



Study on the principles used to calculate the net costs of the postal USO

Second workshop

26 June 2012

Scope of presentation

- 1 Scope of study
- 2 State of play in calculating the USO net cost
- 3 Methods used and cost data/sources
- 4 Other relevant elements of the calculation of the net cost of the USO
- 5 Questions/ Answers

- Scope of study
- Practice to date
- USO net cost methods
- Elements of methods

Focus of today's workshop

Main findings in relation to...

State of play in calculating the net cost of the USO

Net cost of the USO methods
Other elements of assessment

The available information for the application of different methodologies

Understanding of the main elements affecting the USO cost

Basis of preliminary findings presented today ¹

- Desk research
- Information requests to NRAs and USPs
 - Sample: 27 Member States, Norway and Croatia
 - Questionnaire 1: Net costs of USO methods
 - Questionnaire 2: Cost accounting and cost allocation

Thank you for your on-going contributions

- Scope of study
- Practice to date
- USO net cost methods
- Elements of methods

State of play in calculating the net costs of USO

- Who did it?
- Why?

Who has calculated the net cost of the USO? ²

Have led the calculation

USPS

NRAS/Other

- NO
- EE
- IE
- SK
- PO
- IT
- ES

- BE
- UK
- DK
- BG

Have not

- 16 countries

NRAs plan to consult on USO cost methods in near future

12 Countries

● PT	● RO	● CZ	● LT
● NL	● HR	● PO★	● IE
● LT	● CY	● FI★	● EL

★ NRAs have defined set of principles for the calculation

Main reasons for USO net cost calculation to date ²

Funding #5	Prospective funding #2	Financial impact on USP #2
Annually	Ad hoc analysis	
EE, IT, NO, BE, ES	#2	UK, DK

Not all lead to formal application for funding

Reasons for not having calculated the net cost of the USO to date

USP has not
applied for
compensation
14

DK, FI, FR, LT,
RO, SI, CY, IE,
EL, MT, PT, SI,
SE, UK

No legal
mandate
requiring USP or
NRA to calculate
it #14

FI, FR, HU, LT,
LU, PT, RO, SI,
UK, HR, CZ, PL,
RO, SE

Practice in calculating the net costs of USO

2

Preliminary findings

- The net cost of the USO has been calculated at least once in a minimum of 11 countries
- In 7 of these cases, the net cost of the USO was calculated for compensation consideration

- Scope of study
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Methods used to date

- What is measured in principle?
- What has been measured in practice?
- Which data are being used?

What are the different methods measuring?

Fully Distributed
Cost (**FDC**)

Profitability of USO services only

Net Avoided
Cost (**NAC**) &
Profitability Cost
(**PC**)

Profits of USP with USO
Minus
Profits of USP without the USO

What is measured under FDC approach?

Principle

Profitability of USO services only

Net cost of the USO equals ...

Belgium
(until 2010)

