



# **Costing access to the postal network, services and elements of infrastructure**

**2017**



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## 1 Introduction

### 1.1 Objectives and context for costing

Access to the postal network and services and to the elements of infrastructure is an important regulatory tool to promote competition by ensuring a level playing field. The importance arises from the fact that an established incumbent postal operator or designated universal service provider with a network that is difficult to replicate - for legal, legacy, physical or financial reasons - might have an advantage over other providers, as well as an incentive to deny access to its network and infrastructure elements. This would reduce competition in the postal market by preventing postal operators from entering or remaining in business.

Proper application of access as a regulatory tool may therefore be essential for the development of the fully liberalized market and may enable effective and sustainable competition while increasing efficiency and safeguarding the interests of end users (senders and recipients of mail)<sup>1</sup>.

The regulatory framework aims at improving access competition (where a postal operator receives mail from a customer and injects this into the network of the incumbent to be delivered to the recipient) and enhancing end-to-end competition (where a postal operator relies on its own infrastructure to receive and deliver mail).<sup>2</sup> Hybrid systems where postal operators have their own local networks for end-to-end services and use access to the incumbent's network for delivery of rest mail are also possible.

In order to promote competition, in particular competition through access, National Regulatory Authorities (henceforth NRAs) need to have an in-depth understanding of (i) the costs of the postal network activities that are related to the access services provided by the incumbent; and (ii) the assessment and allocation of these costs. This understanding is particularly important for setting price controls for access services, investigating access pricing issues ex-post or controlling (ex-ante) or investigating (ex-post) margin squeeze. Such an understanding may also be useful information for assessing the sustainability of the Universal Service Obligation (henceforth USO) under the discussion regarding the access to the services (usually referred to as the services under USO area).

### 1.2 Scope of report

This report deals with the assessment and allocation of the costs incurred by the incumbent in providing access. It surveys the different costing and allocation methods that have been adopted by the NRAs in regulating access.

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<sup>1</sup> ERGP Report on "access" to the postal network and elements of postal infrastructure, 2012, p. 4-5.

<sup>2</sup> Copenhagen Economics, The challenge of designing access to the postal network: an economic perspective, 2016, p. 2.



The report takes into account the operational and economic conditions for granting access, including the points in the postal network where granting access is feasible, and the activities in the postal chain (i.e. services) that are involved in providing access to the postal network as well as elements of postal infrastructure. The report also takes account of the regulatory framework applicable to the designated USP/incumbent and the access seekers.

There are similarities in operational and economic conditions between providing retail bulk services and providing access for alternative postal services providers in order to allow them to cover the whole postal chain in those cases where they cannot provide their own end-to-end services. The readers of this report may therefore find information which is relevant to the costing methodologies approaches for bulk mail. However, we emphasise that an incumbent's retail bulk services are not within the scope of this report.

It is important to note that the report makes a distinction between access to the postal network as opposed to access to elements of postal infrastructure. Access to the postal network refers to circumstances where other postal operators use the incumbent's network and/or services for the partial provision of their own services, typically by using the incumbent's downstream services of final sortation and delivery. In contrast, access to elements of infrastructure allows other postal operators to use elements of the physical and non-physical infrastructure of the incumbent, such as the post office boxes, the postcode system and the address database.

The wider legal framework for our report comprises Articles 11 and 11a of the Postal Services Directive (PSD) concerning the provision of postal services and access to the network, Article 12 PSD which is relevant for provisions related to tariff regulation, in particular, cost orientation and Article 14 PSD concerning the principles of the allocation of costs.

Concerning access to the network, operational conditions in terms of traffic volume, minimum revenue, pre-sorting and machine readability, could be applicable. Moreover, network access could be supplemented with service level agreements between the incumbent and the network access recipient. These topics are examined by the ERGP end-to-end sub-group of this year, 'Report on recommendations and best practices in regulation for access to the postal network of the incumbent operator (in terms of competition, prices and quality of service)'.

### **1.3 Costing**

This report provides information on how various incumbents and NRAs approach the assessment and allocation of the costs related to access services. For the purpose of providing some background information about the different approaches, a brief explanation of the cost standards, data types and modelling approaches that can be applied to determine the relevant access costs are given below.

The application of a particular cost standard depends on the objective, the competitive environment and/or legal provisions and may have a significant impact on the evaluation of the service.

One standard which is often used is the Fully Distributed Costs (FDC) or Fully Allocated Costs (FAC) method. This standard involves allocating categories of costs which can be directly or indirectly attributed to services or products. It takes into account the total costs of providing access incurred by



the incumbent: direct costs as well as a share of joint and common costs, including overhead costs.<sup>3</sup> No costs are left unallocated.

Another cost standard is Long Run Incremental Costs (LRIC). LRIC includes costs that are caused by the provision of a defined increment to the portfolio of services or activities of the incumbent, in this case to provide access to the network, services and/or elements of infrastructure, depending on the level agreed. This methodology typically uses forward-looking costs, i.e. the costs that would be incurred by the incumbent using the most efficient current technologies to provide access.<sup>4</sup>

Yet another cost standard is the avoidable costs which comprise all the costs that the incumbent would avoid, if it did not provide access or a particular access service to other postal operators. This can be used to determine the access price by subtracting the avoidable costs from the retail market price.<sup>5</sup> The fact that the incumbent avoids activities like preparatory and pre-sorting activities that the access user completes before injecting the mail into the postal network is hereby reflected in the access price.<sup>6</sup>

There are generally two types of data that can be used for the access costing calculations, that is historical data or forecast data. In some cases a combination of these two is applicable. The type of data used depends on the regulatory objectives. Ex-post investigations typically involve analyzing a great deal of historical data, while price controls are forward-looking remedies and require forecast costs estimates.

With regard to the modelling approach, the NRAs could use a Top-Down approach. This means that cost accounting data are identified at a global level, which is then successively refined to activities, sub-activities and finally to elementary activities using appropriate allocation keys. The accuracy and level of the Top-Down allocation depend on the financial and operational information provided by the operator that feed into the regulatory accounting.<sup>7</sup> Another approach is Bottom-up modelling, where an explicit description of elementary activities is used in combination with activity measures and unit costs assigned to different resources to build cost functions. The resulting costs are then aggregated to sub-activities and activities to recover the total cost.<sup>8</sup>

## 1.4 Our approach to this report

In order to obtain the relevant information, we sent out a questionnaire to each NRA at the end of March 2017. This questionnaire concerned, among other things, the objectives for assessing costs of access, legal requirements, cost standards applied by NRAs and the type of data used for the calculation. We received 29 replies to our questionnaire which served as a basis for this report. We have also asked

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<sup>3</sup> ERGP Common Position on cost allocation rules, 2013, p. 39.

<sup>4</sup> Geradin, D., Is mandatory access to the postal network desirable and if so at what terms? 2016, p. 23.

<sup>5</sup> Geradin, Is mandatory access to the postal network desirable and if so at what terms?, p. 23-24.

<sup>6</sup> Copenhagen Economics, The challenge of designing access to the postal network: an economic perspective, 2016, p. 5.

<sup>7</sup> ERGP Common Position on cost allocation rules, 2013, p. 22.

<sup>8</sup> ERGP Report on common costs allocation, 2012, p. 7.



the respondents further questions where we needed clarifications or details. The list of NRAs that replied and the questionnaire can both be found in the Annexes 1 and 2 respectively of this report.

Section 2 of this report considers the regulatory objectives for costing access.

Section 3 of the report covers the legal requirements for costing access and section 4 provides an overview of the approaches that were adopted by the NRAs.

Section 5 focuses on costing for access to the infrastructure, including infrastructure elements, reasoning behind choosing an approach and the chosen methodologies.

In Section 6 of this report, we set out case studies relating to how various NRAs have approached the assessment and allocation of costs of access to both the network and elements of infrastructure. The information in this section is gathered from the relevant NRAs in addition to their responses to our questionnaire. The report ends with conclusions in Section 7.





## 2 Regulatory objectives of costing access to the network and services

The need for the NRAs to cost access to the network and services arises in various circumstances. We consider in this section the regulatory objectives which the NRAs may pursue in costing access.

### 2.1 Setting price controls for access services

In the absence of a sufficient level of competition in the final delivery of mail, the NRAs may decide to impose price controls at the downstream level on access services and/or the upstream and downstream level on retail services. Various methodologies could be used by the NRAs to control prices, for example price caps and rate of return controls.

Most types of price controls require costs as a key input. Therefore, an important decision for the NRA in setting access price controls is which cost standard to use (for example fully distributed/allocated costs or incremental or marginal costs). The choice of the cost often depends on the objectives of the price control.

### 2.2 Ex-ante margin squeeze control

Margin squeeze involves situations in which the designated USP or the incumbent access provider (typically a vertically integrated dominant postal operator) hampers upstream rivals' competitiveness by (i) raising the wholesale price of its essential input and/or (ii) reducing the retail price of its product/service.

We consider ex-ante margin squeeze controls separately from other ex-ante price controls because the former need not involve direct controls over access or retail prices. The control could be based on the difference in access and retail prices and how this difference compares with the retail costs incurred in the upstream activities (mainly clearance and initial sortation costs).

The regulatory objective of an ex-ante margin squeeze control is often to ensure that efficient operators which access the incumbent's network can enter the market and compete profitably with the incumbent's retail services and be economically viable.

While the focus of margin squeeze controls may be on the upstream costs – i.e. the costs of clearance and initial sortation activities - it is sometimes important for the NRA to have a good understanding of the cost of access – i.e. the costs of downstream activities - as well.

### 2.3 Ex-post margin squeeze investigation

Ex-post investigations could be focused on breaches of regulation, the country's competition legislation or European Commission Competition Law.



A key question in ex-post margins squeeze investigations is whose costs are to be considered. These could be:

- the incumbent's costs, which is sometimes referred to as an Equally Efficient Operator (EEO) test; or
- the incumbent's costs adjusted for unmatchable incumbency advantages (adjusted EEO test); or
- the rival's costs, which is also referred to as Reasonably Efficient Operator (REO) test.

As explained above, while the focus of margin squeeze investigations may be on the upstream costs – i.e. the costs of clearance and initial sortation activities - it is sometimes important for the NRA to have a good understanding of the cost of access, i.e. the costs of downstream activities incurred by the incumbent.

## 2.4 Other ex-post pricing review and investigations

Ex-post access pricing reviews and investigations often involve a review of the underlying costs, whether there is price control based on the costs of access or the NRA has imposed some sort of cost orientation requirement on access prices.

## 2.5 Assessing the sustainability of the USO

The financial sustainability of the USO is of high importance to the NRAs, such that in some countries it is considered a key duty of the NRA to have regard to this objective of the USO.

Assessing the financial sustainability often involves analysing how various services provided by the incumbent's network, whether USO or non-USO, contribute to the recovery of the costs of the network. If access to the network exists in a country, then a key group of services is to be considered as access. In such circumstances, it is important to understand what the costs of providing access is for the incumbent and how the common costs of the network should be allocated to the access services.

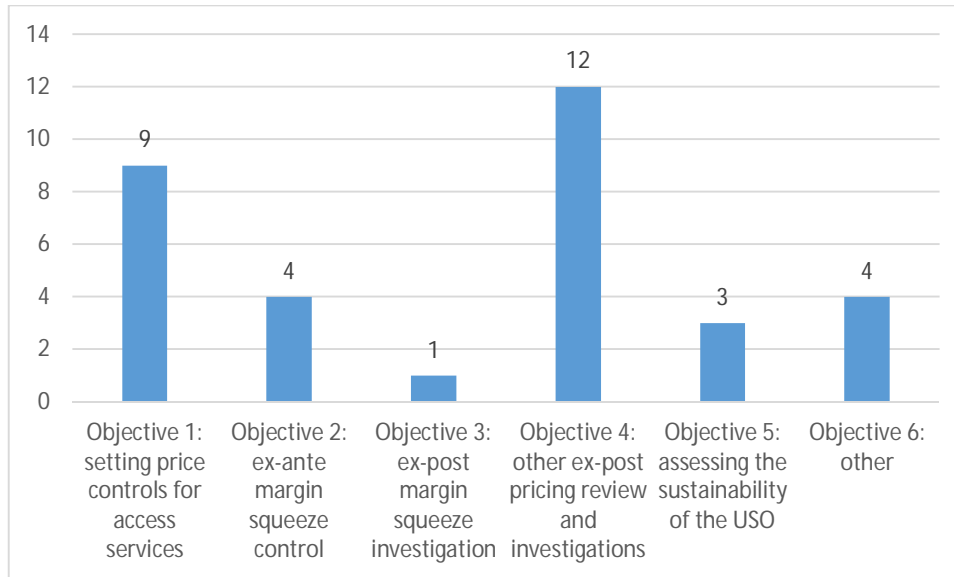
## 2.6 Other objectives

Other objectives pursued by the NRAs in costing access are related to dispute resolution, the promotion of economic efficiency and competition, and the enforcement of fair and reasonable terms for provision of access.

## 2.7 Results of our questionnaire

In our questionnaire, we asked the NRAs about their objectives in costing access, providing them as options. The graph below demonstrates the results:

**Chart 2-1- Objectives of costing access to the network and services**



Counting exclusively the valid responses (the ones related to the situations where the objectives have actually been investigated), we found 20 NRAs investigated the access to the network and services in total.

We were committed to make use of as much data as possible, therefore we considered in our assessment all the received responses, irrespective of the fact that those were part of a complete set of data (all the answers regarding an objective were addressed) or they were high level explanations of the NRA's experience.

It should also be taken into account the fact that there were cases when more than one answer was applicable by an NRA for the same objective.

