



Office of Utility Regulation

Efficiency Review of Guernsey Post Limited's Asset Base and Operating Costs

Invitation to Tender

December 2008

Office of Utility Regulation
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PART I: OVERVIEW

Introduction

1. This document constitutes an invitation from the Office of Utility Regulation ("OUR") to tender for a contract to provide specialist advice and assistance with respect to reviewing the efficiency of Guernsey Post Limited's ("GPL") asset base and operating costs set out in the company's business plan as part of the company's application to change its postal tariffs.
2. The OUR invites interested parties to tender for a contract to provide technical and economic expertise to assist in advising on the tariff proposals of GPL.
3. This invitation to tender is structured as follows:

Part I introduces the contract on offer and describes the timetable and process for submission of tenders.

Part II provides background information on Guernsey and GPL which the applicant may wish to take into account in drawing up a tender.

Part III describes the scope of the project.

Part IV states the information required by the OUR in order to consider the tender.

Submission of the application

4. The closing date for responses is Friday 9th January 2009 and all tenders submitted should be valid for a minimum of 30 days from this date.
5. Proposals must be addressed to Nienke Hendriks, Office of Utility Regulation, Suites B1 & B2, Hirzel Court, St Peter Port, Guernsey, GY1 2NH and be delivered to this address before 5pm hours on the closing date.
6. Applicants must submit two copies of their proposal which should be clearly marked "Proposal on the Efficiency Review of Guernsey Post Limited".
7. Short listed applicants may be invited for a discussion of their proposals. The OUR expects to be able to announce the results of this tender process within four weeks of the closing date.
8. Following the selection of the successful applicant the OUR will expect to agree a formal binding contract with that applicant within one week of the decision being announced. OUR reserve the right to include material included in this Terms of Reference and the material included in the response from the successful tenderer into the terms and conditions of the contract.

9. OUR will accept no liability for any expenditure incurred by the applicant in preparing a tender, whether or not submitted, and whether or not successful.

PART II: BACKGROUND INFORMATION FOR THE TENDER

Legislative Background

10. The States of Guernsey is the democratically elected, independent governing body for Guernsey. The OUR is the independent regulator established to regulate the electricity, post and telecoms sectors. GPL, a limited liability company, established in October 2001 and wholly owned by the States, is the sole operator licensed to provide postal services in the reserved area within the Bailiwick of Guernsey. Further details on GPL are available on its website – www.guernseypost.com.
11. The legislative package establishing the various responsibilities and duties of GPL and OUR was introduced on 1st October 2001¹. Prior to that date, all postal services in Guernsey had been provided by an arm of government – the States Post Office Board.
12. The overarching policy of the States of Guernsey in the postal sector, as described in the relevant Laws, is to:
- ensure that consumers within the Bailiwick receive the best in terms of price, choice and quality of service for postal services, and
 - ensure that the Bailiwick has a vibrant, innovative and sustainable postal sector.
13. In September 2001, the States issued Directions to the Director General that required the Director General to issue the first licence to provide universal services to GPL. At the same time the States set out the universal service obligation that should be imposed on GPL which is:
- “... throughout the Bailiwick of Guernsey at uniform and affordable prices, except in circumstances or geographical conditions that the Director General of Utility Regulation agrees are exceptional:*
- *One collection from access points on six days each week;*
 - *One delivery of letter mail to the home or premises of every natural or legal person in the Bailiwick (or other appropriate installations if agreed by the Director General of Utility Regulation) on six days each week including all working days;*
 - *Collections shall be for all postal items up to a weight of 20Kg;*
 - *Deliveries on a minimum of five working days shall be for all postal items up to a weight of 20Kg;*
 - *Services for registered and insured mail.”*
14. Having defined the universal service, the States directed that GPL should be provided with the exclusive right to provide reserved services insofar as this was needed to enable and ensure the universal postal service is delivered. The relevant States

¹ The relevant legislation includes the Regulation of Utilities (Bailiwick of Guernsey) Law, 2001, the Post Office (Bailiwick of Guernsey) Law, 2001 and the States Trading Companies (Bailiwick of Guernsey) Law, 2001. Copies of the first two of these documents are available from the OUR website www.regutil.gg

Direction states:

“The Regulator shall reserve services to be exclusively provided by the Universal Service Provider to the extent necessary only to ensure the maintenance of universal service, and shall review and revise the reserved services from time to time with a view to opening up the Guernsey postal market to competition consistent with the need to maintain the Universal Service”.

15. Thus States policy on the universal service and the degree of competition in the postal market was set out in September 2001. The full text of these directions can be found in OUR Document OUR 03/08 which is published on the OUR website – www.regutil.gg.