Losses of USO services minus
profits from reserved USO products

Italy (until
2010) &
Estonia

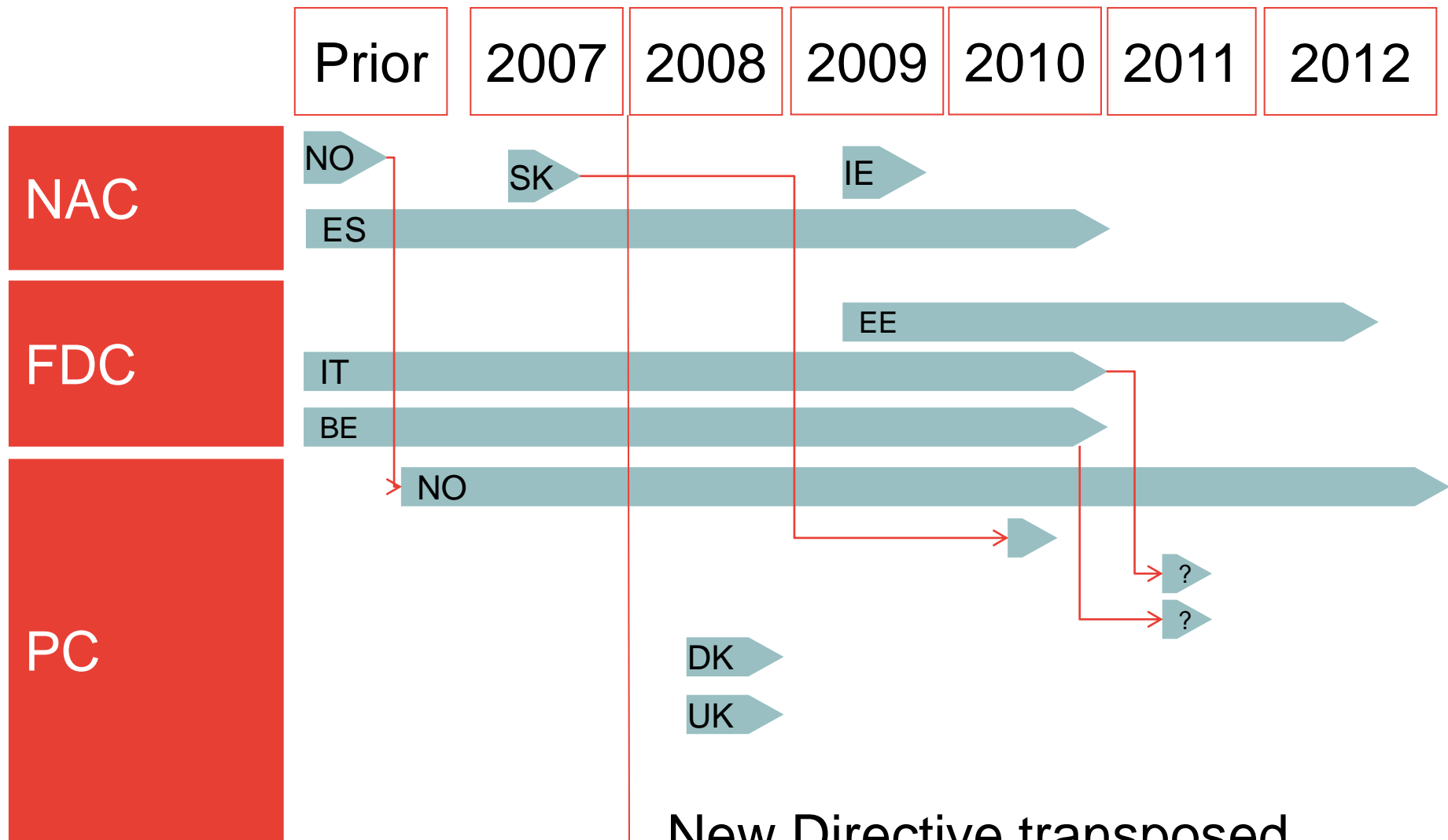
Losses of USO services area (if at
all) as reported in regulatory
accounts

Approaches to calculating the net cost of the USO to date 2

Party leading calculation	FDC #3	NAC #2	PC # 5	
USP	<ul style="list-style-type: none">• EE• IT♦	<ul style="list-style-type: none">• IE• ES	<ul style="list-style-type: none">• NO	<ul style="list-style-type: none">• SK
NRA	<ul style="list-style-type: none">• BE♦		<ul style="list-style-type: none">• UK, DK, FI*	