Therefore a reconciliation of the answers between legal requirements and approaches adopted by the NRAs or within the same objective wouldn't have been possible even at the expense of a reduced set of data analysed.

### 3 Legal requirements for costing access to the network and services

For the purpose of this analysis, we asked the NRAs if the law in their respective countries defined the cost standard for the access to the network and services and what are the objectives of assessing those costs. Altogether we received 23 answers which show that some of the postal legislations within Europe provide particular cost standards in relation to the access to the network and services of the designated USP/incumbent (see

**Table 3-1).** The majority of the NRAs answered that their legislation prescribes FDC (FAC) standard with regard to access costing and the main objective of that standard is the price control of the access prices. In some instances, avoidable costs were also used.

**Table 3-1: Cost standards within measured objectives (answers)**

Cost Standard*	Objective 1: Price control	Objective 2: Ex ante margin squeeze	Objective 3: Ex post margin squeeze	Objective 4: Other investigations	Objective 5: Financial sustainability	Objective 6: Other	Total
Avoidable costs	2	0	0	1	0	0	3
FDC (FAC)	6	1	0	5	1	1	14
LRIC	0	0	0	0	0	0	0
Other	1	2	0	2	1	0	6
<b>Total</b>	<b>9</b>	<b>3</b>	<b>0</b>	<b>8</b>	<b>2</b>	<b>1</b>	<b>23</b>

\*N/A answers are not included in the chart

Table 3-2 provides definitions given by NRAs regarding the cost standard considered within some objective (note that it may be possible that different cost standards are considered by a given NRA per objective).

**Table 3-2: Definitions of the cost standards provided within objectives and cost standards**

Country	Definition	Objectives	Cost standard
Croatia	Pursuant to Article 53 of the Postal Act: When determining the prices for network access, the costs of activities before access to the network must be recognized as the costs avoided by the universal service provider. Pursuant to Ordinance: The price for the access network is determined in such a way that the price for a particular service from the Price list should be decreased for avoided (activities) costs by the universal service	Other Investigations	Avoidable cost



Country	Definition	Objectives	Cost standard
	provider.		
Cyprus	Average Total Cost is the cost accounting method whereby the cost of a postal service and/or product is calculated as the total cost of the service or product reflecting the activities of an efficient operator for the relevant postal items volumes.	Price controls Ex ante margin squeeze Financial Sustainability	Average Total Cost
Estonia	The charge for the use of a postal network of another postal service provider shall be cost-oriented and may include a reasonable profit.	Other investigations	FDC (FAC)
Slovenia	In this case, it is not cost standard, but legislative requirement regarding non-discriminatory terms due to access to the postal network.	Price controls  Other investigations	FDC (FAC), Avoidable costs  Other - inspection
Spain	<p>Article 45.5 (access to the network by service providers) states that the Commission shall verify that the fees meet the principles of transparency, non-discrimination and coverage of the cost to the network holder.</p> <p>Art. 46 (Fees for access to the postal network) states that "access tariffs may take into consideration, among other elements, the timetable for presenting postal items, their volume, distribution destination, degree of sorting and preparation, and may not represent financial losses for the network holder. For fee-setting consideration, the cost caused to the US provider will be considered and where appropriated, the avoided cost"<sup>9</sup>.</p> <p>The old legal framework on access (Resolution of 23 April 2007) stated in Annex I, point f) "Service Price: the price will be fixed through the «retail minus» model, i.e., discounts applied based on the cost savings generated"<sup>10</sup>.</p>	Price controls  Other investigations	Avoidable cost  Other (cost orientation, avoidable cost)

<sup>9</sup> [www.boe.es/buscar/act.php?id=BOE-A-2010-20139](http://www.boe.es/buscar/act.php?id=BOE-A-2010-20139)

<sup>10</sup> [www.boe.es/diario\\_boe/txt.php?id=BOE-A-2007-9096](http://www.boe.es/diario_boe/txt.php?id=BOE-A-2007-9096)



Country	Definition	Objectives	Cost standard
The UK	Definition as per the Accounting Condition: 'Fully Allocated Cost', which is a costing methodology in which all costs (including Overheads) are allocated to the outputs of the business.	Ex ante margin squeeze Financial sustainability Other	FDC (FAC)

### 3.1 Objective 1: setting price controls for access services

Eight NRAs (from BG, CY, GR, LT, NL, MD, SI – two answers and ES) answered the question regarding the type of cost standard prescribed by the law, when concerning price control mechanism.

Six NRAs answered that their legislation prescribes FDC (FAC) and two (from SI and ES) avoidable cost system. The Cyprus NRA explained that the legislation prescribes another type of costing system, specifically average total cost (ATC).

In Slovenia, besides FDC (FAC) method within a separated accounting model, the Slovenian Post uses avoidable costs approach when assessing the cost of access. Nevertheless, the Slovenian NRA also clarified that avoidable costs approach is not prescribed by any legislative act.

Spain clarified that their Postal Act mentions specifically cost savings and that would be equivalent to the "retail minus" concept.

Eight of the NRAs answered that the cost standard used for the price control is not defined in their law.

### 3.2 Objective 2: ex-ante margin squeeze control

The UK and Cyprus answered that their legislation prescribed the cost standard with regard to ex-ante margin squeeze. Cyprus emphasized that OCECPR is using average total cost methodology (ATC) and the UK answered that the prescribed standard is FDC (FAC). The UK additionally explained that the ex-ante margin squeeze control includes two tests:

- (i) total revenues of the basket of all product must cover its FAC less overheads (FAC minus) and
- (ii) each new contract revenue must cover 50% of its FAC less overheads (a proxy for LRIC).

These prescriptions and tests are stated in the secondary legislation i.e. the Access and Accounting Conditions put in place by Ofcom for Royal Mail to comply with in preparing its regulatory financial reporting.

### 3.3 Objective 3: ex-post margin squeeze control

None of the NRAs stated that a cost standard is prescribed by the law with regard to ex-post margin squeeze.



### 3.4 Objective 4: other ex-post pricing review and investigations

Five NRAs (from EE, LT, NO, SI and SK) answered that their legislation prescribes FDC (FAC) cost standard in the frame of "Other investigations". Croatia answered that the law provides for avoidable costs approach.

Two NRAs (from SI and ES) answered that their legislation prescribes other types of cost standard.

Slovenia additionally explained that in their case it was not a direct price relation issue. The issue was that the incumbent had different access terms for different users, but those terms should be, according to the postal act, the same for everyone (non-discriminatory).

Spain indicated that USO prices review is not based on a given cost standard but on cost orientation. In particular, although the cost orientation is not defined in the Spanish postal legislation, CNMC has interpreted to be based on the cost savings made, such as for the access to the network, as required by art. 46 Postal Act.

### 3.5 Objective 5: assessing the sustainability of the USO

Only two NRAs have the cost standard prescribed by the law, including the definition. The UK answered that FDC (FAC) cost standard is prescribed in their secondary legislation i.e. the regulation set by Ofcom (the Accounting Condition imposed on Royal Mail) and Cyprus answered that average total cost methodology is provided for.

### 3.6 Objective 6: other

Only the UK answered that FDC (FAC) cost standard is prescribed and defined in the law (a costing methodology in which all costs, including overheads, are allocated to the outputs of the business)<sup>11</sup>.

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<sup>11</sup> Useful links:

[https://www.ofcom.org.uk/about-ofcom/latest/bulletins/competition-bulletins/open-cases/cw\\_01122](https://www.ofcom.org.uk/about-ofcom/latest/bulletins/competition-bulletins/open-cases/cw_01122)

<https://www.royalmailgroup.com/ofcom-investigation-access-contract-changes>



## 4 Approaches adopted by the NRAs for costing access to the network and services

This section looks into the following various aspects of the NRAs' analysis of access to the network and services of the universal service provider, under the headings of the objectives identified in our assessment:<sup>12</sup>

- ✓ The cost standards applied by the NRAs
- ✓ The level of integration to other calculation exercises
- ✓ The type of modelling approach
- ✓ The source of costing and operational data
- ✓ The financial and operational data used
- ✓ The calculation of the financial and operational data
- ✓ The allocation of the unrecoverable/non-deductible VAT on costs of access
- ✓ Zonal costing
- ✓ Common elements to the net cost calculation
- ✓ Common elements to other exercises

### 4.1 Objective 1: setting price controls for access services

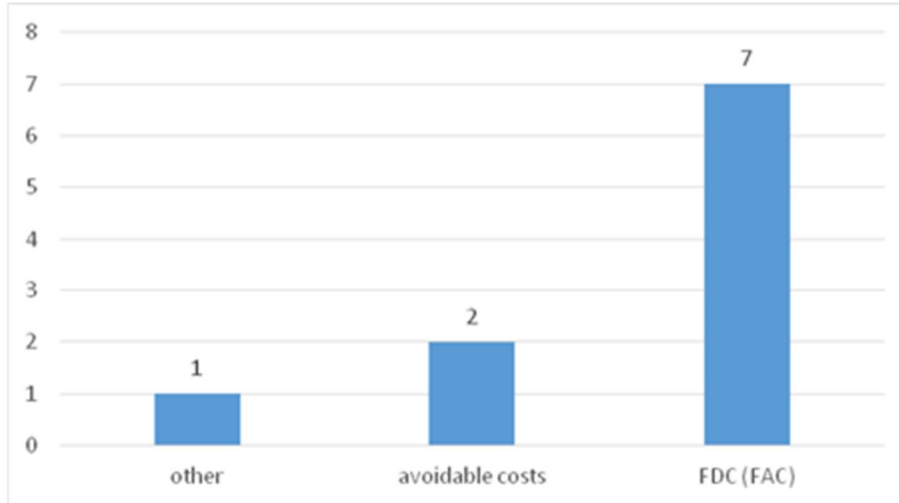
Nine NRAs (from BG, CY, DE, GR, LT, NL, MD, SI and ES) provided answers to the questions regarding the price control.

Most NRAs used fully distributed (allocated) costs to set the prices for the access to the network and services provided by the designated USP/incumbent. The category "other" refers to ATC (Average Total Cost). One NRA (from SI) used both FDC (FAC) and avoidable costs.

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<sup>12</sup> Please note that all the questions were not answered by all the NRAs

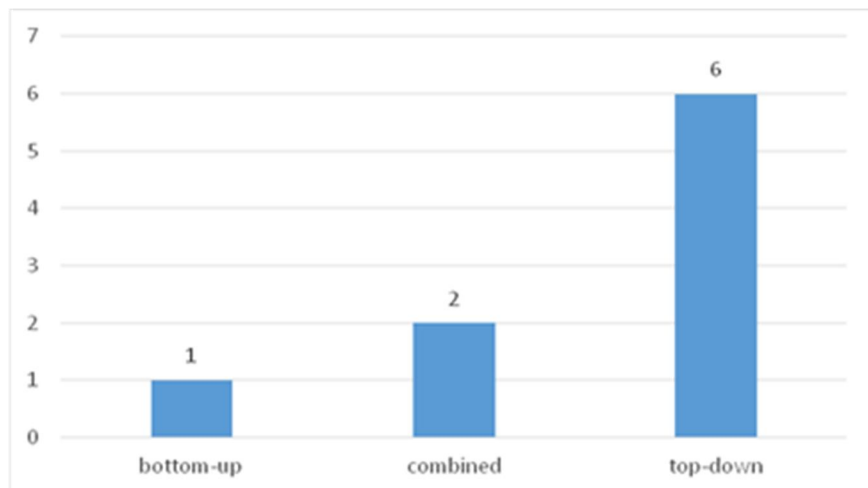


**Chart 4-1- The cost standards applied by the NRAs (answers)**

When analysing the reasons for choosing the methodology, two NRAs (from LT and SI) stated that this was decided by the legislation and two NRAs (from BG and EL) used it since it was already developed by the designated USP. One NRA (from NL) stated that there were no structural inefficiencies as far as it is known of the designated USP (hence allowing the utilisation of FDC) and another NRA (from MD) stated that it chose the methodology that was easier to implement and to be verified by the NRA. One NRA (from CY) excluded FDC and LRIC because it estimated that the former includes the inefficiencies of the USP, while calculations based on the latter would have resulted in very low and non-representative wholesale prices. It was considered that the chosen alternative (ATC) provides a fair valuation that allows the USP to recover the costs and at the same time provides enough margin for the other operators to make a profit.

The costing exercise was either a separate exercise (DE, GR, NL, MD and ES) or integrated with all services and the whole network (BG, CY, LT and SI).

As intuitively taking into account the methodology chosen, most of the answers show a preference towards the top-down modelling. The alternative answers refer to bottom-up or a combination between top-down and bottom-up (in one case the combined approach was used starting from the available cost accounting and considering the need to depart from this when undertaking an avoidable cost analysis).

**Chart 4-2 - The type of modelling approach (answers)**

In all the cases, the data came from the designated USP.

Most of the data incorporated in the calculation was historical data (BG, CY, GR, LT, NL, MD and SI) and in two instances a combination between historical and forecast data (DE and ES). No NRA or designated USP used exclusively forecast data.

The calculation of the financial and operational data was done in all the cases by the designated USP/incumbent. There were three situations in which the NRAs also intervened in this calculation (CY, DE and SI).

The VAT treatment usually did not have an impact on the calculation of the prices of the access. One NRA (from SI) stated that the non-deductible VAT was allocated to the costs of access. Mostly the VAT treatment in case of access would follow the access to the services regime in the sense that if the VAT on USO services is exempted, the non-deductible portion would be reflected in the same way when costing access. In other countries, the whole access provision is considered outside the USO area and therefore the service itself is not VAT-exempted and allows for deductible VAT.