Regulatory Regime

16. The Postal Law provides that a range of postal activities do not require licensing, ranging from personal private delivery to the delivery of court documents and banking instruments². In addition, any postal services that are provided for a price greater than £1.35 can also be provided by any person or business without a licence. All services that are provided for a price of less than £1.35 are deemed to be reserved services (the “reserved services”) and this is set out in an Order made by the Director General in accordance with section 9 of the Postal Law³.
17. To provide these reserved services, an operator must hold a licence issued by the Director General. Furthermore GPL is the only operator licensed to provide these services and this is so that the company can meet the requirement to provide a specific universal service obligation.
18. Following the States Directions described in paragraphs 13 to 15 above, the Director General issued a licence on 1st October 2001 to GPL to provide postal services in the Bailiwick.
19. Part III of GPL’s Licence contains a number of Licence conditions that apply to a licensee that has a dominant position in a relevant market. Part III of GPL’s Licence includes a specific condition relating to regulated prices for services.
20. Specifically Condition 18.3 states that the Director General may determine the maximum level of charges GPL may apply for Licensed Services within a Relevant Market in which GPL has been found to be dominant. A determination may;
 - provide for the overall limit to apply to such Licensed Services or categories of Licensed Services or any combination of Licensed Services;
 - restrict increases in any such charges or to require reductions in them whether by reference to any formula or otherwise; or
 - provide for different limits to apply in relation to different periods of time falling within the periods to which any determination applies.

² Section 1(2) of the Post Office (Bailiwick of Guernsey) Law, 2001

³ The Post Office (Reserved Postal Services) Order, 2001

Market Information

21. GPL employs almost 280 staff, has a turnover of approximately £37m and the network handles approximately 215,000 mail items a day, six days a week. This equates to almost 68 million mail items per year. In comparison Royal Mail in the UK employs over 180,000 staff and handles 80 million mail items per day.
22. The Bailiwick encompasses a number of inhabited islands and GPL has an obligation to provide a universal service to all of these. This poses a number of operational process and design issues. In particular GPL is reliant upon collection and delivery by air or sea to the different islands within the network, which is not the same as island jurisdictions such as the Isle of Man or Jersey.
23. The final critical characteristic of the GPL network relates to the relationship between the company and Royal Mail. Whilst GPL's postal network does "interconnect" with Jersey Post's network, the vast majority of mail leaving or entering the Bailiwick comes via Royal Mail's network. Almost 90% of mail leaving the Bailiwick is destined for the UK, with a large proportion of all incoming mail to the Bailiwick being posted in the UK.
24. Furthermore, apart from the mail going to Jersey, all mail to international destinations outside the UK also currently passes through Royal Mail's network. Similarly, incoming international mail to the Bailiwick from outside the UK currently also arrives via the Royal Mail's network.
25. The dependence of GPL on networks outside the Guernsey postal network is demonstrated by the fact that of the total number of mail items handled by GPL (at the time of the last price control);
 - 35% leave the Bailiwick,
 - 35% enter the Bailiwick, and only
 - 30% is originated and delivered within the Bailiwick.
26. GPL's relationship with a postal operator in the UK is therefore of critical importance.

PART III: SCOPE AND OBJECTIVES OF THE PROJECT

Objectives

27. The objective of this specific project is to provide specialist technical advice and economic assistance in reviewing the efficiency of the company's existing asset base and current and projected operating costs in order to assist the OUR in assessing the company's application for tariff changes to come into effect from 1st April 2010.
28. The OUR is intending to use the outputs of this piece of work in its initial consultation which is currently scheduled for June 2009. Before inclusion in this initial consultation document the OUR expects extensive contacts between the OUR, the consultants and GPL to discuss the (preliminary) findings of the efficiency review. The Director General intends to publish a final decision on the price application by

December 2009.

29. The OUR would also expect to need further inputs of the successful tenderer to assist with responses made by GPL and/or other parties in relation to the report produced by the tenderer and assistance with related sections for the price control consultation and decision documents in relation to the opex and capex assessment and GPL's tariff change application.

Timetable and deliverables

30. The successful tenderer is required to produce a draft report on the opex and capex assessment by 20th March 2009 and to have a revised draft agreed with the OUR for GPL to comment on by the start of April 2009. The final report on the opex and capex assessment should be sent to the OUR by the end of April 2009 followed by a formal presentation (jointly between the successful tenderer and the OUR) to GPL management. We would also require further inputs, including written contributions, from the successful tenderer to assist the OUR in drafting the consultation and decision documents (which are currently scheduled for the period between June – November 2009).
31. The work will be conducted in English and all deliverables will be submitted in English.

