERVICES

As a first step in the review process, the MCA reviewed MaltaPost's latest supporting forecasts. Though requested by the Authority, MaltaPost did not provide workings to show the expected impact of the proposed price changes on revenues and profitability, as part of supporting submissions. In view of this, the MCA used all the information at its disposal to come up with

objective estimates of the expected impact on revenues. This information and available forecasts enabled the MCA to update its control model and obtain visibility on the expected financial performance of MaltaPost over the price control period. Projections indicated that the status quo would result in a reduction in the overall profitability of the universal service. For this reason, tariff revisions were considered required under this price control period to ensure a fair and reasonable return for MaltaPost and a sustainable universal service in the longer term.

Accordingly, the MCA moved on to test whether MaltaPost's tariff revision requests fit within the respective price control framework. The Authority's assessment indicated that some of the tariffs proposed by MaltaPost can be fully accepted, some can be partly approved, whilst others should be disallowed as detailed hereunder.

#### **Tariffs proposed to be fully accepted**

The MCA proposed that MaltaPost's proposals for domestic single piece letter mail, domestic bulk letter mail, European outbound mail and local parcels are accepted (see Table 5 for details).

The requested increases for domestic single piece mail and domestic bulk mail affect only letter mail items weighing more than 50g and are expected to contribute towards more cost-oriented tariffs and improved profitability of these services.

Current tariffs for local parcels have not been revised since 1997 and hence are not cost-oriented. Furthermore, usage of the local parcel service is very low and proposed increases are not expected to have a significant impact on consumers in general.

#### **Tariffs proposed to be partially approved**

The MCA proposed that MaltaPost's proposals for domestic registered mail, international registered mail and locally registered newspapers are partly accepted as detailed in Table 5 below. The Authority's assessment of MaltaPost's requests indicated that proposed tariffs are not required in full and proposed to revise them down to a level which allows for fair and reasonable profits both at a service level and the universal service as a whole.

#### **Tariffs proposed not to be approved**

The MCA proposed that MaltaPost's proposals for business reply service and P.O. boxes would not be approved. The MCA expected these services to remain profitable at current tariffs and in the absence of objective justifications from MaltaPost as to why the tariffs for these services should increase further, the MCA saw no reason why these should increase.

**Table 5 – proposed revisions to tariffs of mainstream products/services**

<b>PRODUCT</b>	<b>MALTAPOST PROPOSED</b>	<b>MCA PROPOSED</b>
<b>Domestic Single Piece Letter Mail</b>		
50 – 100g	€0.42	<b>€.42</b>
<b>Domestic Bulk Letter Mail</b>		
50 – 100g	€0.36	<b>€0.36</b>
<b>Local Parcels</b>		
0 – 2kgs	as per domestic letter mail	<b>as per domestic letter mail</b>
2 – 20kgs	€9.00	<b>€9.00</b>
<b>European Outbound Mail</b>		
Align with UPU's PGE standard as follows:		
0 – 30g	€0.59	<b>€0.59</b>
31 – 60g	€1.25	<b>€1.25</b>
<b>Domestic Registered Mail</b>		
Advice of delivery	€1.70	<b>€1.20</b>
<b>International Registered Mail</b>		
Registration fee	€4.25	<b>€3.00</b>
Advice of delivery	€2.50	<b>€2.00</b>
<b>Domestic Newspapers</b>		
0 – 100g	as per domestic letter mail	<b>€0.18</b>
per additional 50g		<b>€0.15</b>
<b>Outbound Newspapers</b>		
Per 20g		
Zone A	as per outbound letter mail	<b>€0.30</b>
Zone B		<b>€0.40</b>
Zone C		<b>€0.49</b>
Zone D		<b>€0.68</b>

### 3.2.2 REVISIONS TO TARIFFS OF ANCILLARY SERVICES

MaltaPost also requested tariff revisions for a number of ancillary services as detailed in Table 3 above. Tariffs for these services have been in place since 1997 and the MCA was of the view that they should be revised to allow for the increased operational costs over the years. To this effect, the MCA proposed that tariffs for these services are revised as detailed in Table 6.

**Table 6 – proposed revisions to tariffs of ancillary services**

<b>PRODUCT</b>	<b>MALTAPOST PROPOSED</b>	<b>MCA PROPOSED</b>
<b>Express Delivery Fee</b>		
Letters	€1.60	<b>€1.60</b>
Parcels	€2.50	<b>€2.50</b>
<b>Certificate of Loss or Damage</b>	€5.00	<b>€2.00</b>
<b>Certificate of Posting of Unregistered Postal Articles</b>		
Domestic items	€5.00	<b>€1.20</b>
Outbound items	€5.00	<b>€2.00</b>
<b>Return of Undeliverable Mail</b>	Charge rate applicable for original requested service	<b>Charge rate applicable for original requested service</b>

### 3.3 REPORT ON CONSULTATION MCA'S POSITION

#### MaltaPost's response

MaltaPost did not agree with the MCA's proposed conclusions. MaltaPost noted that the proposed tariff changes are a step in the right direction but argued that they are not enough. For this reason MaltaPost requested its proposal to be approved in full, as well as maintaining that further changes would be required to be effective as from 1<sup>st</sup> October 2014. Also, with respect to outbound mail, MaltaPost requested that a number of non-European countries included under Zone A are reclassified under Zone B as from the effective date of the tariff revisions for European outbound mail. This change was aimed to facilitate the customers' understanding of the applicable retail rates.

