



# Postal Costs & Tariff Regulation Guidelines

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## 1. Introduction

### 1.1 Background

Depending on the organisation of a postal market and the legislative framework behind it, there could be a case for the regulator to intervene in the regulation of tariffs. If the market is arranged around a designated postal operator with a reserved area then regulatory intervention in this area would primarily to protect consumers from monopolistic pricing tendencies.

Even in a competitive area of the market where competition would normally be expected to “take care” of tariffs, it is the level of development of the market that determines the effectiveness of market forces in that regard. In the SADC Region, the common market set-up is that of a designated operator with some legally provided monopolies that are balanced with an unreserved, fully competitive side.

While most CRASA members have developed considerable expertise in the regulation of tariffs when it comes to the Telecommunications side of their mandates, the situation is not necessarily the same for the Postal side.

It is against this background that the CRASA Postal Committee, during its meeting that was held in Lilongwe Malawi on 29th August 2016, resolved that a Postal Tariffs Working be formed to develop guidelines to assist Members to effectively regulate postal tariffs within their respective jurisdictions.

### 1.2 Objectives of the Guidelines

The guidelines are in no way prescriptive or binding on the Member States. They are offered as a reference source to guide CRASA Members in exercising this aspect of their Postal Regulatory Mandates while promoting a harmonised approach in line with the ideals of the SADC.

In this regard, the specific objectives of these guidelines are as follows;

- To promote a common understanding of the costing methods and actual costs that go into building postal tariffs,
- To identify and analyse specific issues that are relevant to the process of postal tariff regulation,
- To benchmark and recommend common methodologies for approaching postal tariff regulation both in the competitive and reserved sections of the market,
- To enhance the ability of CRASA Members to enforce their respective Postal Regulations particularly in the regulation of tariffs for reserved services or those that are linked to the Universal Service Obligation (USO).

### 1.3 Applicability

These guidelines, although not exclusive, are intended to apply the following:

- Policymakers
- Postal Regulators
- Postal Operators
- All other relevant stakeholders interested in, or affected by the subject matter herein.

### 1.4 Structure of the Guidelines

The guidelines are structured as follows:

- **Part 1** covers the Introduction, Background, Applicability and Structure of the Guidelines;
- **Part 2** provides the International context within which the Guidelines have been developed;
- **Part 3** draws attention to the relevant sections of the SADC Protocol on Transport, Communications and Meteorology which provides the overarching mandate for the development and implementation of the Guidelines;
- **Part 4** provides an overview of the concept, principles and practice of Postal Costing and Tariff Regulation
- **Part 5** outlines some recommended regulatory approaches for the consideration and implementation of CRASA Members.

## 2. International Context

The purpose of the UPU's Terminal Dues (TD) system is to compensate the destination country for the costs incurred in the handling, conveyance and delivery of letter-post items from abroad. Since its introduction, the TD system has continued evolving from a simple means of compensating imbalances in mail exchanges to one which covers the actual costs incurred by the destination country.

Current work on the TD system is underpinned by the need to ensure an affordable universal service across the global postal network, and the desire to universally apply country-specific, cost-based rates in the not too distant future. More importantly, this work has also acknowledged the need to develop a formula for converting the domestic tariffs of the destination country into TD Rates on the basis of a multiple-tariff referencing system in order to develop an accurate linearization methodology and business rules to produce TD Rates that are as close to actual costs as possible.

While there is also acknowledgment of the need to protect countries whose domestic tariffs are set on a social basis and therefore do not even come close to cost coverage, there is no doubt that the progressive movement towards cost-based domestic tariffs is in full flow.

### **3. SADC Protocol on Transport & Communications**

Article 11.1 of the Protocol requires Member States to provide efficient market-related universal postal services that are not only responsive to consumer needs but also affordable, of a good quality and meet the social needs of communications as a public service mission.

The emphasis on market-related universal services that are affordable has a direct bearing on the manner in which Regulators may choose to exercise their mandates insofar as the regulation of tariffs is concerned. This Article therefore provides sufficient motivation to support the development of regional guidelines on postal tariff regulation as elaborated in this document.

### **4. Overview of Postal Costing & Tariff Regulation**

Pricing is at the core of all economic interaction and thus important to the development of the postal sector. Postal tariffs are important to postal users, because they determine what products and services are consumed and in what quantities. Tariffs are equally important to the postal operators because they determine profits and incentivise innovation and investment. In terms of the market, tariffs are the primary lever for competition that can work to the benefit or detriment of consumers (especially when used as an anti-competitive tool to squeeze competitors out of the market).