The extended comments of the NRAs refer to the fact that unrecoverable VAT is not allocated on costs of access and the wholesale access regulation applies to services outside the USO, which are not exempted from VAT (NL); the USP cannot deduct VAT on USO material and service, therefore it is very likely that VAT is also allocated to the cost of access and the portion of non-deductible VAT on costs is not transparent (SI); and that access prices are VAT exempted if access occurs for USO services (ES).

Concerning the reflection of the geographical aspects, three NRAs (from BG, LT and ES) took into account the difference between the costs in urban and rural areas. In the UK, Royal Mail offers zonal pricing plans for access, split into four zones (London, Urban, Suburban and Rural). The NRA (Ofcom) requires the access prices, both national and zonal, to be set on fair and reasonable terms. With regard to the zonal access prices, the NRA's guidance on fair and reasonable prices is that the prices should reflect the underlying zonal costs.



Two NRAs (from CY and MD) identified common elements between the costing exercise undertaken for access and the net cost calculation. This was done by using the same methodology or the same model. One NRA (from BG) stated that there might have been common elements in the fact that the same cost allocation system has been used for both purposes, yet not to the point to be considered as common elements. Another NRA (from ES) stated that it did not identify any overlapping considering that the analysis of the cost savings regarding access is different to the costs that the designated operator would avoid in the absence of the universal service obligation. In one situation (NL) there is just no legal provision regarding the net cost calculation.

There are a few more NRAs that identified common elements to other exercises (CY, NL, SI and ES), in the form of the cost allocation system and the pricing exercises related to this.

## 4.2 Objective 2: ex-ante margin squeeze control

The experience regarding the access to the network and services is narrower in the circumstances of ex-ante margin squeeze control. There are only four NRAs (from CY, IT, ES and the UK) that undertook this exercise.

From the extensive answers available, the methodology was chosen taking into account circumstances such as the need to allow the cost recovery and the fact that it uses the only robust data available. One NRA (from CY) used ATC methodology and one NRA (the UK) used FDC (partly as a proxy for LRIC).

In the UK, the margin squeeze control includes two tests: (i) total revenues of the basket of all services must cover its FAC less overheads (FAC minus) and (ii) each new contract revenue must cover 50% of its FAC less overheads (a proxy for LRIC).

Both Cyprus and the UK integrated the calculation with all the services and the whole network. In Cyprus's case the bottom-up approach was used in association with ATC and in the UK's case top-down was used in the context of the FDC calculation.

The designated USP/incumbent was the source of data for the analysis in all the cases.

The calculation was done in all instances by the designated USP/incumbent. In one situation the NRA also intervened in the calculation.

Only one NRA (from the UK) allocated VAT to the VAT exempt services. In the UK, access to Royal Mail's inward mail centres is mandated, therefore the services are exempt from VAT and as a result give rise to irrecoverable input VAT which is then allocated to access products.

One NRA (from IT) stated that zonal costing will be accounted for as part of their analysis, after the details will be defined in a separate proceeding.

One NRA identified common elements to the net cost calculation in the sense that it developed a bottom-up model that simulated the cost of services offered by the designated USP that is used to calculate the net cost of the universal service.

There were more common elements to other exercises, reflected by the fact that the bottom-up model simulated the costs of services that were used to calculate both retail and wholesale (access) prices and by the fact that the data used in the margin squeeze control was extracted from the costing system which underpinned the majority of the designated USP's regulatory financial reports.



The Spanish NRA stated that when it investigated access to the network, it undertook a margin squeeze analysis, especially given the existence of a previous case on margin squeeze in 2014<sup>13</sup>, 'Correos 2' case.

### 4.3 Objective 3: ex-post margin squeeze control

The access to the network and services of the designated USP/incumbent within the ex-post margin squeeze tests was analysed by the German NRA (BNetzA) and the Spanish NRA (CNMC).

BNetzA applied a methodology starting from FAC and undertook a separate exercise. It used a combination of top-down and bottom-up modelling and historical and forecast data calculated by both the incumbent and the NRA, with contributions from the incumbent, the alternative operators and the consolidators. There was no differentiation with respect to zonal costing.

In January 2014, CNMC issued a Decision sanctioning the incumbent operator (Correos) for margin-squeezing Unipost (a hybrid operator)<sup>14</sup>.

In the Correos 2 case, CNMC warned that in any circumstance, the access fees were always higher than the large clients' prices (as the latter were granted with larger discounts for similar conditions) and therefore the margin squeeze arose under any circumstances.

The decision was overturned by the revision Court ("Audiencia Nacional") in the summer of 2015 on the grounds that the NRA failed to prove that the conduct could absolutely force its competition out of the market (since Unipost was a hybrid operator and so it did not depend 100% on access to the public network, the CNMC should have shown that the margin squeeze was critical to Unipost competitiveness and survival in the market).<sup>15</sup>

Therefore, the Revision Court did not question the existence of a margin squeeze but the expulsion capacity of the conduct. The final decision is now pending as it has been appealed.

### 4.4 Objective 4: other ex-post pricing review and investigations

The answers regarding the ex-post pricing review and investigations come from ten NRAs (from HR, EE, FI, IT, LT, NO, PT, RO, SI and ES). The UK is currently in the process of investigating a complaint from Whistl UK Limited (case opened in February 2014) in relation to the prices, terms and conditions on which Royal Mail plc is offering to provide access to certain letter delivery services.<sup>16</sup>

Three NRAs (from EE, LT and NO) used FDC in the context of ex-post review. Most NRAs used other types of methodologies that started from the designated USP's FDC system and determined the avoidable costs or the costs of the activities.

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<sup>13</sup> [www.cnmc.es/node/343872](http://www.cnmc.es/node/343872)

<sup>14</sup> [www.cnmc.es/node/343872](http://www.cnmc.es/node/343872)

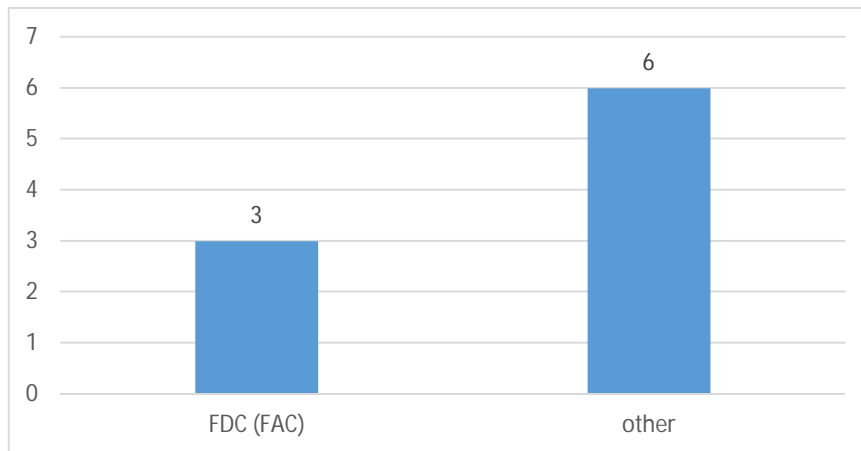
<sup>15</sup> [www.cnmc.es/expedientes/vs037311](http://www.cnmc.es/expedientes/vs037311)

<sup>16</sup> [https://www.ofcom.org.uk/about-ofcom/latest/bulletins/competition-bulletins/open-cases/cw\\_01122](https://www.ofcom.org.uk/about-ofcom/latest/bulletins/competition-bulletins/open-cases/cw_01122)  
<http://www.royalmailgroup.com/ofcom-investigation-access-contract-changes>



In most of the cases, the cost standard was adopted according to the legal provisions or the interpretation of the legal provisions. In one case it was determined by the availability of data.

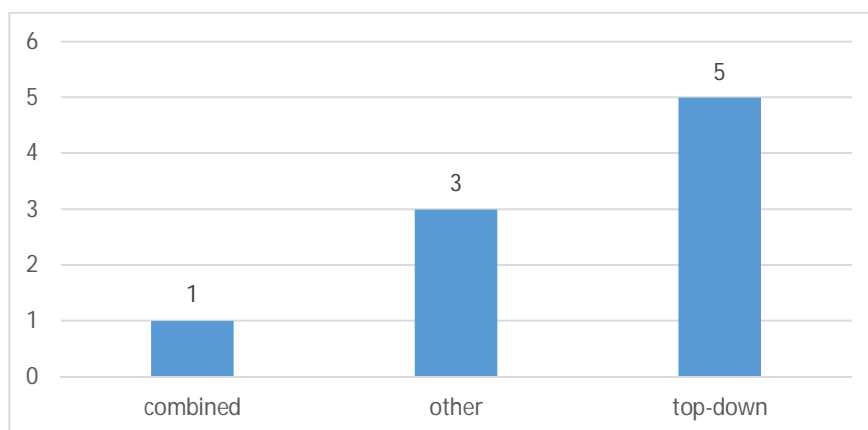
**Chart 4-3 - The cost standards applied by the NRAs (answers)**



The costing exercise was a separately developed in all the circumstances it was applied in.

When a modelling exercise was undertaken, it was mostly based on a top-down approach (HR, EE, IT, PT and RO). In one case (NO) it was based on a combination between top-down and bottom-up and, in 3 cases (LT, SI and ES), on other approaches that do not fall under the previous categories either because they were not considered modelling as such or because the exercise was done separately and the top-down data was used for reconciliation.

**Chart 4-4 - The type of modelling approach (answers)**



The costing and operational data was mostly provided by the designated USP/incumbent. In one case the alternative source was the NRA (SI).



The historical data was used in all instances and in almost half of the cases this was combined with forecast data.

The calculation of the financial and operational data was mostly done by the USP. There were two cases (FI and RO) in which both NRAs and USPs contribute to the calculation.

Three of the NRAs (from HR, PT and RO) stated that the unrecoverable/non-deductible VAT was allocated to the costs of access, as a consequence of the fact that the data was taken from the FDC system.

Four of the NRAs (from EE, NO, PT and ES) took into account the difference in the cost of delivery between urban and rural areas.

There were two situations (PT and RO) in which costing had common elements to the net cost calculation. One of them was related to the fact that the imposition of access to the network (and the conditions for access) had an impact on the cost of provision of the universal service and the other was reflected by the same level of inefficiency in both calculations.

There were three situations (HR, PT and ES) in which there were common elements to other exercises. One referred to the same elements used in the regulatory statements, one took into consideration the relation to retail prices and one was emphasized by the similarity to non-discrimination irrespective of the client type, by matching their economic conditions and the cost standard just in case the agents using the network produce the same cost savings.

#### **4.5 Objective 5: assessing the sustainability of the USO**

There are two NRAs (from CY and the UK) that considered the cost of access to the network and services in order to assess the sustainability of the USO.

One NRA used FDC (FAC) and a top-down approach in order to take into account all the relevant costs and the other NRA used ATC (Average Total Cost) and a bottom-up approach to provide a fair valuation that ensures the USP recovers the costs and allows for enough profit margin for the other providers.

Both NRAs considered the costing of access as an integrated exercise with all the services and the whole network.

The costing and operational data related to the designated USP/incumbent in both cases.

One NRA used historical data and the other used forecast data.

The calculation of the financial and operational data was done by both the designated USP/incumbent and the NRA.

One of the NRAs allocated the unrecoverable/non-deductible VAT on costs of access.

None of the two NRAs took into account zonal costing.

One NRA found common elements to the net cost calculation in the sense that the bottom-up model was developed to simulate different types of costs and both NRAs found common elements to other exercises taking into account that the same costing systems can produce results for different purposes.



#### 4.6 Objective 6: other

The other objectives followed by the NRAs in costing access were related to dispute resolution, the promotion of economic efficiency and competition and the observance of fair and reasonable terms of access, taking into account that zonal access prices must broadly reflect the underlying zonal access costs.

Three NRAs (from CZ, RO and the UK) stated that they pursued some of the above objectives.

FDC was used by all these NRAs and one of the authorities complemented the calculation with additional assumptions. The main reason for the choice of the methodology was the availability of robust data.

The costing exercise was either integrated with all the services and the whole network or separately undertaken.

All the responding NRAs used top-down modelling approach based on the designated USP's operational and financial data, while either historical or historical combined with forecast data was used.

The calculation of the financial and operational data was done by the designated USP/incumbent and in two cases with the NRA intervention.

The unrecoverable/non-deductible VAT was allocated on costs of access by one of the NRAs on the VAT exempted services (the UK).

Zonal costing was investigated by two of the responding NRAs (from CZ and the UK).

Common elements to the net cost calculation were identified by one NRA (from RO) with respect to the level of inefficiencies, while common elements with other exercises were used by two NRAs (from CZ and RO) with respect to cost allocation rules.



## 4.7 Summary

FDC tended to be the prevalent methodology in the price control exercises and overall. Avoidable cost was the second most used approach, either on its own or combined with other methods. The main reasoning behind the choice was based on the legal provisions or the availability of data.

**Table 4-1 – Cost standard<sup>17</sup>(answers)**

<b>Cost standard</b>	<b>Objective 1: Price control</b>	<b>Objective 2: Ex ante margin squeeze</b>	<b>Objective 3: Ex post margin squeeze</b>	<b>Objective 4: Other investigations</b>	<b>Objective 5: Financial sustainability</b>	<b>Objective 6: Other</b>	<b>Total</b>
avoidable costs	2	0	0	0	0	0	2
FDC (FAC)	7	1	1	3	1	2	15
LRIC	0	0	0	0	0	0	0
other	1	1	1	6	1	1	11
<b>Total</b>	<b>10</b>	<b>2</b>	<b>2</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>28</b>

The calculation of the costs of access to the network and services was mostly done as a separate exercise, especially in situations where other ex-post pricing review and investigations were conducted (such as the revision of the terms and conditions for access, the analysis of the reference offer, the investigation of the situations where access could be imposed and the investigation of the non-discrimination principle). It was integrated with all the services and the whole network especially when the objective was to achieve price control, taking into account the common allocation rules.