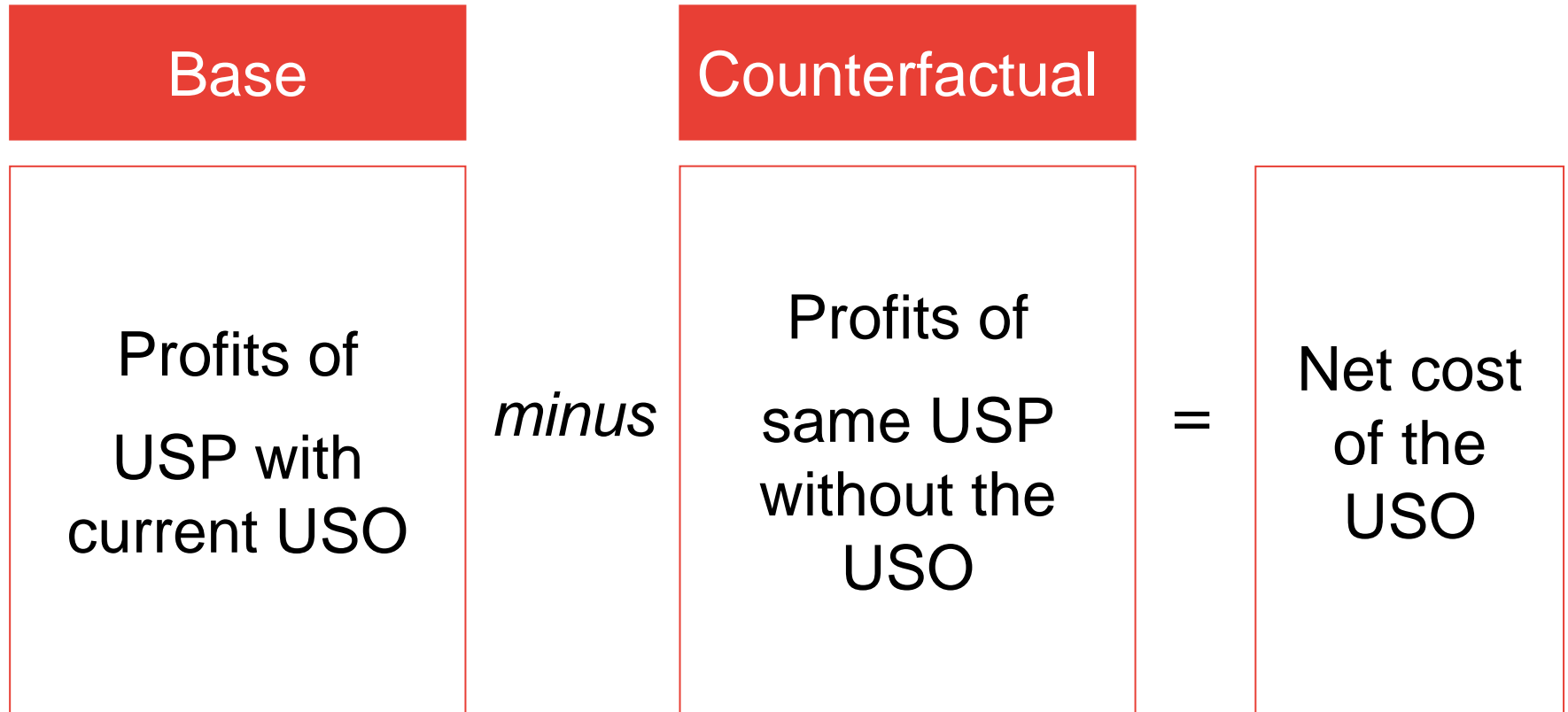
* Methodology only; ♦ until 2010 only

Evolution of approaches over time



New Directive transposed nationally by Dec 2010 or 2012

Conceptually similar approach under both NAC and PC



Hypothetical exercise:
decremental approach

Different level of complexity in counterfactual 3

	NAC	PC
Exploiting freedoms with USO removal		
Removal of USO services	Yes	Yes
Pricing	No	Yes
Non-price features	No	
<ul style="list-style-type: none">• Quality• Geographical coverage• Frequency of delivery/ collection	Yes	Yes
	No	
Changes in operations	No	Yes
Changes in demand & mix	No	Yes

Counterfactual in practice under PC

In context of USO for mail delivery service:

Removal of USO services

- Free service for blind
- Removal of priority service (either locally or nationally)

Pricing

- Service for the blind

Quality

- Lower targets

Other non-price features

- Geographical coverage
- Frequency of delivery and collection

- Frequency of collection and delivery reduced in remote areas or nationally

What changes in counterfactual in practice

Counterfactual	Occurrences
Mail for the blind at a price	✓✓✓
Delivery/ collection frequency reduced nationally	✓✓✓
Delivery/ collection frequency reduced locally	✓✓✓✓
Lower targets for Quality	✓✓
National removal of priority service	✓✓
New product to compensate	✓✓

Impacts of counterfactual definitions in practice

Changes in operations matching changes in service offer

Yes: ✓✓✓

No: ✓

Changes in demand & mix

✓✓✓✓✓

USPs' answers suggest magnitude of demand effect is not material when frequency of delivery is reduced in remote areas.

All start with data from USP cost accounting systems (CAS)

Level and relative costs from CAS?