In the SADC Region, pricing decisions in the postal sector typically adhere to two types of legislation. On the one hand, the pricing decisions have to comply with general competition legislation which has been put in place to ensure efficient and undistorted competition, while on the other hand, pricing decisions concerning products within the scope of the universal service obligation (USO) or special tariffs of the universal service provider must also comply with sector-specific regulation contained in the applicable postal statutes.

The overall objective of tariff regulation in this context is therefore to guarantee the provision of universal postal services that are affordable to the target population while creating a market for non-universal postal services in which market failure is kept to a minimum. However, due to the existing economies of scale and scope, the conditions for an imperfect competitive market are often present in the postal sector.

It is for this reason that both competition regulation (which seeks to ensure efficient and undistorted competition and to protect postal users against exploitation through unfair trading conditions such as excessive prices) and sector specific regulation (which aims to foster effective market functioning and universal service provision) must interact in coordination to bring about the desirable outcomes as described above.

#### **4.1 Applicable Tariff Regulation Principles**

While the actual application of regulatory measures may differ depending on the market conditions in each Member State, the following principles shall apply especially in relation to the regulation of tariffs for universal postal services:

- i. Ensuring the provision of the universal service at affordable tariffs,
- ii. Furthering the interests of postal users wherever appropriate by promoting effective competition,

- iii. Encouraging efficiency and economy of the universal service provider,
- iv. Having regard for the need to ensure that universal service provider (licence holder) can finance their licensed activities,
- v. Ensuring that universal postal service tariffs are transparent
- vi. Ensuring that universal postal service tariffs are non-discriminatory
- vii. Ensuring that universal postal service tariffs are cost-based or cost-oriented
- viii. Avoidance of perverse incentives.

#### 4.2 Understanding and Allocating Postal Costs

Having a firm understanding of the cost-allocation systems or practices used especially by universal service providers is necessary in order to introduce transparency in the costs of all types of postal products and services and prevent cross-subsidies between the reserved and unreserved areas. In this regard, particular attention is to be given to the identification of cost drivers which in themselves are a key determinant in describing the changes and increase of costs.

As a bare minimum, the cost-allocation system should endeavour to distinguish between direct costs, indirect costs and common/overhead costs. For purposes of these guidelines, these costs shall be understood as follows;

- **Direct Costs:**  
Costs that can be directly and unambiguously related to a product or service.
- **Indirect Costs:**  
Common costs that can be apportioned to products or services on a measured non-arbitrary basis based on the relationship of the costs with directly attributable costs.
- **Common/Overhead Costs:**  
Institutional overheads and administrative costs where no causal linkages with the services/products provided can be established.

It is, in this context, necessary to identify all activities in the chain of postal processes and allocate the appropriate cost drivers in relation to the activities. This process may include the following steps:

- A. Defining individual processes and activities and the parameters of their cost drivers:
  - Primary processes, or each step in the postal process (collection, transport, sorting and delivery) and contributions per mail item;
  - Consolidation of individual processes and activities
  - Geographical aspects of costs covering distances to service points and postal routes connecting the postal network;
- B. Costing of products and services in segmented markets, such as letter mail, parcel mail, courier and express, counter services, philately, retail activities, which may also include product development, marketing and sales, etc.

## C. Statistics and sampling

### Principles of cost allocation

- **Cost causality:** Costs should be allocated in accordance with the activities that cause them
- **Objectivity:** Costs should be allocated on an objective basis, without unduly benefiting the regulated company or any other company
- **Transparency:** The allocation method should be transparent
- **Consistency:** The allocation of costs should be consistent with the regulator's objectives (e.g, economic efficiency, fairness/distributional considerations) and statutory duties (e.g, to further the interest of consumers, ensure the provision of the universal service, etc.)
- **Feasibility:** The allocation method should be practical

### 4.3 Universal Service and Non-universal Service Costs

The allocation of costs for universal and non-universal services is dependent, first and foremost, on the definition of the Universal Service Obligation (USO) and the identification of the actual postal products and services that are to be included in the USO. It is in this context necessary to determine the postal services that are to be considered as Universal, regardless of whether these are being provided by the designated operator or by other operators.