<sup>17</sup> The answers might differ according to the input from the NRAs (e.g. for Objective 1 one NRA provided two applicable answers; Objective 2 is pursued by 3 NRAs, while 2 of them providing answers to all the questions; the data for Objective 3 comes from one NRA, while there is another NRA providing a descriptive answer; Objective 4 question with regard to the cost standard was answered by 9 out of 10 NRAs)





**Table 4-2 – Exercise (answers)**

<b>Exercise</b>	<b>Objective 1: Price control</b>	<b>Objective 2: Ex ante margin squeeze</b>	<b>Objective 3: Ex post margin squeeze</b>	<b>Objective 4: Other investigations</b>	<b>Objective 5: Financial sustainability</b>	<b>Objective 6: Other</b>	<b>Total</b>
a separate exercise	5	0	1	10	0	2	18
integrated with all services and the whole network	4	2	0	0	2	1	9
<b>Total</b>	<b>9</b>	<b>2</b>	<b>1</b>	<b>10</b>	<b>2</b>	<b>3</b>	<b>27</b>

Top-down was the prevalent approach to modelling, but bottom-up was also often employed. This was congruent to the cost standard used and could also be viewed as a reflection of the availability of data.

**Table 4-3 – Type of modelling (answers)**

<b>Type of modelling</b>	<b>Objective 1: Price control</b>	<b>Objective 2: Ex ante margin squeeze</b>	<b>Objective 3: Ex post margin squeeze</b>	<b>Objective 4: Other investigations</b>	<b>Objective 5: Financial sustainability</b>	<b>Objective 6: Other</b>	<b>Total</b>
bottom-up	1	1	0	0	1	0	3
top-down	6	1	0	5	1	3	16
combined	2	0	1	1	0	0	4
other	0	0	0	3	0	0	3
<b>Total</b>	<b>9</b>	<b>2</b>	<b>1</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>26</b>

In all the cases, the costing exercise was based on the data from the incumbent, at least at the start of the calculation with only one exception where it was used only for reconciliation purposes. The data from the alternative operators and the consolidators was never used as the exclusive source.



**Table 4-4 – Sources of data (answers)**

<b>Cost provided by:</b>	<b>Objective 1: Price control</b>	<b>Objective 2: Ex ante margin squeeze</b>	<b>Objective 3: Ex post margin squeeze</b>	<b>Objective 4: Other investigations</b>	<b>Objective 5: Financial sustainability</b>	<b>Objective 6: Other</b>	<b>Total</b>
USP/incumbent	9	2	1	8	2	3	25
alternative operators	0	0	1	0	0	0	1
consolidators	0	0	1	0	0	0	1
other	0	0	0	1	0	0	1
<b>Total</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>28</b>

The historical data was the data mostly used across the calculation exercises undertaken, irrespective of the pursued objective. The forecast data was used as an input mostly in combination with the historical data.

**Table 4-5 – Type of data (answers)**

<b>Type of data</b>	<b>Objective 1: Price control</b>	<b>Objective 2: Ex ante margin squeeze</b>	<b>Objective 3: Ex post margin squeeze</b>	<b>Objective 4: Other investigations</b>	<b>Objective 5: Financial sustainability</b>	<b>Objective 6: Other</b>	<b>Total</b>
historical	7	1	0	5	1	2	16
forecast	0	1	0	0	1	0	2
combined	2	0	1	4	0	1	8
<b>Total</b>	<b>9</b>	<b>2</b>	<b>1</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>26</b>

Taking into account that most of the data came from the designated USP, the calculation was done in all the situations by it. In 11 of the 26 cases, the NRAs adjusted the calculation.



**Table 4-6 - Calculations (answers)**

Calculations done by:	Objective 1: Price control	Objective 2: Ex ante margin squeeze	Objective 3: Ex post margin squeeze	Objective 4: Other investigations	Objective 5: Financial sustainability	Objective 6: Other	Total
USP/incumbent	9	2	1	9	2	3	26
NRA	3	1	1	2	2	2	11
other experts	0	0	0	0	0	0	0
<b>Total</b>	<b>12</b>	<b>3</b>	<b>2</b>	<b>11</b>	<b>4</b>	<b>5</b>	<b>37</b>

In general, there was no allocation of the unrecoverable/non-deductible VAT on costs of access. In case of allocation, such non-deductible VAT allocation depended largely on the legal provisions and tax rules regarding VAT and the USO area.

**Table 4-7 – VAT treatment (answers)**

Non-deductible VAT	Objective 1: Price control	Objective 2: Ex ante margin squeeze	Objective 3: Ex post margin squeeze	Objective 4: Other investigations	Objective 5: Financial sustainability	Objective 6: Other	Total
YES	1	1	0	3	1	1	7
NO	6	1	0	5	1	2	15
<b>Total</b>	<b>7</b>	<b>2</b>	<b>0</b>	<b>8</b>	<b>2</b>	<b>3</b>	<b>22</b>

Where possible, the costing exercise took into account the difference between the urban and the rural areas. In more than half of the cases, this kind of differentiation was not accounted for.



**Table 4-8 – Zonal costing (answers)**

Zonal costing	Objective 1: Price control	Objective 2: Ex ante margin squeeze	Objective 3: Ex post margin squeeze	Objective 4: Other investigations	Objective 5: Financial sustainability	Objective 6: Other	Total
YES	3	1	0	4	0	2	10
NO	6	2	1	5	2	1	17
<b>Total</b>	<b>9</b>	<b>3</b>	<b>1</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>27</b>

The situation regarding the common elements to the net cost calculation was the opposite of the one regarding common elements to other exercises. This can be explained by the basic legal provisions (i.e. the absence of net cost calculation) or the fact that the two exercises were done separately, while the same costing system or the same modelling exercises were often used for other purposes such as USO pricing, non-discrimination or sustainability review.

**Table 4-9 – Common elements to net cost calculation (answers)**

Common elements to net cost calculation	Objective 1: Price control	Objective 2: Ex ante margin squeeze	Objective 3: Ex post margin squeeze	Objective 4: Other investigations	Objective 5: Financial sustainability	Objective 6: Other	Total
YES	2	1	0	2	1	1	7
NO	6	1	0	5	1	2	15
<b>Total</b>	<b>8</b>	<b>2</b>	<b>0</b>	<b>7</b>	<b>2</b>	<b>3</b>	<b>22</b>



In half of the objectives, situations in which cost elements to other exercises are employed tended to prevail.

**Table 4-10 – Common elements to other exercises (answers)**

<b>Common elements to other exercises</b>	<b>Objective 1: Price control</b>	<b>Objective 2: Ex ante margin squeeze</b>	<b>Objective 3: Ex post margin squeeze</b>	<b>Objective 4: Other investigations</b>	<b>Objective 5: Financial sustainability</b>	<b>Objective 6: Other</b>	<b>Total</b>
YES	4	2	0	3	2	2	13
NO	4	0	0	3	0	1	8
<b>Total</b>	<b>8</b>	<b>2</b>	<b>0</b>	<b>6</b>	<b>2</b>	<b>3</b>	<b>21</b>



## 5 Approaches adopted by the NRAs for costing access to elements of infrastructure

Article 11a of the Postal Services Directive obliges Member States to ensure that transparent, non-discriminatory access conditions are available to elements of postal infrastructure or services provided within the scope of the universal service, whenever this is necessary to protect the interest of users and/or to promote effective competition.

According to recital 34 of the Postal Directive, ‘in an environment where several postal undertakings provide services within the universal service area, it is appropriate to require all Member States to assess whether some elements of the postal infrastructure or certain services generally provided by universal service providers should be made accessible to other operators providing similar services, in order to promote effective competition, and/or protect all users by ensuring the overall quality of the postal service’.

Access to elements of infrastructure is quite common among the EU countries. In this section, we present the findings of our questionnaire regarding various aspects of the access to the postal infrastructure elements in the Member States.

### 5.1 Elements of infrastructure subject to access

Elements of postal infrastructure that were typically subject to access include post code system, address database, post office boxes, delivery boxes, information about the change of address, re-direction services and return to sender service<sup>18</sup>.

The majority of the NRAs that answered our questionnaire included one or more elements of the postal infrastructure as part of the access arrangements consideration. Only in 3 countries out of 28 respondents (11%) no postal elements were included in the access review (Chart 5-1).

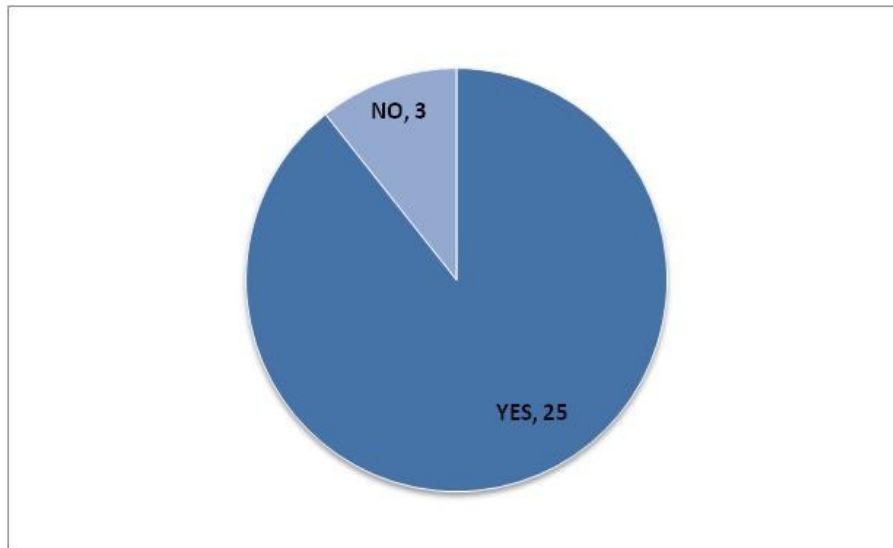
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<sup>18</sup> The definitions of the elements can be found in the ERGP Report on “access” to the postal network and elements of postal infrastructure (12) 36:

<https://ec.europa.eu/docsroom/documents/14286/attachments/1/translations/en/renditions/pdf>

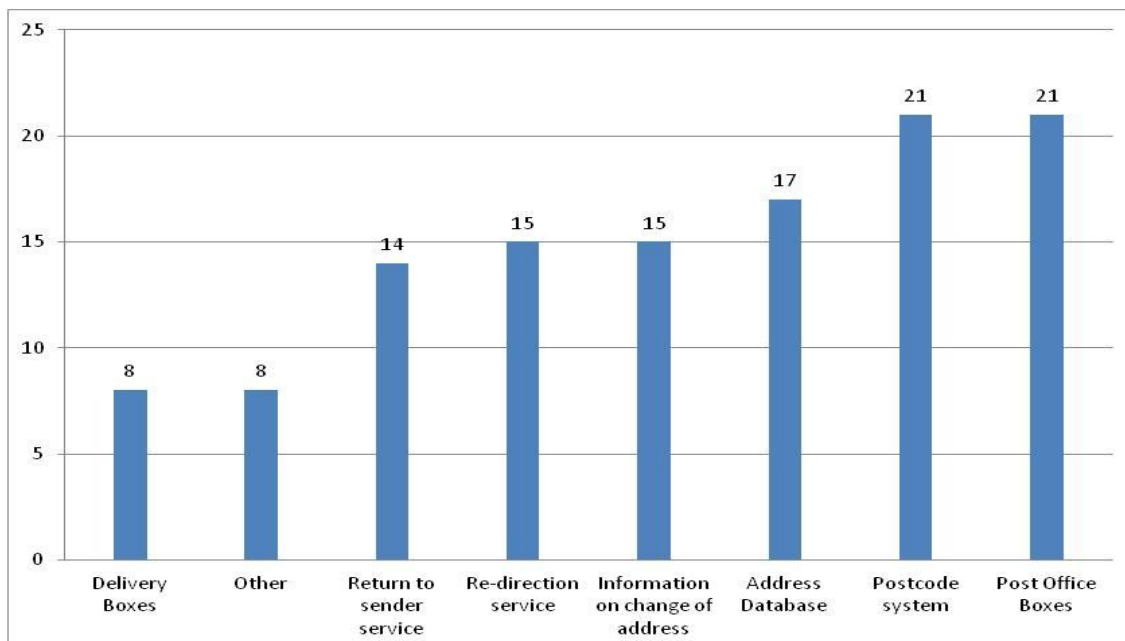


**Chart 5-1- Access to postal elements of infrastructure (NRAs)**



The access to the postcode system and access to the post office boxes were included in almost every country where access to the elements of infrastructure was considered.