FDC

- Yes: IT, BE, EE

NAC

- Yes: IE

PC

- Yes
- Reconcilable with audited costs: UK
- Probably: DK (USP public information), SK

Cost concept to determine costs avoided without the USO in practice

Cost concept

FDC

- Fully Allocated Cost (FAC): IT, BE, EE

NAC

- FAC
- Avoidable costs

PC

- Avoidable costs: NO, UK

Data source and tools to determine the level of cost saved under PC

Data sources

- Cost accounting systems
- Known cost elasticities
- Internal empirical/financial analysis

Tools

- Bottom-up model
- Econometrics
- Scenario tool in cost accounting system

Methods used to date

Preliminary findings

- Move towards applications of Profitability Cost method
- Typical counterfactuals under PC have been
 - Reduction in frequency of delivery nationally/ remote areas
 - Re-optimisation of pipeline activities
 - Removal of service for the blind for free
- Cost accounting systems provide the base data in combination with other tools

- Scope of study
- Practice to date
- USO net cost methods
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Specific elements

- Efficiency incentives
- Intangible benefits
- Reasonable profits

Adjusting for cost efficiency in practice

The directive requires “*the calculation... to take into account ... incentives for cost efficiency*”.

Reason for net
USO cost
calculation

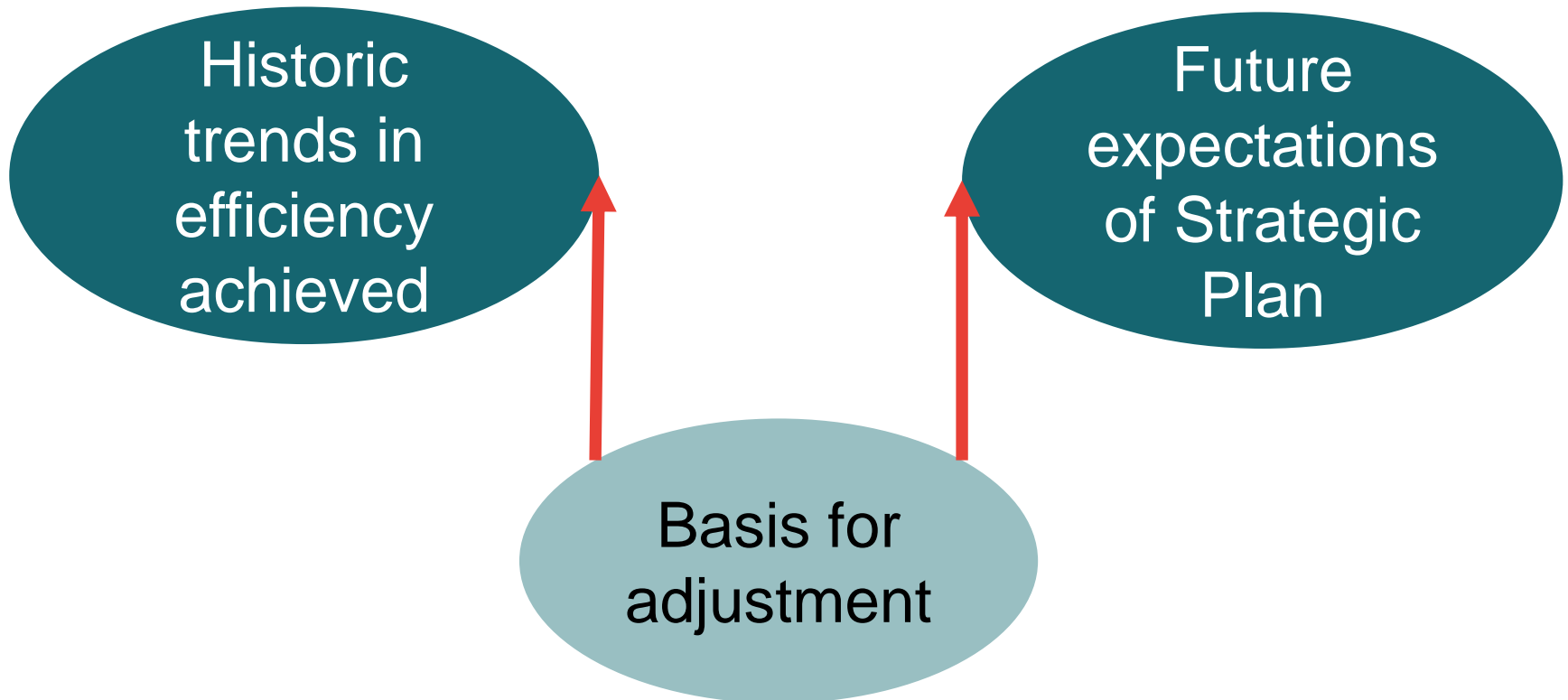
Actual or
prospective
application for
funding