Scope of the Project

32. The successful tenderer will need to:
 - a. review the company's existing asset base and perform an economic analysis of previous major investments (primarily mechanisation and new premises) since the last price control which came into force in April 2007 in order to advise and provide recommendations to the Director General on the appropriate asset base to take into account when considering the company's tariff application. This is likely to involve sending information requests to GPL;
 - b. assess the efficiency of the base year costs included within the business plan and advise and provide recommendations on the appropriate level of operating costs for inclusion within the OUR's own economic modelling. Again this may require seeking additional information from the company. The starting point for the efficiency review should be the efficiency review undertaken as part of the last price control review (which was carried out during the year 2006) on which the current price control decision was based;
 - c. reviewing the information provided by GPL within the business plan it has submitted to the OUR in support of its tariff change application; and
 - d. reviewing the company's proposed operating costs (including an assessment of cost boundary issues between core and non-core activities) and advising the Director General on the appropriate level of costs to be included in the OUR's own economic modelling.
33. It is anticipated that the successful tenderer will be required to be based for part of the

project within Guernsey working closely with the OUR project team.

34. Further information on the previous price control work may be found in OUR 06/18 and OUR 06/21 which are published on the OUR website – www.regutil.gg.

Qualifications

35. The consultants should be able to demonstrate in the CV's and proposal:
- a. Substantial technical and economic experience in the postal sector in general;
 - b. A proven track record in advising on the design and levels of price controls and the use of economic analysis; and
 - c. Team members who have specific relevant experience of this type of project.

Confidentiality

36. The successful applicant must agree to a confidentiality agreement covering the firm and the individuals assigned to the project.

PART IV: INFORMATION REQUIRED FROM THE TENDER

37. The following information is required from the applicant for the tender:
- a. Demonstration of a clear understanding of the work to be performed. This should include a brief preliminary discussion of the specific areas that are considered of particular relevance to Guernsey and why. In undertaking this, there are various documents on the OUR's website, www.regutil.gg, providing background information on the postal sector in Guernsey.
 - b. A detailed description of the methodology that the applicant intends to adopt. This should include the envisaged project timetable containing any additional milestones for deliverables that the applicant specified in response to paragraphs 30 and 32 as appropriate.
 - c. Information regarding the expertise and experience of the specific people who will carry out the work including full CVs of the staff proposed for the project. This will also identify the role undertaken by members of the proposed project team.
 - d. Description of previous relevant project experience of the organisation.
 - e. Management arrangements for ensuring the successful completion of the project.
 - f. A clear statement that the firm has no existing conflict of interest in relation to the proposed assignment and will not place itself in such a position while retained by the OUR. Tenderers are required to disclose any matter which may give rise to a potential conflict of interest.

- g. A commitment that in the event a member of the project team withdraws part way through the project, the successful tenderer shall ensure that the OUR does not incur any additional costs in ensuring the new team member is brought up to speed. The OUR would expect the consultant to have the necessary means to transfer knowledge amongst its staff.
 - h. Daily rates of each team member in pounds Sterling (daily rates to be based on 8 hours per day) together with the anticipated number of man days for each team member.
 - i. The total cost of the services tendered for including a breakdown of the person days or effort required (stating whether this is inclusive or exclusive of VAT, note that VAT is not applicable within the Bailiwick).
- 38. The applicant is free to supplement the required information, and to provide illustrations or add background details where they are necessary to provide a clear understanding of the proposals or are likely to add materially to the OUR's understanding of the applicant's intentions in providing the service. However, the submission from applicants should be no longer than 15 A4 pages, with supplementary information contained in relevant annexes.
- 39. The applicant may be invited to clarify submitted information.
- 40. OUR requires a fixed cost quotation for the work and rates must be fixed for the duration of the project. Travel and related expenses must be included in the quotation along with any other charges.
- 41. The tenderer is invited to define payment terms relating payments to the provision of deliverables by the consultant. For the avoidance of doubt the OUR will not authorise payments to be made simply on the basis of the signing of the contract between the Office and the successful applicant.
- 42. Any exchange rate risk will be borne by the applicant.
- 43. The OUR is not bound to accept any tender received or the lowest tender. Selection will be based on compliance with this request for proposal documentation and, inter alia, the following matters:
 - a) Understanding of the issues;
 - b) Approach and methodology proposed and its appropriateness for the Guernsey market;
 - c) The calibre and relevant previous experience of the team;
 - d) Price; and
 - e) Value for money.