**Chart 5-2- Elements of infrastructure subject to access (answers)**



**Table 5-1 – Elements of infrastructure subject to access**

Country	Address Database	Delivery (letter) boxes	Information change of address	Post office boxes	Post code system	Redirection service	Return to sender service	Other
Austria	-	-	-	-	√	√	√	-
Belgium	√	√	√	√	√	√	√	√
Bulgaria	-	-	-	-	-	-	-	-
Croatia	√	-	√	-	√	√	√	-
Cyprus*	√	-	√	√	√	√	√	-
Czech Republic	√	√	-	√	√	√	-	-
Estonia	-	-	-	√	√	√	√	√
Finland	√	-	√	√	√	-	√	-
France	-	-	-	-	-	-	-	-
Greece	√	√	√	√	√	√	√	-
Hungary	√	-	√	√	√	-	-	-
Ireland	√	√	√	√	√	√	√	√
Italy	-	-	-	√	√	-	-	-
Lithuania	√	-	√	√	√	-	√	-
Luxemburg	-	-	√	√	√	√	√	-
Malta	-	-	-	√	√	√	-	√
The Netherlands	√	-	√	√	√	√	√	-
Norway	√	-	√	√	-	-	-	-
Poland	-	√	√	√	√	-	-	-
Portugal	-	-	-	√	-	-	-	√
Republic of Moldova	-	-	-	-	-	-	-	-
Republic of Serbia	√	-	-	-	√	-	-	-
Romania	√	√	√	√	√	√	√	-
Slovenia	√	√	√	√	√	√	√	-
Slovakia	-	-	-	√	√	√	-	√
Spain	√	√	√	√	√	√	√	√
Switzerland	√	-	-	√	-	-	-	√
UK	√	-	-	-	-	-	-	-

\* When the legislation for postal access legislation comes into force

The 'Other' category refers mainly to agreements between the USP and the other operators regarding the treatment of wrongly deposited and misdirected postal items. An interesting case can be found in Belgium where according to Article 19 of the 6<sup>th</sup> management contract bpost shall grant access for parcel delivery, after being asked to do so and only when the applicant doesn't have an own postal point in this municipality, to their post offices.

## 5.2 Costing

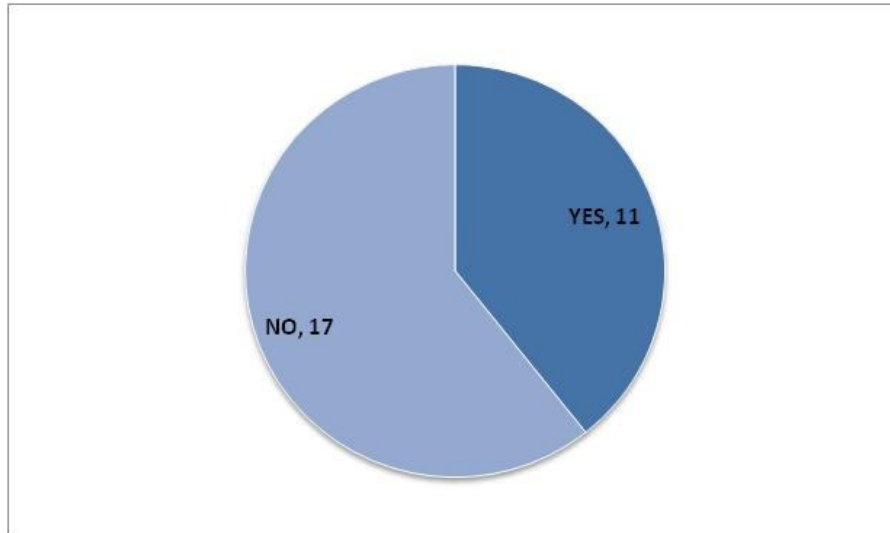
Cost assessment for at least one of the elements of infrastructure was carried out by 11 NRAs (AT, CY, CZ, EE, FI, EL, NO, PL, SI, CH and the UK). Most NRAs have not carried out any cost assessment of the postal elements of infrastructure access because they have not faced any disputes about the matter yet



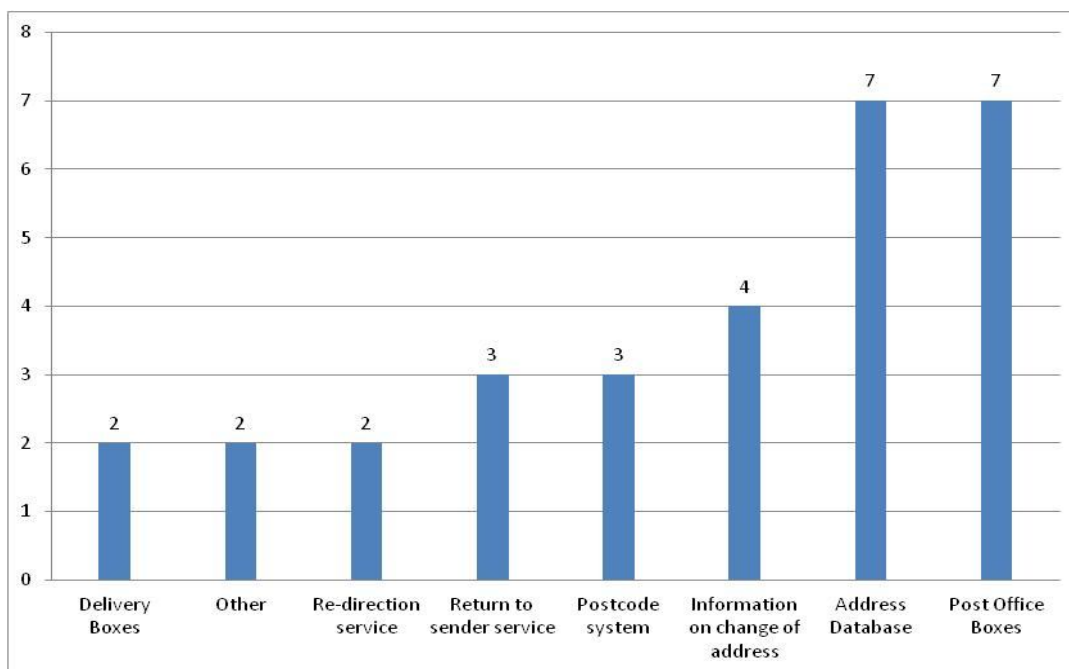


or have not needed costing for their ex ante remedies. The following diagrams show more detail about the sort of costing exercises done by the NRAs.

**Chart 5-3 - Countries that assess costs of access to elements of infrastructure**



**Chart 5-4 - Elements of infrastructure subject to costing by NRAs (answers)**



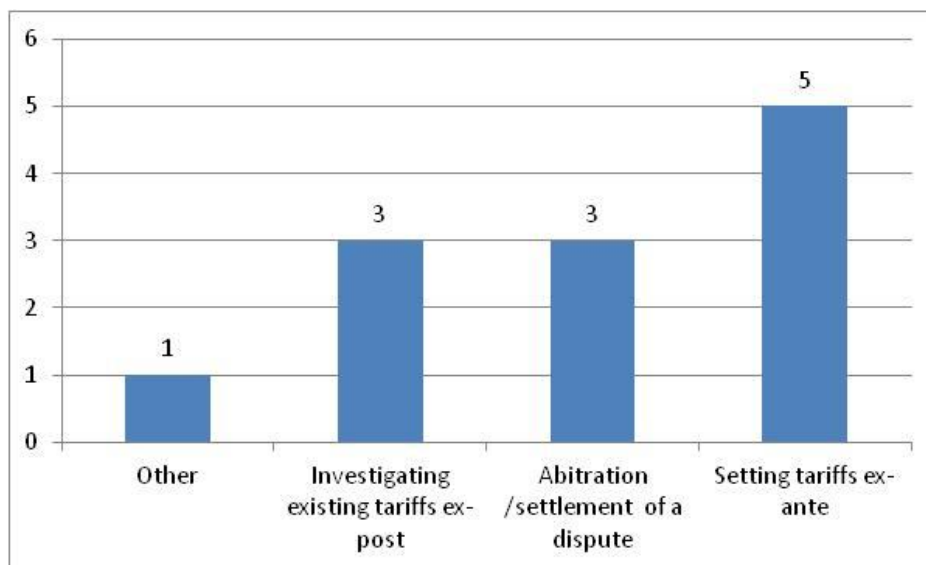
**Table 5-2 – Elements of infrastructure subject to costing**

Country	Address database	Delivery (letter) boxes	Information change of address	Post office boxes	Post code system	Redirection service	Return to sender service	Other
Austria	-	-	-	-	-	√	√	-
Cyprus*	√	-	√	√	√	√	√	-
Czech Republic	√	√	-	√	-	-	-	-
Estonia	-	-	-	-	-	-	-	√
Finland	√	-	√	√	√	-	√	-
Greece	-	-	-	√	-	-	-	-
Norway	√	-	√	√	-	-	-	-
Poland	-	√	√	√	√	-	-	-
Slovenia	√	-	-	-	-	-	-	-
Switzerland	√	-	-	√	-	-	-	√
UK	√	-	-	-	-	-	-	-

\* When the legislation for postal access legislation comes into force

The main reasons driving the NRAs to examine the costs were to (i) set ex-ante tariffs, (ii) resolve a dispute between the designated USP and the access seekers and (iii) conduct an ex post investigation of the prices. For example, in Austria, RTR required the postcode system to be provided free of charge but the redirection and the return to the sender services were subject to cost assessment for dispute settlement purposes. Ofcom (included in the ‘Other’ category below) required Royal Mail to provide information on the financial performance (including cost assessment) of its Postcode Address File (PAF) (submission of an income statement on a quarterly basis to Ofcom and publication of an annual income statement).

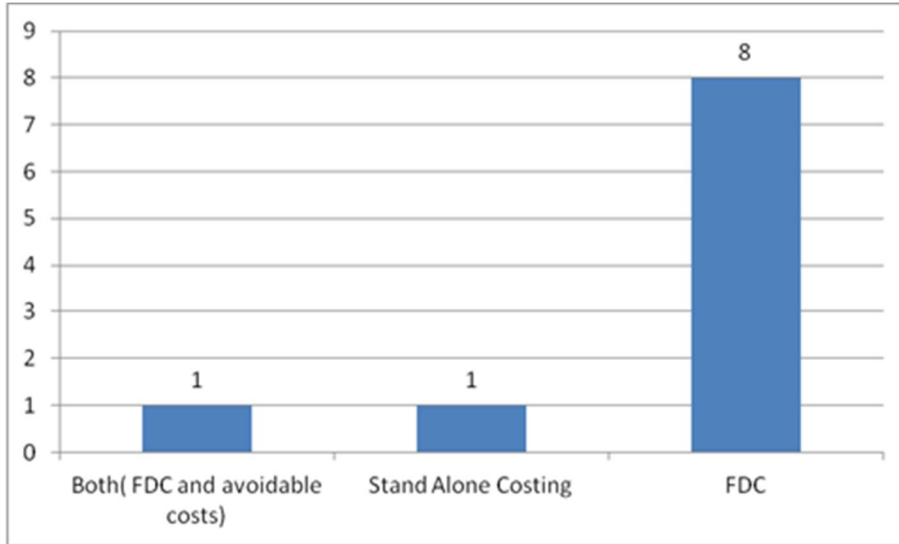
**Chart 5-5 - Reasons for cost assessment (answers)**





Regarding the cost standards used, almost all the NRAs applied FDC (FAC) to assess the cost of the postal infrastructure elements (see Chart 5-6).

**Chart 5-6 - Cost standard applied (answers)**



Among the reasons for using FDC as a cost standard, NRAs stated the appropriateness for assessing financial performance, using the same standard as the USP and the legislation. The table below provides a summary of all the answers regarding the reasoning behind a specific cost standard:

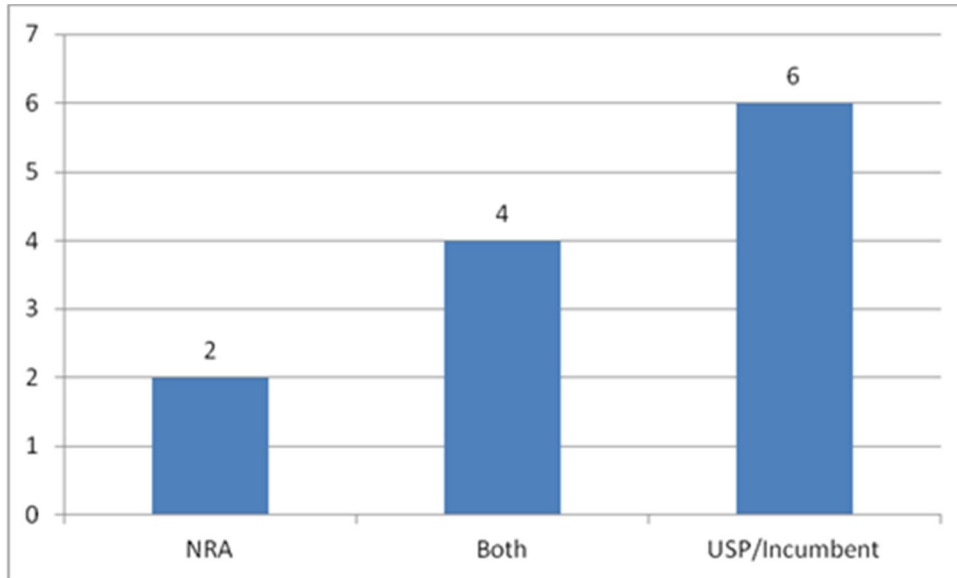


**Table 5-3 - Reasonings behind using a specific cost standard**

<b>FDC (FAC)</b>	<b>Avoidable costs</b>	<b>Stand alone costing</b>
<ol style="list-style-type: none"> <li>1. Most appropriate cost standard for assessing financial performance.</li> <li>2. This approach is the same for calculating US prices. The information source for calculation is the report of the accounting system used also for accounting separation and annual regulatory reports.</li> <li>3. Postal Act states that access prices must be cost oriented.</li> <li>4. It is the cost standard used by the designated USP.</li> <li>5. This cost standard best reflects the real postal cost.</li> <li>6. It is set in the legislation.</li> </ol>	<p>Access to the postal elements of infrastructure should be assessed under the same principles as access to the network.</p>	<p>The cost accounting system does not include allocation of these services.</p>

The cost assessment for the elements of infrastructure was independent for all NRAs but one and for this exercise the designated USP/incumbent costing and operational data was used; in one case the data was complemented with the one from the alternative operators and consolidators. All NRAs used historical financial and operational data and two of them complemented it with forecast data in the process of access calculation.