This identification is an important pre-requisite for cost allocation. If there is no separation of costs in relation to universal and non-universal services, this can work to either the advantage or disadvantage of both consumers and the postal operator. For example, if non-universal costs are used to determine the price of universal services, the cost of for universal services is likely to go up, thereby defeating the purpose of having USOs. The opposite can happen if universal cost are used to determine the cost of non-universal services. It is therefore necessary to establish and maintain a clear separation between the two sets of costs in order to promote cost efficiency in the provision of postal services.

## 5. Recommended Regulatory Approaches to Postal Costing & Tariff Regulation

### 5.1 Policy Environment for Effective Postal Tariff Regulation

The ideal policy environment for effective regulation of postal tariffs is one which recognises the role and objectives of sector specific regulation, that of general competition regulation and how the effective interplay between these two legal frameworks can bring about the desired effects in the pricing of both universal services and those in the competitive area of the market.

In so doing, the policy framework must establish some broad or specific policy objectives that will provide guidance in terms of the regulatory measures to be considered and the pricing decisions to be made by regulated entities. These policy objectives may include the following;

- Affordability of universal services
- Protection of postal users
- Uniform pricing of identified products or services
- Promoting the competitiveness and financial viability of the designated postal operator
- Cost-orientation of prices in the sector

## **5.2 Regulatory Measures for Effective Postal Tariff Regulation**

NRAs must have a regulatory measure to use in evaluating the appropriateness of changes in the prices of the regulated services. It is in this regard recommended that NRAs develop and utilise a regulatory pricing control model or system which takes into account the market conditions at national level while employing the appropriate combination of regulatory measures as described below. In considering which model(s) to adopt, NRAs should consider a number of factors in relation to their own postal market. For instance, NRAs to choose a regulatory pricing system that incentivises the incumbent to improve efficiency, removes inappropriate cross subsidies, and ensures that the price of each product is cost-oriented.

Generally, a combination of two different models of price controls is regarded to be effective at achieving the above mentioned goals. However, the conditions outlined under each price control model below should exist in order for the NRA to adopt that specific model. Where the market conditions of the country do not fully align to the conditions of the various pricing control models, the selection of the appropriate regulatory pricing model can also be chosen on the basis of the advantages of the pricing control model as elaborated below:

### **5.2.1 Ex-ante Approval**

The ex-ante price approval focuses on projected costs and uses the real or actual costs of the regulated products as its starting point. With the ex-ante system, the NRA must establish and approve a cost accounting system and allocation regime that would give assurance that all the operator's costs relating to regulated services are clearly identifiable and consistent with the approved cost accounting system.

Furthermore, the NRA must determine whether the prices are in accordance with certain standards and relevant actual costs. If they do not, the regulator may request the operator to correct its prices. This price approval system therefore requires that prices be cost-orientated.

#### **Conditions for adopting Ex Ante Price Approval**

- Existence of low level of competition in the market with significant barriers to entry,
- Prices are currently not cost-oriented,
- The scope of universal service is restricted to single piece mail for which there is little or no significant competition,
- Forecasting is not particularly well developed.



**Advantages**

- Where there is imperfect competition, this system may be better at preventing excessive pricing and is of great benefit where there is only one operator,
- The system counteracts both excessive pricing and below cost selling.

**Disadvantages**

- The implication is that the regulated operator can retain the benefit from unanticipated improvement in productivity and, bear the cost of failing to achieve expected efficiency improvements,
- During implementation, important issues are the amount of detailed costing information required, the necessity to project future costs and the delay that is incurred while the regulator analyses the data,
- Price changes may be requested annually, or even more frequently, which may lead to a high level of regulatory burden.

**5.2.2 Ex Post Price Control**

This price control system uses the costs of the regulated products as its starting point, and is sometimes referred to as ex-post investigation or “cost plus” model. The NRA’s focus is to investigate whether prices match the relevant costs or other standards. The ex-post controls are based on actual costs and ensure that the operator recovers all the costs it incurs.

**Conditions for adopting Ex Post Price Control**

- There is high degree of competition in fully contestable markets,
- The scope of universal service covers a wide range of products in terms of volumes and revenue,
- There is full private ownership where incentive to achieve efficiency targets are maximized,
- There is structural and accounting separation in place that provide for full equivalence,

**Advantages**

- Since it is based on actual costs, recorded in the operator’s financial records, data collection and processing may be less complex making implementation costs lower,
- Very useful for identifying cross-subsidies as each product or service is considered individually,
- It can assist in the detection of below cost selling practices and excessive pricing,
- Puts limited regulatory burden on the regulator since actual costs are used as a base for the analysis.