- With adjustment: NO, EE
- With no adjustment

Other reasons

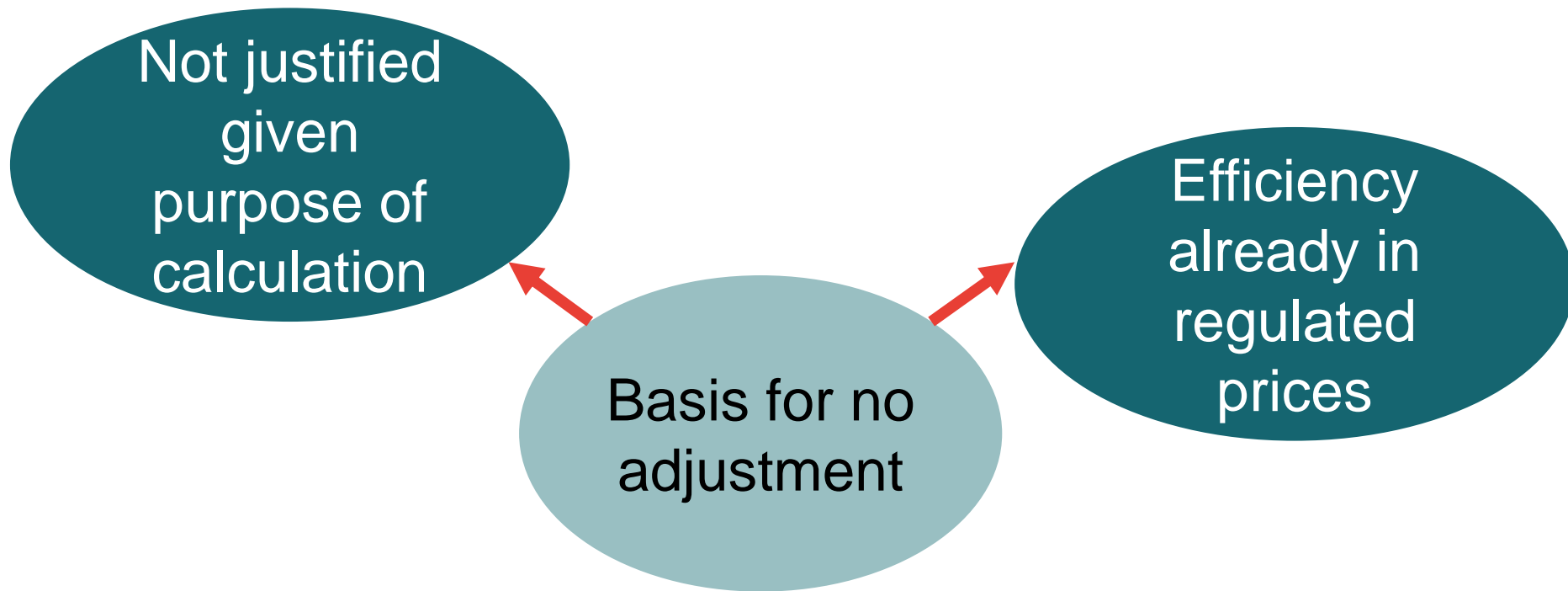
- With no adjustment: UK

Approaches for adjusting for cost efficiency

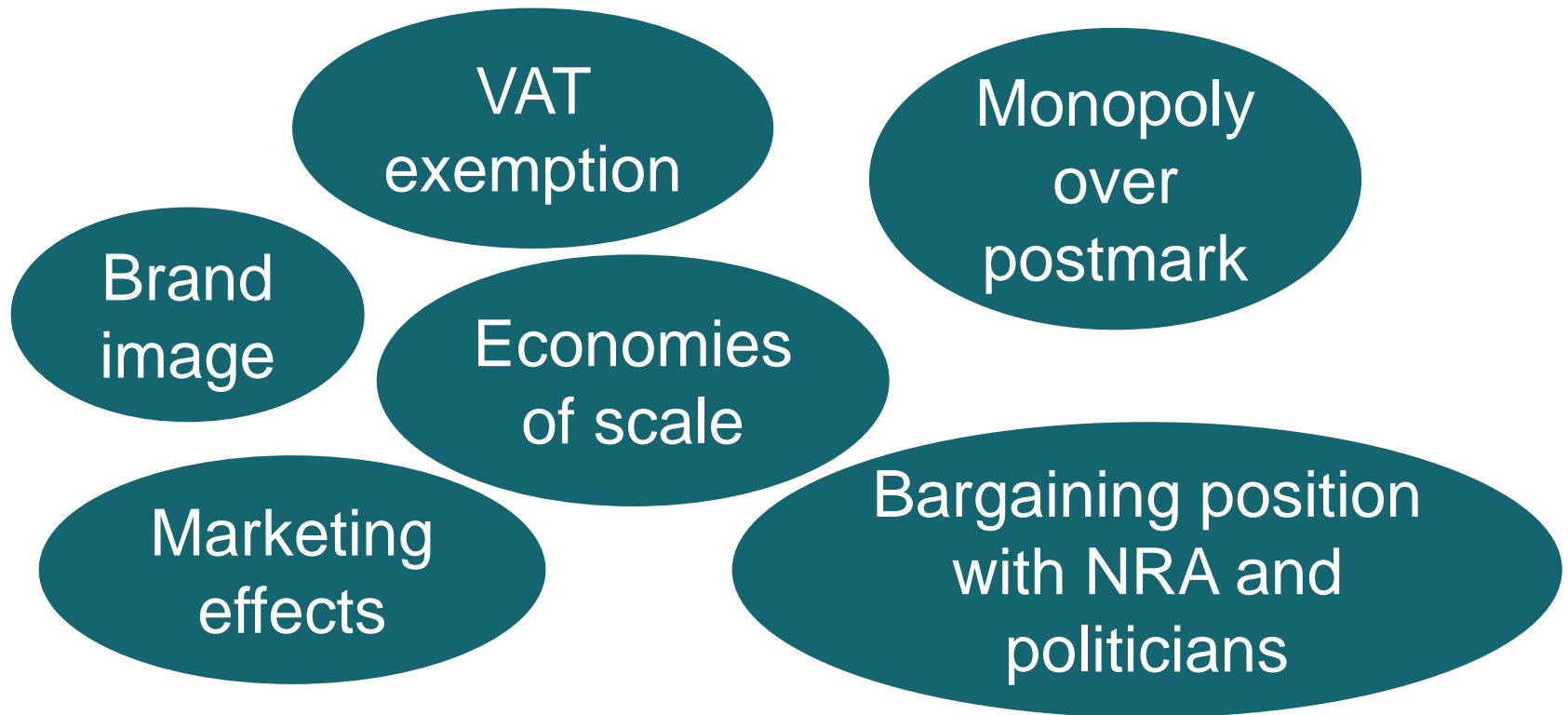


Reasons for not adjusting for cost efficiency

4



Preliminary list of possible intangible benefits⁴



Views differ as to whether some are benefits linked to USO, their materiality is largely unknown

Inclusion of “reasonable profits” in USO net cost to date?

	DCF	NAC	PC
YES - Embedded in calculation already			<ul style="list-style-type: none"> ● FI (method)
YES – Adjustment made for allowance for reasonable profits	<ul style="list-style-type: none"> ● BE ● EE 		<ul style="list-style-type: none"> ● SK ● NO (not part of calculation)
NO - Directive not implemented at the time/ Other reason			<ul style="list-style-type: none"> ● UK
Unknown to date	<ul style="list-style-type: none"> ● IT 	2 countries	3 countries

Specific elements

Preliminary findings

- Efficiency adjustments seem to be the exception rather than the norm
- Intangible benefits are included in principle but their quantification unknown
- Reasonable profits are accounted for on occasions

Next steps

- Finalisation of current state of play
- Key features of USO cost methods
- Finalisation of assessment of approaches to other elements
- Final workshop – 8 November 2012 (tbc)

Questions/ Answers



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