

**Consultation and Proposed Decision on a Price Control
Mechanism for MaltaPost plc and Revised Postal Tariffs
for Financial Years 2014 and 2015.**

Consultation and Proposed Decision

Consultation Document

MCA/C/13-1748

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EXECUTIVE SUMMARY

In November 2012, the 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 a subsequent regulatory period featuring a forward looking price control mechanism for financial years 2014 and 2015 (hereafter "PC2014/2015").

In the November 2012 decision notice, the MCA had recognised that the changes in tariffs coming into effect in financial year 2013 would not be sufficient to ensure the medium to long-term sustainability of the universal postal service. Consequently, the Authority had conditionally accepted a number of tariff requests made by MaltaPost for financial years 2014 and 2015. However, these were to be confirmed once the parameters of PC2014/2015 were in place. On these grounds, the MCA moved on to set up the parameters of PC2014/2015.

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 proposed price control approach for PC2014/2015 builds on the foundations of PC2013 and sets both product-specific as well as overall price control parameters for the universal service products.

On 25th September 2013, MaltaPost submitted an updated request for tariff revisions. The MCA tested whether MaltaPost's requests fit within the proposed price control framework. As detailed in the tables below, the Authority's assessment indicates that some of the tariffs proposed by MaltaPost can be fully accepted whilst others can be partly approved. The MCA is also proposing that MaltaPost's proposals for business reply service and P.O. boxes would not be accepted.

MCA proposed tariff revisions for a number of mainstream products/services.

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

MCA proposed tariff revisions for a number of ancillary services

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

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1. INTRODUCTION

In accordance with national and European Union (EU) legislation, the MCA is the entity responsible for the regulation of universal postal services in Malta. Universal postal services can be defined as distinct postal services (or products) which users are entitled to access no matter where they live.

The November 2012 decision¹ notice presented the Authority's final decisions on its price control approach and revised postal tariffs for MaltaPost's financial year 2013. It also proposed a subsequent regulatory period featuring a forward looking framework covering the financial years 2014 and 2015.

This consultation document builds on the foundations of PC2013 and, taking into consideration the latest developments, proposes an updated price control framework for PC2014/2015. Finally, it discusses the tariff adjustments required to achieve the price control objectives.

¹ <http://www.mca.org.mt/service-providers/decisions/price-control-mechanism-maltapost-plc-and-revised-postal-tariffs>

2. BACKGROUND

In the consultation process leading to PC2013, MaltaPost had argued for better commercial visibility and submitted tariff requests showing the evolution of particular tariffs relating to its financial years 2014 and 2015.

In the subsequent November 2012 decision notice, the MCA recognised the fact that the changes in tariffs coming into effect in MaltaPost's financial year 2013 would not be sufficient to ensure the medium to long-term sustainability of the universal postal service. Consequently, on condition that these would comply with the parameters of PC2014/2015, the Authority had accepted that the tariffs requested by MaltaPost for the period 2014-2015 would be implemented upon confirmation of the the assumptions on which they were based .

On these grounds, the MCA moved on to set up the parameters of PC2014/2015 and engaged MaltaPost in technical consultations which in turn were followed by a revised tariff request that was assessed under the proposed price control parameters for 2014 and 2015.

3. LEGAL BASIS

Under Article 4(3)(i) of its constituting Act², the Authority has a general power to establish, 'where appropriate', the pricing mechanism of activities regulated by it. This includes the pricing of postal services given that the postal services sector is regulated by the Authority.

Article 21 of the Postal Services Act³ lists a number of tariff and pricing principles for postal services falling within the scope of the universal service and being provided by a universal service provider. Article 76A of the same Act, gives the Authority the power to 'issue any such directives to any postal operator as it may consider to be necessary' in paragraph (1) and, furthermore, specifically makes reference to the power to issue directives in relation to Article 21 above in paragraph (2).

The Authority is thus issuing this draft decision for consultation in accordance with the above-described legal basis and with the consultation procedures contained in Article 4(6) and (7) in the Malta Communications Authority Act.

² The Malta Communications Authority Act, Cap. 418 of the Laws of Malta,

³ Cap 252 of the Laws of Malta

4. MARKET CONTEXT

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 PC2013, the MCA had 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 Authority has since continued to monitor the postal market and has no indications of anticipated major changes affecting the market in the foreseeable future. The MCA therefore expects the above factors to remain key to the forthcoming price control period and has re-assessed them in the light of recent developments and the impact of tariff revisions that came into force under PC2013.