The financial and operational data used for the cost assessment exercise was calculated by both the NRA and the designated USP/incumbent in 4 of the countries (CY, CZ, FI and CH), as it is shown in the chart below. The majority of the NRAs used exclusively the data calculated by the designated USP/incumbent and 2 NRAs used their own data.

**Chart 5-7- Calculation of data (answers)**

### 5.3 Conclusion

Access to the postal elements of infrastructure was part of the whole postal access arrangements in the majority of the countries that answered the questionnaire. The most common type of access to the elements of infrastructure is access to the postcode system and access to the post office boxes. Cost assessment for at least one of the elements of infrastructure was carried out by 11 NRAs. The main objectives for assessing the cost were setting price ex-ante, resolving a dispute and investigating existing tariffs ex-post. The main cost standard used was the Fully Distributed (Allocated) Cost.



## 6 Country case studies

### 6.1 Bulgaria - CRC

#### 6.1.1 Regulation

The Postal services act (PSA - in force since 2010) empowers CRC to regulate the access condition of the universal service provider Bulgarian posts. According to the PSA (art. 15, p. 19) CRC drafts an ordinance for the rules on the provision of access to the network of the postal operator, obliged to provide the universal postal service and to set the rules regarding the prices of the provision of access.

CRC approves:

- the reference offer for access to the designated operator's postal network
- the prices of the provision of access to the network of the designated operator. (art. 15, para. 20 of PSA)

The USP is obliged to:

- Give access to its postal network (downstream access) to other postal operators under conditions of impartiality and equality and subject to observance of the technical and operational conditions. For this purpose, the parties should conclude access agreements on the financial, specific technical, operational and other terms and conditions of connection.
- Organize and carry out the accounting of its activity in compliance with the applicable accounting standards and by applying a system for distribution of the expenses both generally for the company and also analytically and separately for the services: the universal postal service according to types of services; the postal money transfers; the postal services outside US and other trade activities.

The prices of universal services are determined and applied in accordance with the relevant rules and in compliance with the following additional principles (described in Art. 66 of the PSA and specified in an Ordinance on specification of the formation and application of the prices of the universal postal service):

- equal prices of equal services on the territory of the whole country;
- equality of consumers;
- accessibility of prices;
- consideration of the expenses on providing the services;
- observance of the quality of services;
- the inclusion of a reasonable profit margin, in accordance with the investment policy;
- creating conditions to encourage consumption;
- international benchmarking with relevant countries; and
- publication of prices.

CRC has access to the yearly financial data from the cost allocation system, including costs, revenues and volume of all services, grouped in main products.



The verification of the universal services prices is subject to ex ante price regulation. The designated operator shall submit the prices of the universal services to the NRA for approval and it should publish those 30 days prior to their application.

According to the Ordinance, the designated operator, by observing the principles of transparency and non-discrimination, may negotiate prices by types of services within the universal service which differ from the prices formed under the rules. These prices are formed by applying discounts by type of service on the basis preliminary fulfilled conditions. They must be non-discriminatory, transparent and cannot exceed the costs of performing any type of service.

In Bulgaria, bulk mail is not defined in the PSA. For single piece services within the scope of the universal service, the designated operator has different discounts (granted for preparatory work and for volume/revenue). These different prices must be submitted to the NRA and the operator must provide evidence that they are non-discriminatory and cost-oriented.

The access prices must be transparent and cost oriented.

In August 2016, CRC adopted a new reference offer for access to the designated operator's postal network<sup>19</sup>. The reference offer consists of:

- List of access points, locations and conditions for opening and closing;
- Provided services, quality standards and requirements;
- Technical parameters for clearance, transport and delivery of mail items;
- Financial conditions, including prices and payment terms;
- Requirements for postal security and confidentiality of correspondence;
- Rights and obligations of the parties;
- Conditions for operators' staff and conditions for inspection by operators;
- Terms and conditions for refusing access to the network operator;
- Returns and penalties;
- Dispute Resolution; and
- Terms of the contract and conditions of termination.

If the postal operators carrying out services within the scope of the universal service do not reach an agreement for the conclusion of a contract for access with the designated universal service provider, each of them may, not earlier than two months, and not later than three months from the date of the proposal for conclusion of the contract, file a request to CRC. Within two months from receiving the request, the Commission should issue a decision to conclude a contract for the provision of access to the designated USP postal network.

### 6.1.2 Costing

Bulgarian post uses an Activity Based Costing ('ABC') top down model to determine the Fully Allocated Costs ('FAC') of all of its products, grouped into 13 categories, including access products/services.

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<sup>19</sup> Available in Bulgarian: <http://www.bgpost.bg/bg/190>



The ABC system allocates the reported costs recorded in the general ledgers of its accounting system - using any other necessary sources of data – to its activities and then it allocates those activity costs to its products/services.

Activities are tasks or processes (clearance, sorting, transport and delivery) which are required to be carried out in order to operate the integrated postal network - which provides universal as well as non-universal services.

## 6.2 Czech Republic – CTU

### 6.2.1 Regulation

The Czech Postal Services Act No. 29/2000 collection (Coll.) amended in 2012 imposed a new obligation for the designated universal service provider to supply access to the postal infrastructure for other postal services providers in a transparent and non-discriminatory manner.

Access to the postal infrastructure includes:

- a) access to the network:
  - wholesale access to postal services (delivery to address stated on the envelope)
- b) access to the elements of postal infrastructure:
  - address database (information on addresses for re-direction and other information)
  - post office boxes
  - delivery boxes (These boxes are usually located on the main roads or in the centre of villages, because house of recipients is accessible with difficulty or it is convenient for recipients. One delivery box has several shelves, delivery man has key from delivery box cover and each recipient has key only to his shelf.)

A business agreement between the designated USP and an access seeker is preferred. If the negotiation is not successful within 2 months, the regulator (CTU) is obliged to solve the dispute. The standard term for solving the dispute is 4 months and the extended term is 6 months in a complicated case. If the subject of the disagreement is the price, the regulator should also determine the prices. Access prices must be cost oriented. Decisions on access conditions and access prices should be published on the regulator's website and in the Postal bulletin.

The first company asked for access to postal services and to the elements of infrastructure of the Czech Post in 2013. The negotiation was not successful, so the company filed the case to CTU in 2014. CTU started the administrative procedure. CTU had to examine if the prices offered by the Czech Post were cost oriented. An in-depth cost analysis was needed. To find a timely solution, the dispute was divided into two parts: wholesale access to postal services and access to the elements of infrastructure (address database, PO boxes, delivery boxes). The decision on the first part (access to the network) was issued in January 2015.

Another company referred a dispute on access to special elements of Czech Post infrastructure later in 2014.





The administrative procedures on access to the elements of Czech Post infrastructure has not been completed yet, because the CTU's decision was appealed by the access seeker.

### 6.2.2 Costing

The Czech Post is obliged to keep separate accounts for access services. Decree 465/2012 Coll. stipulates the rules for cost accounting and the structure of information on cost and revenues of services within USO, non-USO and access services.

The CTU has approved the allocation keys of common costs between services proposed by the Czech Post. The CTU requires the costing rules and the allocation keys to comply with the principles of causality, objectivity, accuracy and compliance with statutory accounting standards. The CTU also has the power to approve the independent auditor for verification of the results of the accounting separation. The auditor must verify that the postal license holder has used the approved rules in their accounting practices and the annual results of accounting separation, including access, are correct.

The Czech Post uses an Activity Based Costing ('ABC') top down model to determine the Fully Allocated Costs ('FAC') of all of its products, including access products. The Czech Post cost accounting system allocates the costs to its activities and then it allocates those activity costs to its products. Activities correspond to operating of postal network, which provides universal as well as non-universal services. Costs of activities related to collection, sorting, transport and delivery mail to its final destination are transparent in the cost accounting system.

Access products are costed in the ABC system alongside all other universal service and non-universal service products that are provided by the Czech Post's integrated network.

The obligation of cost orientation for access prices is stipulated in the legislation. To determine if the Czech Post meets this obligation, CTU can start a special administrative audit procedure to examine the costs. According to the Postal Services Act, CTU is entitled to receive very detailed accounting information on request from the ABC model.

Within the administrative procedure on the access dispute which arose in 2014 (see above), CTU examined the costs, and only after that cost investigation, CTU accepted the zonal prices approach proposed by the USP. The reason for investigating the costs was that there were considerable differences between the cost of delivery in different zones. There are three zones:

- zone 1 = Prague and cities
- zone 2 = big towns
- zone 3 = small towns and rural areas

In the decision on the dispute, CTU determined access conditions and access prices for different categories of postal items according to zone and weight.

The prices on access to special elements of postal infrastructure are based on FAC. CTU identified the historical cost of the special elements (residual value) and their cost of maintenance of the elements and considered the utilization of the elements by the Czech Post and the access seeker.



## 6.3 Croatia - HAKOM

### 6.3.1 Regulation

According to the Croatian Postal Services Act and the Ordinance of the provision of the universal service, the designated USP (HP-Croatian Post Inc.) is obliged to allow network access to other provider(s) of postal services, consolidator(s) and users of the postal services in the following points:

- Access point I – access to the postal network elements that provide concentration of postal items received from different parts of the network (classified and unclassified), also referred to as Outward Mail Processing or Sorting Centres in some countries;
- Access point II - the parts of the postal network in which postal items are prepared for shipment to the parts of the postal network where delivery is organized (classified), also referred to as Inward Mail Processing and Sorting Centres in some countries

Besides the access to the network, the USP is obliged to enable the users the access to the post code system, the address database, information on change of address, re-direction services and return to sender services.

No price control was imposed on access products, but the prices must be set in such a way that the costs of the activities avoided by the USP as a result of providing access services are considered, rather than a full end to end service. This means the USP grants discounts to users who access the network at access points I and II.

### 6.3.2 Costing

Croatian Post uses an Activity Based Costing ('ABC') top down model to derive the Fully Allocated Costs ('FAC') of all of its products. Croatian Post ABC system is based on cost drivers, and tracks and allocates costs on the basis of the implemented activities and determines clear causal connections between activities, costs and services that result from them.

The ABC system is a process of allocation of costs in two stages in which, in the first stage, resources are consumed by the activities and in the second stage, the services consume activities. The activities defined in the model are clustered into 3 big groups: operating activities, structure activities and activities directly allocated to service. The costing rules and allocation rules are set by HAKOM, which also audits the costs.

## 6.4 Germany – BNetzA

### 6.4.1 Regulation

The German Postal Act stipulates that the German incumbent (Deutsche Post AG) as an undertaking with a dominant position in the relevant letter segments is obliged – under specific circumstances laid down in the Postal Act – to grant access to the network and to parts of the infrastructure to other letter service providers.



The access to the elements of infrastructure includes:

- Information on change of address
- Post office box facilities

Concerning the access to the network, the incumbent concludes agreements with other letter service providers as well as with business senders based on general terms and tariffs. The prices for access are charged as a discount on the full price (top-down procedure).

The prices for access products are subject to price-regulation according to the German Postal Act. More specifically the access prices shall be cost-oriented. This fundamental principle is laid down in Article 20 of the German Postal Act:

*Criteria Applicable to rates subject to price-regulation*

*(1) Rates subject to regulation shall be based on the costs of efficient service provision and comply with the requirements of (2) below.*

*(2) Rates subject to price-regulation may not*

- 1. contain any surcharges prevailing solely as a result of the provider's dominant position in the market;*
- 2. contain any discounts prejudicing in anti-competitive manner the competitive opportunities of other companies in a postal services market;*
- 3. create any advantages for individual users in relation to other users of postal services of the same type*

The regulation of the access prices for elements of infrastructure is different from the regulation of access to the network. Initially, both access regimes were established ex-ante.

Access to elements of infrastructure (information on change of address and post office boxes) is still regulated ex-ante by the NRA. This is done using detailed bottom-up calculations provided by the incumbent.

From 1 January 2008 – after the German postal market was fully opened to competition – the NRA moved from the ex-ante regulation of access to the network to ex-post control. On the basis of complaints filed by other letter service providers, subsequent to discount increases, the ruling chamber conducts preliminary inquiries in order to verify the cost-orientation of the access prices and to examine the impact of the discounting scheme on the competitiveness in the letter segment.

As part of these investigations, the NRA carries out a systematic reconciliation within the cost data submitted for the price-cap regime. The incumbent discloses detailed historical and forecast data for determining the X-factor for single mail letter. The submitted data also includes disaggregated process related information concerning the access segment as part of the bulk mail segment. The high level of disaggregation allows the NRA to conduct an ex-post margin squeeze test on the different services within the bulk mail segment. The main focus of this exercise is to cross-check the access prices for network against the prices of the alternative letter providers engaging in the business segment. The



investigation relies on data submitted by the incumbent as well as information derived from alternative operators and consolidators.

### **6.4.2 Costing**

The incumbent implements a cost accounting system with a high level of disaggregation, facilitating bottom-up and top-down calculations based on FAC methodology. The applied FAC methodology is required to be in compliance with the provisions in the rate ordinance. For verifying the access prices the NRA has also specified requirements with regard to the allocation of common and overhead costs. These more detailed rules include the rules of fully allocated costing and activity based costing as well as requirements with regard to sampling, allocation of common and overhead costs and reporting scheme.

The incumbent's cost accounting system represents a comprehensive data source for a top-down calculation of the total cost for the bulk segment. This segment comprises the cost data for the examination of the cost coverage of the access segments. Given the scope and degree of accounting information, a cross-check of the underlying costs can be carried out. Thanks to the high level of granularity, the NRA can examine the extent of cost savings for which the incumbent grants special discounts.