**Disadvantages**

- The system moves the burden of proof onto the regulator that needs to compile robust costing data during an ex-post procedure,
- Ex-post systems provide no incentive at all, and it is very difficult and time consuming to require excessive prices to be reduced.

**5.2.3 Price cap Regulation**

Under price cap system, prices are regulated by focusing on the changes in the overall level of costs that the operator faces (inflation of input costs), and subtracting the impact of productivity or expected productivity growth. The price cap is not linked directly to changes in the specific cost of service of the operator in question. A price cap system eliminates, or at least weakens, the linkage between cost and prices. Prices are controlled by a formula reflecting the normal variations in the prices of inputs used by the operator, offset by expected productivity improvements (see annex 1 for detailed example).

**Conditions for adopting Price Cap Regulation**

- Postal prices are already fully compliant with the cost oriented principle.
- The scope of universal service includes services to corporate customers for which there is significant competition.
- It is possible to forecast cost movements 3 – 4 years ahead.

**Advantages**

- Price cap system provides stronger, more lasting incentives for management to cut costs and increase efficiency, as if the operator's costs increase by more than the formula, output prices will not cover the costs incurred.
- Some of the regulatory costs are cut, as a price cap is set only at the beginning of the price control period instead of annually.
- The system provides stability and predictability in prices.

**Disadvantages**

- If the price cap approach is not accompanied by quality of service obligations, the regulated operator may seek to compromise on quality to exceed the productivity targets,
- The baskets used for each element of the price cap need to be carefully constructed to avoid the risk that the price of a product with little effective competition being increased significantly whereas the price of products subject to effective competition are reduced while keeping overall within the cap,
- The formula needs to be constructed in a manner that avoids a lack of coherence between the factor composition of the general inflation index used and the operator's actual inflation factor composition,

- Price cap regulation may still leave prices too high if the initial price cap is set to recover the historical costs inherited from another type of regulation.

#### **5.2.4 Accounting Control**

While it is likely that the regulated operators are not currently operating or have challenges in maintaining detailed cost allocation systems, NRAs may consider measures to encourage and progressively compel especially the designated operators to organise their internal accounting systems in a manner which separates accounts for USO and non-USO products and services.

#### **Advantages**

Keeping separate and transparent accounts may provide Member States and their NRAs with accounting information that can allow them to achieve the following;

- Adopt decisions related to the universal service, (Policymakers, NRAs)
- Determine whether the universal service obligations imposed entail a net cost and represent an unfair financial burden on the universal service provider,
- Ensure that the tariffs applied to the universal service comply with the principles on tariffs as set out in the applicable regulations,
- Where applicable, to ensure compliance with the principles on terminal dues in fulfilment of UPU requirements,
- Monitor fair market conditions until competition becomes effective.

#### **5.2.5 Compulsory Provision of Information**

Where available, NRAs must also take full advantage of regulatory provisions that require regulated entities to provide information for market-monitoring purposes. Such information may include inter alia data on volume, pricing, employment costs, turnover, and other financial information.

#### **Advantages**

- The ability to compel operators to submit such information allows NRAs to monitor compliance with the tariff regulation measures above and at the same time serves clearly defined statistical purposes
- Where such provisions are clearly articulated in the postal legislation, NRAs will have at their disposal, an important tool to request information they require from licensed entities, including confidential financial information.

#### **5.2.6 Formal Cooperation with Competition Authorities**

In jurisdictions where both the sector specific NRA and a general Competition Authority are present, improved cooperation between the two would greatly benefit both authorities in terms of knowledge sharing and coordination of activities.

With increased cooperation between the two, the Competition Authorities could take advantage of the NRA s' thorough knowledge of the postal sector and enhance their ability to interpret information obtained from market players especially in relation to the competitive, non-reserved section of the market.

Similarly, NRAs could take advantage of the NCA s' expertise when implementing the remedies that should provide for effective competition in the postal market.

## 6. Conclusion

As outlined above, the application of the tariff regulatory measures will largely depend on the level of development of the postal sector in each member state as well as the governing postal legislation. This does not however, prevent the adoption of a common understanding of, and approaches to, the underlying theoretical framework and practical application of regulatory measures by the NRAs in the SADC Region as recommended in these guidelines.