4.1 MAIL VOLUMES

The understanding of mail volume trends is a key component to a forward looking price control framework. In the final stages of consultation leading to PC2013, MaltaPost had submitted volume forecasts for financial years 2014 and 2015. Given the late stage at which the information was received, the MCA had informed that these were to be reviewed and taken in consideration for PC2014/2015. Consequently, once PC2013 came into force, the MCA reviewed in detail those forecasts and entered into technical discussions with MaltaPost to discuss how the volume forecasting methodology could be improved.

MaltaPost co-operated in this process which led to a more scientifically robust forecasting methodology and revised forecast volumes for its mainstream products. Reflecting trends noticed over the last years, domestic mail volumes are expected to continue on the decline.

4.2 DEVELOPMENTS UNDER THE UPU FRAMEWORK FOR CROSS-BORDER TERMINAL DUES

The purpose of the terminal dues system is to compensate the recipient operators for the cost incurred in the handling, transportation and delivery of cross-border mail. The terminal dues system is regulated by the Universal Postal Union (hereafter “UPU”). MaltaPost pays terminal dues to foreign operators for delivery of outbound mail outside Malta and receives terminal dues for the delivery of inbound mail in Malta.

MaltaPost submitted detailed terminal dues forecasts based on pre-set UPU rates and taking into consideration cross-border volume forecasts for financial years 2014 and 2015. Profitability projections show that the profitability of inbound letter mail is expected to remain strong, whereas

at current prices, the outbound letter mail service would start generating losses and a negative contribution towards profits.

4.3 PROFITABILITY AND PRICING ASPECTS OF THE UNIVERSAL SERVICE AREA

In the November 2012 decision notice, the MCA recognised that the tariff revisions approved under PC2013 appeared not to be sufficient to ensure the medium to long-term sustainability of the universal postal service. However, the effected revisions are expected to contribute towards more balanced price structures and even distribution of profits between services. The individual financial performance of domestic letter mail and mail registration, which services were previously loss-making, is now more favourable and tariffs are close to their cost-oriented levels.

In the discussions on PC2014/2015, MaltaPost submitted volume and terminal dues forecasts as indicated above as well as projections for major cost items for financial years 2014 and 2015. Using its available tools, the MCA projected the impact of these forecasts on MaltaPost's universal service profits. The Authority's assessment denotes a reduction in the overall profitability of the universal service and suggests that further tariff revisions will be required to ensure a fair and reasonable return for MaltaPost under this price control period and a sustainable universal service in the longer term.

4.4 FULL MARKET OPENING OF THE POSTAL SECTOR

Full market opening (hereafter "FMO") of the postal sector took place in Malta on 1st January 2013. Liberalisation means that the market is now open to competition which increases pressure on MaltaPost to become more efficient, offer new and innovative services and increase further its customer focus.

On the other hand, without the proper price signals, new entrants might not be drawn into the market, hence neutralizing the potential benefits of liberalisation. It should also be noted that, efficient market entry is not a question of how many new entrants enter the market, but requires that new entrants enter the market in those areas where competition is sustainable under efficient operational levels. Inefficient price signals might therefore not only discourage entry in certain areas but might encourage it in the wrong areas to the detriment of the market in the longer term.

4.5 CONCLUSIONS FROM THE MARKET CONTEXT

Whilst allowing for a fair and reasonable return to MaltaPost, 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. The resulting tariff revisions did contribute towards this objective with the consequence that the financial performance of previously loss-making services is now more favourable and tariffs are closer to their cost-oriented levels.

Still, the 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 points towards the need for further cost-oriented tariff increases.

This assessment implies that the Authority's identified price control objectives for PC2014/2015 are similar to those set for PC2013.

The next section outlines the MCA's proposed price control approach for financial years 2014 and 2015 which builds on the foundations of PC2013 to achieve new cost-orientation targets.

5. PRICE CONTROL APPROACH

5.1 FORM OF PRICE CONTROL

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

5.1.1 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.

5.2 SCOPE OF PRICE CONTROL

As for PC2103, any postal service offered by MaltaPost which falls within the scope of the universal service is 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, 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.

5.3 DURATION OF PRICE CONTROL

In the November 2012 decision notice, the Authority 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. 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, 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 is now in a position to consider a longer duration and is proposing this price control mechanism to cover financial years 2014 and 2015. This is expected to provide better commercial visibility to MaltaPost and more price stability to its customers.

5.4 FIRST LEVEL CONTROLS – SPECIFIC CEILINGS AND FLOORS

PC2013 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 revisions submitted by MaltaPost. Given the latest forecasts revisions for volumes and costs, 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 is seeking to limit significant increases for these services by proposing the First Level controls summarised in Table 1.