However, since the incumbent provides largely aggregate and historical data, the informative value of results from a top-down model is limited. Solely relying on the accounting data does not enable neither in-depth evaluation of operational processes, nor an assessment of the utilisation of the involved resources.

Therefore, in addition to the top-down approach, the NRA calculates the costs for the access services on the basis of a bottom-up model in which a sophisticated activity based costing methodology (ABC-approach) is employed. The methodology starts with an assessment of the underlying operational processes separately, determining process-related costs for the relevant sub-processes. To do this, the entire letter conveyance pipeline is considered focusing on differences in the operational procedures. The process related data for the letter segment is split into costs of clearance, sorting, transport and delivery. For each of these steps of the letter conveyance pipeline, the incumbent identifies the key drivers. This data in conjunction with the volume related information allows the NRA to examine the degree of cost saving resulting from providing access to the postal infrastructure. When examining the cost savings the NRA must take into the account the economies of scale and scope.

## **6.5 Greece – EETT**

### **6.5.1 Regulation**

The USP in Greece shares with other postal service providers the database of all the active PO Boxes. The postal service providers deposit at the USP's post office all the postal items to be delivered to the PO boxes, as defined in the legal agreement between USP and the Postal Service Provider. Items must be pre-sorted according to PO box and must be marked with characteristics such as the name or logo of the postal provider, the service of the USP which will be used, the postal infrastructure of deposit, the



number of the legal agreement, the sender and recipient information, and timestamp (optional). The USP maintains a central file with detailed information concerning all transactions for each cooperating postal service provider.

### 6.5.2 Costing

The cost accounting system is mandatory for pricing purposes. The price for the access to the PO boxes is defined in the legal agreement between the USP and the postal service providers. The price for access to each PO Box cannot exceed the limit of:

$$€ 0.53 + € 0.28 * X$$

where X is the total amount of postal items in each deposit.

The above-mentioned limit is set by the NRA and is updated according to the changes in the USP price list approved by the NRA. The fixed amount of € 0.53 concerns the extra handling cost of the USP for the postal items deposited within the framework of access to the PO Boxes.

The € 0.28 is the mark-up which takes under consideration the following components:

- the WACC (Weighted Average Cost of Capital) of USP
- the support of cross-subsidies for the protection of USP regarding the Provision of Universal Service (uniform tariffs throughout the country)
- the desired level of competition in the market

## 6.6 Lithuania - RRT

### 6.6.1 Regulation

According to the Postal Law, with a view to ensuring the user interests and promoting effective competition, the designated universal postal service provider must negotiate if requested by another postal service provider and enter into an agreement with another postal service provider whenever the latter files a request to the postal service provider regarding the use of the postal network, including the post code system, address database, delivery boxes and the information on changes in the address, the re-direction and return to the sender services. The USP which manages the postal network must ensure that such an agreement on the use of the postal network is entered into in compliance with non-discriminatory, proportionate and transparent terms and conditions.

According to the Postal Law, the USP may apply special tariffs in accordance with agreements entered into with users. The USP shall observe in relation to these tariffs and related conditions the principles of transparency and non-discrimination. Such tariffs must be set taking account of the avoided costs, as compared to standard costs of the normally provided universal postal service. The tariffs shall be the same for all users of the universal postal service of the same category. It should be noted that this provision applies both to retail and wholesale customers.

The prices of access services are not regulated, but RRT assesses whether or not the prices are discriminatory between users/operators of the same category.



## 6.6.2 Costing

The USP uses the Fully Allocated Costs (FAC) method for all services, for which the basic requirements of cost allocation are set by RRT in the Cost Accounting Rules.

The new version of the Cost Accounting Rules was approved by RRT in August 2017, and will come into force on January 1<sup>st</sup> 2018. These rules require the USP to provide more detailed information on costs than is currently done, including more detailed information on the costs of access services and non-universal services.

The Cost Accounting Rules establish the general principles for the cost accounting system used by the USP – causality, objectivity, consistency etc. and main principles of allocation of revenues, costs, assets and liabilities to the relevant business units, such as universal postal service (local and international) business units, business unit of periodicals, wholesale business unit, unregulated service business unit etc. Also there are set specific requirements for the identification of internal activities, the main principles of direct, indirect, joint, non-distributed costs allocation, and principles for calculation of reasonable return of investment and other relevant requirements. The Cost Accounting Rules also specify what particular information the USP should submit to RRT yearly.

The prices of all the postal services are set according to the weight and the prices of universal postal service are approved by RRT. The prices of retail non-universal postal services (bulk mail services, special tariffs in accordance with agreements etc.) and prices of wholesale access services are differentiated by the zones (Urban, Suburban, Rural).

## 6.7 Slovenia - AKOS

### 6.7.1 Regulation

Under the Postal Services Act (Article 32), the providers of interchangeable postal services may access the universal postal service provider's network.

The designated universal postal service provider (Pošta Slovenije d.o.o.) must conclude an agreement on access with providers of interchangeable postal services at their request, regulating the manner and conditions of accessing the postal network, cost-oriented price of the access, charging and invoicing, and other issues related to access.

The universal postal service provider must publish transparent and non-discriminatory terms and conditions of access together with the prices and means of access, which are based on general terms and conditions for providing postal services and prices.

Access to the network in practice means that the provider of interchangeable postal services delivers its sorted mail to an access point and is granted a certain discount based on the access point type (regional or delivery post office) and the level to which the mail is sorted (delivery post office or delivery district).

The points for accessing the infrastructure are 8 regional clearance post offices (1102 Ljubljana, 2102 Maribor, 3102 Celje, 4101 Kranj, 5102 Nova Gorica, 6104 Koper, 8101 Novo mesto, and 9101 Murska Sobota), and all delivery post offices.



Concerning infrastructure access, further access levels are defined as:

- mail for addressees at all post offices around Slovenia, sorted to the level of delivery post office; and
- mail for addressees at all post offices around Slovenia, sorted to the level of delivery district (in the framework of the delivery post office level; handed over at a regional or delivery post office, where the provider submits the mail).

The universal service provider currently provides access to the following services: standard letters, postal cards, ordinary letters, printed papers of up to 2 kg in domestic and international traffic, registered letters, insured letters, ordinary parcels of up to 10 kg, and registered parcels of up to 10 kg in domestic postal traffic.

The price of access to the postal network of Pošta Slovenije d.o.o. is calculated by evaluating the costs of all the activities performed by the provider of interchangeable services (transporting sorted mail to the access point i.e. performing part of the activities) and subtracting them from the valid retail price. Pošta Slovenije d.o.o. must subtract the calculated share of activities it has avoided from valid retail prices at the percentage defined by the Agency.

The regulator has issued two important decisions with regard to access prices, with which the prices of access to the postal network came into force:

- Decision on access to the postal network of Pošta Slovenije, d. o. o. for postal items of over 50 g; and
- Decision on changes to prices in the General terms and conditions of access to the postal network of Pošta Slovenije, d. o. o. for postal items of over 50 g.

When setting the prices and determining terms and conditions of access, the universal postal service provider must not discriminate between different providers of interchangeable postal services. General terms and conditions for access are published on the website of Pošta Slovenije, d.o.o.

The Agency's measures for fulfilling the obligation of access for providers of interchangeable postal services must be transparent, proportionate, and non-discriminatory.

Pošta Slovenije d.o.o. has prepared new discount scheme for the USO prices, which will affect also access to the network prices and its conditions. This new discount scheme and changes to the general terms of USO are currently in the process of inspection by our Agency AKOS.

### **6.7.2 Costing**

Article 36 of ZPSto-2 and the General Act on Separate Accounts regulate accounting separation and the prohibition of subsidizing the universal service provider and Prohibition of Subsidies, which was issued by the Agency based on ZPSto-2.



Due to the requirements of the ZPSto-2 regarding universal service prices, which must be cost-oriented, efficient, and non-discriminatory, etc., universal service providers must keep separate accounting records, clearly distinguishing between services that are part of universal service and those that are not. It must also consistently follow the principles of cost accounting.

The accounting separation system must be in compliance with the provisions of ZPSto-2. Compliance is monitored by the Agency in collaboration with an independent organization, such as an auditor. The Agency occasionally publishes compliance reports.

The Agency first inspected the accounting separation model used by Pošta Slovenije, d. o. o. in 2007, confirming that it complies with legislation. Due to changes to the legislation and irregularities it discovered, it carried out a comprehensive monitoring procedure of separate accounting records (Articles 35 and 36 of ZPSto-2), and issued the relevant decision.

Pošta Slovenije, d. o. o., prepared a completely new system of separate accounting, and the Agency has audited it, with an independent organization, between 2014 and 2015.

The separated costing system of Pošta Slovenije d.o.o. is "top down", FAC, ABC, based on historical costs.

One of the more important elements that a universal service provider's separate accounting system must ensure is the monitoring of any potential subsidies to other postal and other services not included in universal service. Besides that it also has to represent a "platform" for access costing and also net cost calculation.

## 6.8 Spain – CNMC

### 6.8.1 Regulation

The Spanish Postal Act contains access provisions in articles 45 and 46, considering avoided costs. CNMC is currently analyzing Correos' proposal of an access framework contract. There is no final decision on this issue yet. However, CNMC has issued several decisions on USO prices, in particular on bulk mailers prices, implementing the avoided cost standard for this exercise.<sup>20</sup> Correos appealed CNMC's Decision on Universal Service Prices for year 2015 and the Revision Court ("Audiencia Nacional") has recently confirmed CNMC's Decision on US prices as they were considered not cost oriented.<sup>21</sup>

### 6.8.2 Costing

In particular, regarding the cost standard, the Judgement states the following:

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<sup>20</sup> The CNMC's decisions on US prices can be consulted on: [www.cnmc.es/ambitos-de-actuacion/postal/revision-de-precios](http://www.cnmc.es/ambitos-de-actuacion/postal/revision-de-precios)

<sup>21</sup> The text of the judgement in Spanish can be found here: <http://www.poderjudicial.es/search/contenidos.action?action=contentpdf&database=AN&reference=8105307&links=&optimize=20170721&publicinterface=true>





*- It cannot be requested that the rates cover all the costs, if this produces non-affordable prices. Likewise, the application of the affordability principle cannot produce such low prices that the users do not pay a reasonable amount (affordable) contributing to cover the cost of the service provided.*

The Court recognizes and confirms CNMC's Economic Analysis in its defense:

*- The calculation of the LRAIC according to the report provided by Correos is wrong as it does not consider all the kind of relevant costs for its calculation, not providing any data regarding cost, revenues and prices used for its calculation, thus invalidating any counterfactual analysis and the verification of the results.*

*- Therefore such LRAIC calculation does not constitute a solid and robust economic evidence that may be useful to draw conclusions regarding competition policy and regulation related to the provision of services to big clients by Correos. In particular, it is not valid as a justification for the following argument provided by Correos: "Correos' price policy for big clients and postal operators complies with the test established by the Competition authorities to rule out the existence of predatory prices".*

*- Without a solid and robust empirical evidence on how the volumes and costs would react against a price change, and based solely on mere assumptions, without any empirical support, Correos cannot claim that the impact of a price increase until the coverage of the average total costs would worsen Correos' results and increase the net cost of the universal postal service. This conclusion is not based on a proper empirical analysis and therefore it cannot be considered.*

## **6.9 Switzerland - PostCom**

### **6.9.1 Regulation**

The Postal Act 783.0 of 17 December 2010 (Postal Act) provides for access to partial services (that involve another operator injecting its mail into Swiss Post's network to be delivered to its final destination) and a few specific elements of the postal infrastructure:

- post office boxes; and
- address databases.

The Postal Ordinance 783.01 of 29 August 2012 (Postal Ordinance) lays down the provisions on access to

- post office boxes facilities; and
- address database sequences.

Thus, access to partial services is not regulated in a detailed manner.



All postal operators are obliged by law to grant in a timely manner transparent and non-discriminatory access to their partial services on a contractual basis.

Any company operating post office boxes is obliged by law, for a remuneration, to

- provide other postal operators with a delivery service to post office boxes; or
- allow other postal operators to access its own post office boxes facilities.

Postal operators processing address database are obliged by law to exchange these data with other postal operators without delay and against remuneration.

When the parties sign an agreement regarding access to post office boxes or to address database, they provide a copy of the agreement to the Federal Postal Services Commission (PostCom). When the parties do not reach an agreement on the conditions of access, PostCom decides on the conclusion of an agreement at the request of either of the parties. Litigations linked to the agreements on access to post office boxes or the exchange of address data are tried by ordinary civilian courts.

Since the entry into force of the Postal Act (October 2012), PostCom has examined one case and ruled only once on the access issue.

In 2015, a competitor brought an action before PostCom challenging the level of the prices imposed by the incumbent and historical operator for the access to its post office boxes facilities (delivery service). At the beginning of 2016, PostCom adopted a decision setting a tariff (price grid) in accordance with the provisions of the legislation.

### 6.9.2 Costing

The methodology used for costing access services is consistent with that used for calculating the cost of all other products.

In the case of a decision by the regulator on the conditions of access to post office boxes, under the Postal Ordinance, the price shall be composed of:

- the incremental cost, which equals
  - the marginal cost, plus
  - the specific fixed costs
- a proportionate share of the (non-specific) overhead costs
- a mark-up for a lack of earnings due to competition
  - determined by the regulator
  - computed so that the operator of post office boxes would not be disadvantaged compared to the situation where it would have admitted the items as a postal services provider (on the basis of efficient service provision)

In the case of a decision by the regulator on the conditions of access to address databases, under the Postal Ordinance, the price shall be composed of:

- the incremental cost, which equals
  - the marginal cost, plus
  - the specific fixed costs
- a proportionate share of the (non-specific) overhead costs



PostCom does not have a great deal of flexibility as regards pricing nor any room for manoeuvre as regards costing. The methodologies used for costing and pricing access services are set by the Postal Ordinance. The costing methodology has been chosen by the Ministry on the basis of economics and also for reasons of practicability.