The challenge to be overcome by all stakeholders in this process remains is the absence or insufficiency of cost-related information and other applicable data. This will require a mutual agreement between industry players, the NRA and even the National Competition Authorities where appropriate. Ultimately though, undertaking a comprehensive cost of service study for postal services is either at national or regional level will provide the most scientific approach in determining cost elements related to provision of postal services.

## 7. References

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2. Mark A. Jamison, **Estimating Costs for Universal Service Obligations, 1997**
3. Copenhagen Economics, **Pricing Behaviour of Postal Operators, 2012**
4. Mladenka Blagojević, Dejan Marković, Momčilo Dobrodolac, **The Model for Services Cost Accounting and Avoiding Cross-subsidy Phenomenon in Postal Sector, 2010**
5. Hans Kok Business Consult BV, **Study On Postal Sector Reforms In The Southern Africa Development Community (SADC), 2015**
6. **SADC Protocol on Transport, Communications and Meteorology,**

## 8. Appendix 1.1 – Example; Application of Price Cap Regulation

Price-cap regulation may come with tariff formula  $RPI - X$ , where the Retail Price Index (RPI) is the factor taking into account the inflation and  $X$  is a motivation factor taking into account, for example, the need of investment or savings. This formula takes into account the development of the relevant input factors, with the coverage of the price regulation according to the result of competitive environment test<sup>1</sup> (apparently comprising nearly all universal services provided by the Designated Operator within a five years regulatory period).

The above proposed price regulation model is based on the price-cap regulation, with coverage according to the result of the competitive environment test and the proposed regulation period.

Implementation of the price cap regulation requires the dismemberment of regulated services into the so-called price (tariff) baskets, namely:

- i. letter items and valuable letter items including their complementary services (*A*),
- ii. parcels including their complementary services (*B*),
- iii. postal orders including their complementary services (*C*),
- iv. Other obligatory services (*D*).

Each of these tariff baskets is supposed to be extra monitored so as to ensure that there is no cross subsidies amongst the baskets. This entails that these price baskets should fully cover their allocated costs. In this regard, price regulation within baskets *A*, *B*, *C* is required to meet these fundamentals:

- i. the regulation has to take into account the total price of the tariff basket,
- ii. the regulation has to take into account the input changes,
- iii. Price changes will be realized on dates defined in advance.

Based on the resulting estimated revenues, the NRA is supposed to define price-caps for each individual basket. In this case the Postal Service provider should have the competency to set prices for particular weight-steps of items based on marketing experience and their interrelated services in each basket.

Therefore, there is the possibility of defining one fixed price (if needed), for example, for letter items up to 20g. Thus, the service provider will not be allowed to ensure for themselves such a high revenue from the most common weight step (20g) of a particular basket, and the service provider will not be forced to undertake any active price policy in other weight steps of a particular tariff basket.

Price regulation within tariff basket *D* will be enforced only if needed and the form will be the maximum prices.

Each of the tariff baskets *A*, *B*, *C* involves all the particular services and the frequency of individual services in the basket responds to the real frequency during the period of one year. So the motivation of this price-cap method lies in the fact that there is scope for the service provider to mobilize its activities to do some rationalization actions, to increase labour productivity in order to be able to generate profits.

• <sup>1</sup> Undertake a market review using Porter's Five market forces i.e. Power of Buyers, Power of Suppliers, Threat of substitutes, Barriers to entry, Competitors

However, this method does not exclude cancellation of the already set price-cap in case of extreme inflation accumulation and sets the new one within the same principles. In this regard, the base is to set the initial price-cap of tariff basket  $P_0$  on the basis of the postal service provider's cost calculation of individual services included in the relevant basket.

At this point, it is important for the regulator to do an audit, which would investigate both objective affiliation of common costs to individual regulated and unregulated services and justifiability of the showed costs. The audit should assure fair-minded setting of the above mentioned initial price-cap.

This initial price-cap  $P_0$  of individual tariff baskets will be verified by tariff formula  $RPI - X$ , in two-year intervals. The new total price of individual tariff basket (there is a basket of letter items as within the postal sector is established in the following way:

$$P_1 = P_0 * (I_i - X)$$

$$\text{Where } I_i = (a_{sc} * I_{sc}) + (a_{cops} * I_{cops}) + (a_{cpv} * I_{cpv}) + (a_{ct} * I_{ct}) + (a_{cvnd} * I_{cvnd}) + (a_{cpo} * I_{cpo}) + a_0$$