Table 1

| PRODUCT | TYPE OF CONTROL | CONTROL LIMIT |
|---|------------------------|----------------------|
| Domestic Single Piece Mail 0 – 50g | Ceiling | Current tariff |
| Domestic Bulk Mail 0 – 50g | Ceiling | Current tariff |
| Domestic Registration Fee | Ceiling | Current tariff |

5.5 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 judgement 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.

5.6 ADMINISTRATIVE ASPECTS

5.6.1 PRICE PROPOSALS

Following completion of the latest forecasts submitted to the MCA, MaltaPost put forward an updated tariff request as detailed in Section 6. The MCA's assessment of the proposals submitted by MaltaPost is presented in Section 7.

5.6.2 RELEASING OF PRODUCTS/SERVICES FROM PRICE CONTROL

During the price control period, if the MCA finds any of the above products to be effectively competitive in terms of the market analysis procedure referred to in Section 5.2 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 tariffs 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.

5.6.3 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.

5.6.4 ADJUSTMENT MECHANISM

With a view to have a forward looking and dynamic price control mechanism, the ex ante price control system being proposed 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 5.6.3.

6. MALTAPOST'S PROPOSED REVISIONS TO TARIFFS

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

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

| | | |
|-------------|--------|--------------|
| Sharing fee | €23.29 | Up to €30.00 |
|-------------|--------|--------------|

Table 3 - Proposed tariff revisions for a number of ancillary services

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

Table 4 Proposed products to be grouped with existing mainstream products

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

7. MCA'S ASSESSMENT AND PROPOSED DECISION ON TARIFFS

This section deals with the MCA's forward-looking assessment on the tariff requests received in terms of their fit with the parameters of PC2014/2015 presented above. In its forward-looking assessment the MCA tested the proposed tariffs to ensure their sustainability over the price control period. Apart from the revisions proposed below, our assessment concluded that no further changes in universal service tariffs would be required before financial year 2016.

In terms of order, this section deals first with the requests presented in Tables 2 and 4, followed by an assessment of the tariffs featured in Table 3.

7.1 MALTAPOST'S PROPOSED 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 indicate that the status quo would result in a reduction in the overall profitability of the universal service. For this reason, tariff revisions are 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 indicates 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 is proposing 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 MCA notes that 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 is proposing 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 all required to generate reasonable profits and is proposing 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 is proposing that MaltaPost's proposals for business reply service and P.O. boxes would not be approved. The MCA expects 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 sees no reason why these should increase.

Table 5

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

7.2 MALTAPOST'S PROPOSED 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 is of the opinion that they should be revised to allow for the increased operational costs over the years. To this effect, the MCA is proposing that tariffs for these services are revised as detailed in Table 6.

Table 6

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

8. CONSULTATION QUESTIONS

The MCA is seeking responses to the following consultation questions with respect to the tariff revisions and price control mechanism proposed above:

- Do you agree with the proposed conclusions regarding the price control mechanism for MaltaPost's financial years 2014 and 2015 (detailed in Chapter 5 above)?
- Do you agree with the proposed conclusions regarding the tariff revisions required under PC2014/2015 (detailed in chapter 7 above)?
- If you do not agree, please provide reasons including your views on how the proposed control mechanism and tariff revisions should be modified.

9. SUBMISSION OF RESPONSES

In accordance with its obligations under Article 4A of the Malta Communications Authority Act [Cap. 418 of the Laws of Malta], the Authority welcomes written comments and representations from interested parties and stakeholders during the national consultation period which shall run from the 14/11/2013 to the 12/12/2013.

The Authority appreciates that respondents may provide confidential information in their feedback to this consultation document. This information is to be included in a separate annex and should be clearly marked as confidential. Respondents are also requested to state the reasons why the information should be treated as confidential.

For the sake of openness and transparency, the MCA will publish a list of all respondents to this consultation on its website, up to three days following the deadline for responses. The Authority will take the necessary steps to protect the confidentiality of all such material as soon as it is received at the MCA offices in accordance with the MCA's confidentiality guidelines and procedures⁴. Respondents are however encouraged to avoid confidential markings wherever possible.

All responses should be submitted to the Authority, in writing by no later than 17:00PM on 12/12/2013 and addressed to:

Chief of Operations
Malta Communications Authority
Valletta Waterfront, Pinto Wharf,
Floriana, FRN1913
Malta.
Tel: +356 21 336 840 Fax: +356 21 336 846
Email: coo@mca.org.mt

Extensions to the consultation deadline will only be permitted in exceptional circumstances and where the Authority deems fit. The MCA reserves the right to grant or refuse any such request at its discretion. Requests for extensions are to be made in writing within the first ten (10) working days of the consultation period.

⁴ http://www.mca.org.mt/sites/default/files/articles/confidentialityguidelinesFINAL_0.pdf