The Postal Ordinance also requires Swiss Post (the designated operator) to:

- prepare its annual accounts in accordance with internationally accepted accounting standards; and
- use a sequential method to allocate its costs to its products, on the basis of the fully allocated costs (FAC).

Under the Postal Ordinance, cost calculation shall take into account amortization and capital costs, as well as any – possible – compensation for the net costs resulting from the universal service obligation. Costs of capital are determined using the weighted average cost of capital (WACC) method, based on the capital structure of similar companies and the risk-adjusted rate of interest.

## 6.10 The UK – Ofcom

### 6.10.1 Regulation

The UK Postal Services Act 2011 allows Ofcom to impose a USP access condition on a universal service provider requiring the provider to do either or both of the following:

- Give access to its postal network to other postal operators or users of postal services; and
- Maintain a separation for accounting purposes between such different matters relating to access (including proposed or potential access) to its postal network as Ofcom may direct.

In March 2012, Ofcom put in place a new regulatory framework which required Royal Mail to continue providing access to inward mail centres for letters and large letters. The new regulatory framework gave Royal Mail significant pricing and operational freedom, but it also put in place safeguards, which amongst others included the following:

- A monitoring regime supported by regulatory financial reporting requirements imposed on Royal Mail to allow Ofcom to monitor:
  - the financial sustainability and efficiency of the provision of the universal service;
  - the continued appropriateness of regulation on competition matters; and
  - how Royal Mail uses its commercial and pricing freedom.
- An ex ante margin squeeze test on certain retail bulk products to protect competition in the access market by ensuring:
  - The total upstream revenues for the products in the scope of the test charged by Royal Mail cover Royal Mail's total upstream Fully Allocated Costs ('FAC') of those products; and
  - Individual new contract upstream revenues cover of 50% of the upstream FAC, as a proxy for Long Run Incremental Costs ('LRIC').



No price control was imposed on access products but access pricing is required to be on fair and reasonable terms. Ofcom's guidance on the fairness and reasonableness of zonal access prices was that the prices must be aligned with the underlying zonal costs.

Ofcom's recent review of Royal Mail regulation, the results of which was published in March 2017, concluded that the existing regulatory framework continues to be appropriate in light of the structural decline in letters and increasingly competitive parcels market. Ofcom has therefore decided to extend the regulatory framework for a further five years (after making some updating changes to ensure the regulation remains fit for purpose). Ofcom considers that it remains appropriate for Royal Mail to be afforded commercial freedom (subject to certain safeguards) to meet the challenges it faces.

### **6.10.2 Costing**

Royal Mail uses an Activity Based Costing ('ABC') top down model to derive the Fully Allocated Costs ('FAC') of all of its products including access products. Royal Mail's ABC system allocates the costs recorded in the general ledgers of its accounting system - using any other necessary sources of data - to its activities and then it allocates those activity costs to its products. Activities are tasks or work which are required to be carried out in order to operate the integrated postal network - which provides universal as well as non-universal services - namely to collect, sort, transport and deliver mail to its final destination.

Access products are costed in the ABC system alongside all other universal service and non-universal service products that are provided by Royal Mail's integrated network.

Ofcom requires the costing rules, including the allocation rules, to comply with the principles of completeness, equivalence, causality, objectivity, accuracy, compliance with statutory accounting standards, consistency and materiality. These principles are set out in the Accounting Condition. Ofcom also requires the costing to comply with a set of more detailed rules set out in the Regulatory Accounting Guidelines which are set out under the Accounting Condition. These more detailed rules include the general rules of fully allocated costing and activity based costing as well as the hygiene rules with regard to operational reality, data integrity and sampling.

Ofcom requires Royal Mail to prepare a detailed costing manual, the commercially non-sensitive parts of which are published. Ofcom also has a change control regime in place under which Royal Mail is required to notify Ofcom of any changes to its regulatory accounting and costing methodology before it implements those changes. The notification must include an assessment of the impact of the changes.

The FAC prepared by Royal Mail's ABC model is used in Royal Mail's ex ante margin squeeze tests and underpins the vast majority of Royal Mail's regulatory financial reporting, including the reports used for Ofcom's monitoring regime.

Ofcom models the key parts of the ABC model in a simplified form in its Cost Allocation Model ('CAM') to gain an understanding of how costs are allocated. Ofcom also requires Royal Mail to provide Ofcom the necessary data to build the CAM every financial year.

Royal Mail also produces a zonal costing model which allocates the total costs of downstream operations (excluding overheads) to the four zones used in zonal access pricing, namely Urban,



Suburban, Rural, and London. The zonal costing model uses some of same source data as the ABC model and it calculates FAC (excluding overheads).

Royal Mail has also been preparing Long Run Incremental Costs ('LRIC') in recent years which covers bulk mail and access. Ofcom indicated in 2012, that it would be appropriate to base the ex ante margin squeeze tests on LRIC, but it decided that in the absence of robust and reliable LRIC data, an estimate of 50% of FAC must be used as a proxy for LRIC.



## 7 Conclusions

This report provides information on how NRAs apply the principles and methods of allocation of costs to access services. These are a key tool when access is prescribed in the endeavor to develop and promote competition and therefore it is important for NRAs to have an in-depth understanding of the costs of access services.

To help compile this report, a detailed questionnaire was sent out to collect information on national legal frameworks and NRAs' approaches in practice. 29 NRAs replied, most of whom answering the questions regarding access to elements of infrastructure (address database, delivery boxes, information on change of address, letter boxes, post office boxes, postcode system, re-direction service, return to sender service and other) which is the only type of access relevant to their countries, and some answering also the questions related to network and services. The report summarises and analyses these answers. Furthermore the report sets out more detailed descriptions of 10 specific country cases.

As it is explained in Section 2 of this report, there are several objectives for countries to assess or investigate access costs:

- setting price controls for access services,
- ex-ante margin squeeze control,
- ex-post margin squeeze control,
- other ex-post pricing review and investigations,
- assessing the sustainability of the USO and
- other objectives.

**Section 3** of the report covers the legal requirements for costing access. There are few countries (3) with specific legal requirements regarding ex-ante margin squeeze tests as well as regarding financial sustainability of the USO (2 countries). Most of the answers relate to the cost standard prescribed in the legislation for price control and for other ex-post pricing review and investigations. The majority of the NRAs answered that the legislation prescribes FDC (FAC) standard with regard to access costing. In some instances, avoidable costs were also used.

**Section 4** provides an overview of the approaches for costing access to network and services that are adopted by the NRAs. It can be observed that the majority of NRAs use the FDC (FAC) approach when setting price controls for access services and some NRAs used avoidable cost in some instances. Additionally, most of the answers show a preference towards a top-down modelling. Only few countries reported experience with ex-ante margin squeeze control (4 countries), ex-post margin squeeze control (2 countries) and assessing the sustainability of the USO (2 countries). Ten NRAs reported experience with ex-post pricing review and investigations. In most cases the data of the USP was used or was the starting point. The main reasoning behind the choices is based on the legal provisions or availability of data.

**Section 5** focuses on costing for access to the infrastructure, including infrastructure elements, reasoning behind choosing an approach and the chosen methodologies.



Access to the postal elements of infrastructure is part of the whole postal access arrangements in the majority of the countries that answered the questionnaire. The most common type of access to the elements of infrastructure is access to the postcode system and access to the post office boxes. Cost assessment for at least one of the elements of infrastructure was carried out by 11 NRAs. The main objectives for assessing the cost were setting price ex-ante, resolving a dispute and investigating existing tariffs ex-post. The main cost standard used was Fully Distributed (Allocated) Cost.

In **Section 6** of this report we set out case studies that include a brief description of the access regulation, and set out how various NRAs have approached the assessment and allocation of costs of access to both the network and elements of infrastructure. The information in this section is gathered from the relevant NRAs in addition to their responses to our questionnaire.



## Annex 1 - Country codes for responding NRAs

Country	Acronym	NRA
Austria	AT	RTR
Belgium	BE	BIPT
Bulgaria	BG	CRC
Croatia	HR	HAKOM
Cyprus	CY	OCECPR
Czech Republic	CZ	CTU
Estonia	EE	ECA
Finland	FI	Ficora
France	FR	Arcep
Germany	DE	BNetzA
Greece	EL	EETT
Hungary	HU	NMHH
Ireland	IE	COMREG
Italy	IT	Agcom
Lithuania	LT	RRT
Luxembourg	LU	ILR
Malta	MT	MCA
Netherlands	NL	ACM
Norway	NO	Nkom
Poland	PL	UKE
Portugal	PT	ANACOM
Romania	RO	ANCOM
Republic of Moldova	MD	ANRCETI
Republic of Serbia	RS	RATEL
Slovakia	SK	RU
Slovenia	SI	AKOS
Spain	ES	CNMC
Switzerland	CH	PostCom
United Kingdom	UK	Ofcom





## Annex 2 – Acronyms

ABC – Activity Based Costing  
ATC – Average Total Cost  
CAM – Cost Allocation Model  
EEO - Equally Efficient Operator  
ERGP - European Regulators Group for Postal Services  
FDC/FAC - Fully Distributed Costs / Fully Allocated Costs  
LRAIC – Long Run Average Incremental Cost  
LRIC - Long Run Incremental Cost  
NRA – National Regulatory Authority  
PAF – Postcode Address File  
PO Box – Post Office Box  
PSA – Postal Services Act  
PSD - Postal Services Directive  
REO – Reasonably Efficient Operator  
USO – Universal Service Obligation  
USP – Universal Service Provider  
VAT – Value Added Tax  
WACC – Weighted Average Cost of Capital



## Annex 3 – Questionnaire

### A. Costing for access to the network and services

- 1) What are the objectives of assessing costs of access to the network and services?
  - a) setting price controls for access services
  - b) ex-ante margin squeeze control
  - c) ex-post margin squeeze investigation
  - d) other ex-post pricing review and investigations
  - e) assessing the sustainability of the USO
  - f) other

**For each objective selected in Q1 please answer the following questions:**

- 2) Please state whether there are recent regulatory actions (e.g. developing remedies, investigations) that required assessing access costs in the last 5 years. If 'Yes', please provide a brief description of the investigations and the outcome.
  - a) Yes
  - b) No
- 3) Please state the type of cost standard prescribed by the law (either primary or secondary legislation):
  - a) FDC/FAC
  - b) LRIC
  - c) avoidable costs
  - d) other
  - e) n/a
- 4) Does the law define the cost standard? If 'Yes' please provide the definition.
  - a) Yes
  - b) No
- 5) What cost standards has the NRA applied?
  - a) FDC/FAC
  - b) LRIC
  - c) avoidable costs
  - d) other
  - e) n/a



- 6) State your reasons for choosing the cost standard.
- 7) Please choose the option below. The access costing exercise is:
  - a) integrated with all services and the whole network
  - b) a separate exercise
- 8) Type of modelling approach used:
  - a) bottom-up
  - b) top-down
  - c) combined
  - d) other
- 9) Which entity do the costing and operational data used relate to (whose cost is it)?
  - a) USP/incumbent
  - b) alternative operators
  - c) consolidators
  - d) other
- 10) What kind of financial and operational data is used for access costing calculation?
  - a) historical
  - b) forecast
  - c) combined
- 11) Who calculates the financial and operational data?
  - a) USP/incumbent
  - b) NRA
  - c) other experts
- 12) Is there unrecoverable/un-deductible VAT allocated on costs of access?
  - a) Yes
  - b) No
- 13) How is this VAT treated and allocated? Please describe.
- 14) Does the costing include the difference between costs for delivery in different types of areas (e.g. urban, rural)? (zonal costing)
  - a) Yes
  - b) No



15) Are there any common elements to the net cost calculation? If 'Yes', please explain the common elements to the net cost calculation.

- a) Yes
- b) No

16) Are there any common elements with other costing exercises? If 'Yes', please explain the common elements to the other costing exercises.

- a) Yes
- b) No

### **B. Costing for access to the infrastructure**

17) What elements of infrastructure are the subject of access? Please tick the box for the relevant elements.

- a) Post office boxes
- b) Delivery boxes
- c) Postcode system
- d) Address database
- e) Information on change of address
- f) Re-direction service
- g) Return to sender service
- h) Other

18) Please tick the box for the relevant elements that are/were subject to your cost assessment.

- a) Post office boxes
- b) Delivery boxes
- c) Postcode system
- d) Address database
- e) Information on change of address
- f) Re-direction service
- g) Return to sender service
- h) Other

### **For each item selected in Q18 please answer the following questions:**

19) What is the reason for assessing the cost?

- a) setting tariffs ex-ante
- b) investigating existing tariffs ex-post
- c) other



- 20) What cost standards has the NRA applied?
- a) FDC/FAC
  - b) LRIC
  - c) avoidable costs
  - d) other
  - e) n/a
- 21) State your reasons for choosing the cost standard.
- 22) Is the access costing exercise:
- a) integrated with all services and the whole network
  - b) a separate exercise
- 23) Which entity do the costing and operational data used relate to (whose cost is it)?
- a) USP/incumbent
  - b) alternative operators
  - c) consolidators
  - d) other
- 24) What kind of financial and operational data is used for access costing calculation:
- a) historical
  - b) forecast
  - c) combined
- 25) Who calculates the financial and operational data:
- a) USP/incumbent
  - b) NRA
  - c) other experts