Where

$P_0$	-	original price of tariff basket
$P_1$	-	new price of tariff basket
$X$	-	decision-making factor – range from 0 to 4%,
$I_i$	-	input inflation index
$I_{sc}$	-	customer price index
$I_{cops}$	-	other business services price index
$I_{cpv}$	-	industrial producer price index
$I_{ct}$	-	telecommunication price index
$I_{cvnd}$	-	domestic freight transport price index
$I_{cpo}$	-	insurance price index
$a_{sc}$	-	take of personal costs on total costs
$a_{cops}$	-	take of costs on other business services on total costs
$a_{cpv}$	-	take of costs of purchase from industrial producer on total costs
$a_{ct}$	-	take of costs of telecommunication services purchase on total costs
$a_{cvnd}$	-	take of costs of transport services purchase from external companies on total
$a_{cpo}$	-	take of costs of car and property insurance on total costs
$a_0$	-	Take of costs exempt from inflation on total costs.

Based on the above variables, the regulator is expected to fix the level of decision-making factor  $X$  in particular on the basis of judgment of investment necessary and the possibility of its funding by productivity increase. Its (factor  $X$ ) allowed range should be between 0 and 4% (for a two-year period), which is in compliance with the range of analogical factor used in the formula for the telecommunication sector.

This factor motivates the company to increase the demand for its services, which is crucial for setting the prices in the postal sector. Price increase means transmission of inflation impact to relevant inputs, which is evident from Equations 1 and 2. The inflation impact is specified by way of the weighted average of the inflation index of individual cost group.

The construction of input inflation index  $I_i$  results from the concept of taking into account the relevant costs of the local postal services provider, which has crucial impact on the resulting price of the regulated postal services.

To ensure that there is dynamic and transparent relevant costs, the regulator should consider monitoring or having linkages with individual cost groups to accessible price indices, i.e. Central Statistical Offices and the Central Bank. These cost groups are set based on the analysis of the economic activities in the country and price indices (monitored by CSO).

Staff costs are the most important expense item, which has significant impact on the resulting price (they make more than 60% on total costs). These costs are then linked to the customer price index  $I_{sc}$ . Other costs that have crucial impact on the resulting price of regulated postal services (in compliance with the classification and contents of CSO price indices) are:

- i. costs on other business services,
- ii. costs of purchase from industrial producer,
- iii. costs of telecommunication services purchase,
- iv. costs of transport services purchase from external companies,
- v. costs of car and property insurance,
- vi. Costs exempt from inflation.

These cost groups are linked to the below mentioned price indices:

- i. customer price index,
- ii. other business services price index,
- iii. industrial producer price index,
- iv. telecommunication price index,
- v. domestic freight transport price index,
- vi. Insurance price index.

The calculation of coefficients  $a_{sc}$ ,  $a_{cops}$ ,  $a_{cpv}$ ,  $a_{ct}$ ,  $a_{cvnd}$ ,  $a_{cpo}$ ,  $a_0$ , (coefficients reflect the cost structure of the postal service providers from its expense data (expense account statement). The calculation of indices  $I_{sc}$ ,  $I_{cops}$ ,  $I_{cpv}$ ,  $I_{ct}$ ,  $I_{cvnd}$ ,  $I_{cpo}$  i.e. the calculation of their average values in the determined period results from the time series of individual price indices monitored by the Central Statistical Offices.

The values of  $a_{sc}$ ,  $a_{cops}$ ,  $a_{cpv}$ ,  $a_{ct}$ ,  $a_{cvnd}$ ,  $a_{cpo}$ ,  $a_0$  coefficient can be set on the basis of the appropriate postal services foundations. However, there is need to first adjust the total cost by the amounts, which are not related to the regulated services, i.e. extraordinary costs, financial expenses and goods sold. Concretely, the equation for new regulated price should be as follows:

$$P_1 = P_0 \cdot \frac{(100+K)}{100}$$

Where  $P_0$ ,  $P_1$  is original and the new price of standard letter items (up to 20g) and  $K$  is fixed percentage of price growth of the standard letter items during the regulated period (for example 10%). However, in view of a general effort to reduce regulation procedures, the application of this instrument should be considered very carefully.

Finally, the regulator should add that in case of application this price regulation method in order to set the maximum allowed price growth of the letter items basket in the current period, one of the time series extrapolative method for indices  $I_{sc}$ ,  $I_{cops}$ ,  $I_{cpv}$ ,  $I_{ct}$ ,  $I_{cvnd}$ ,  $I_{cpo}$  calculation has to be used.