#### MCA's comments and position

As stated above, in the discussions leading to the proposed PC2014/15, MaltaPost was invited to submit forecasts for those variables which it expected to affect its profitability over the duration of the price control mechanism. Consequently, MaltaPost submitted forecasts for volumes of mainstream products, terminal dues receivable and payable, as well as labour costs. The tariff revisions proposed in the consultation document take into consideration those forecasts and allow for a fair and reasonable return on the universal service. In this regard, the MCA had commissioned

a study to determine the fair rate of return applicable in the local context which included benchmarking of various international operators and stress-testing.

On the basis of the forecasts and information made available to it, the MCA projects that the tariff revisions proposed in the public consultation should translate into fair and reasonable return for MaltaPost over the price control period. Consequently, on the basis on information available, the MCA does not agree with MaltaPost's view that further changes are required.

MaltaPost's request to reclassify a number of non-European countries currently included under Zone A to Zone B would effectively result in additional tariff increases for these non-European countries. As such, given that the request effectively reflects a new request, the MCA did not assess the impact of this proposal. The MCA fails to understand why this request was put forward at such a late stage, when the Company had every opportunity to include this request in its original tariff proposal. For this reason, this additional requested cannot be approved by the MCA.

This notwithstanding, in order to facilitate customers' understanding of the applicable retail rates, MaltaPost is instructed to divide Zone A in two sub-categories. Zone A1 is to list the names of those European countries that will be affected by the tariff revision. Zone A2 will include the remaining non-European countries currently included under Zone A. MaltaPost's request for reclassification will be reconsidered in future tariff revision discussions.

## 4. MCA'S DECISION

After taking into consideration the responses received, the MCA confirms its position on the price control mechanism and tariff revisions presented in sections 2.2 and 3.3 above as final. The tariff revisions presented in tables 7 and 8 below shall come into force from 1<sup>st</sup> January 2014.

The MCA directs MaltaPost to notify the public of these changes in a transparent manner through the customer channels at its disposal, in close coordination with the MCA.

**Table 7 – approved revisions to tariffs of mainstream products/services**

PRODUCT	MALTAPOST PROPOSED	MCA APPROVED
<b>Domestic Single Piece Letter Mail</b>		
50 – 100g	€0.42	<b>€.42</b>
<b>Domestic Bulk Letter Mail</b>		
50 – 100g	€0.36	<b>€0.36</b>
<b>Local Parcels</b>		
0 – 2kgs	as per domestic letter mail	<b>as per domestic letter mail</b>
2 – 20kgs	€9.00	<b>€9.00</b>
<b>European Outbound Mail</b>		
Align with UPU's PGE standard as follows:		
0 – 30g	€0.59	<b>€0.59</b>
31 – 60g	€1.25	<b>€1.25</b>
<b>Domestic Registered Mail</b>		
Advice of delivery	€1.70	<b>€1.20</b>
<b>International Registered Mail</b>		
Registration fee	€4.25	<b>€3.00</b>
Advice of delivery	€2.50	<b>€2.00</b>
<b>Domestic Newspapers</b>		
0 – 100g	as per domestic letter mail	<b>€0.18</b>
per additional 50g		<b>€0.15</b>

<b>Outbound Newspapers</b>		
Per 20g		
Zone A	as per outbound letter mail	<b>€0.30</b>
Zone B		<b>€0.40</b>
Zone C		<b>€0.49</b>
Zone D		<b>€0.68</b>

**Table 8 – approved revisions to tariffs of ancillary services**

<b>PRODUCT</b>	<b>MALTAPOST PROPOSED</b>	<b>MCA APPROVED</b>
<b>Express Delivery Fee</b>		
Letters	€1.60	<b>€1.60</b>
Parcels	€2.50	<b>€2.50</b>
<b>Certificate of Loss or Damage</b>	€5.00	<b>€2.00</b>
<b>Certificate of Posting of Unregistered Postal Articles</b>		
Domestic items	€5.00	<b>€1.20</b>
Outbound items	€5.00	<b>€2.00</b>
<b>Return of Undeliverable Mail</b>	Charge rate applicable for original requested service	<b>Charge rate applicable for original requested service</b>