

**HASHEMITE KINGDOM OF JORDAN**



**Telecommunications Regulatory  
Commission (TRC)**

**Determination on the Implementation of a  
Regulatory Regime for the Prices of the  
Reserved Services of Jordan Post  
Company (JPC)**

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**Trc Board Decision**

**No.(6-16/2009) Dated (14/9/2009)**

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**Introduction**

According to the stipulation of Article 9/a of the Postal Services Law No 34 of 2007 ("the Law") TRC "should set the basis that the Public Postal Operator is committed to abide by, when determining the services tariff by virtue of the exclusive right granted to it under the provisions of Article 12 of this law", and also according to Article 9/e of the same Law, TRC has the duty "to regulate the postal services in the Kingdom in accordance with the public policy approved by the Council of Ministers and to issue related instructions".

Therefore, and in line with its legal obligations and in particular Articles no. 9/a and 9/e of the Law, TRC published the consultation paper titled "**Notice Requesting Comments on the implementation of the tariff regulatory regime for the restricted services of JPC**" on August 14<sup>th</sup>, 2008. TRC received two responses, which were subsequently summarized and commented upon by TRC in the Information Memorandum associated with this Determination.

As a result of the consultation process, and having taken into account the responses to the consultation paper and the international best practice in the area of postal tariff regulation, TRC determines the following:

**Scope and Purpose**

The purpose of this determination is to establish a mechanism to regulate the prices of the reserved services provided by the Jordan Post Company (JPC) as required by the Law.

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## The Principles

The price regulation of the reserved services should take into account the following principles:

- Promote economic efficiency of JPC in the short term by encouraging operational efficiency and optimal running and management of the postal system by enhancing overall operational performance and cutting inefficient costs and, in the long term, by encouraging and attracting new properly planned investments.
- Ensure the financial viability of JPC through the ability to generate satisfactory revenue.
- Enhance the quality of services at certain pre-specified standards.
- Promote and facilitate future competition in the postal sector.
- Ensure non-discriminatory provision of the reserved services.
- Promote economic efficiency of the customers' usage of reserved services by providing short and long-term price signals to ensure that the reserved services reflect the economic cost of their provision.
- Set affordable, stable and transparent prices.

## The Pricing Regime

The pricing regime for regulating the prices of JPC's reserved services shall be based on a forward looking Price Cap formula.

**Coverage**

The Price Cap applies to the reserved services as specified by the Law.

**The Structure**

The structure of the Price Cap shall be in the form of a tariff basket according to which the annual price of the constituents of the basket of reserved services shall not exceed the cap set by TRC.

**The Price Cap Formula**

The Price Cap formula shall be as follows:

$$Price_t = Price_{t-1} \times (1 + CPI_t - X_t + V_t)$$

Where:

- **Price<sub>t</sub>** is the price of the reserved services basket
- **CPI<sub>t</sub>** is the consumer price index measuring the annual inflation rate as published by the Central Bank of Jordan (CBJ).
- **X<sub>t</sub>** is the efficiency adjustment factor which reflects the yearly improvements of managerial and economic efficiencies of JPC through continuous efforts of better internal organization and management as well as better operating and capital expenditures (investment) decisions, the benefits of which are to be passed to JPC's customers. The details of the X factor regarding its calculation methodology as well as the anticipated values are to be decided by TRC as part of the detailed pricing methodology.
- **V<sub>t</sub>** is the investment incentives adjustment factor to account for investments required to meet several obligations such as quality standards, enhancement of productivity, increase of productive capacity, and others to be determined by

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the TRC. The details of the factor V are to be determined by TRC as part of the detailed pricing methodology.

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### **The Duration and Periodic Review**

The Price Cap Application Period shall be three years commencing and expiring on dates to be specified by TRC. However, TRC reserves the right to amend this duration through public consultation.

Prior to the end of the Price Cap Period, TRC shall announce a Periodic Review to set the price cap for the forthcoming period.

As part of the Periodic Review TRC will publish a roadmap setting out the phases, tasks, activities, processes and information requirements with corresponding deadlines in order to conduct the Periodic Review.

In the event of unforeseen or extraordinary circumstances occurring during the price cap application period either JPC or TRC may request a Special Review that would allow the parties to revisit the Price Cap in whole or in part.

### **The implementation of the first Price Cap**

TRC shall publish a roadmap comprising all tasks, activities, and information requirements for the implementation of the first Price Cap.

As part of the implementation of the first price cap TRC shall determine the initial price ( $P_0$ ) of the reserved services.

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An indication of TRC approach to the price cap implementation is given in the Annex of this Determination.

**The Transitional Period**

Until the study and the analysis of JPC's costs and other necessary price cap parameters is completed so as to enable the implementation of the first price cap, TRC makes an interim determination to set the sum of the efficiency ( $X_t$ ) and the investment incentives ( $V_t$ ) factors to zero so that JPC's annual prices may change with the annual CPI. The transitional period is effected from 1<sup>st</sup> June 2010 and should not exceed a maximum period of 18 months.

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This interim determination does not give JPC an automatic right to adjust its annual prices in line with CPI. Should JPC wish to amend its prices during the transitional period then it must apply to TRC for approval of the modified prices.

**Date of Effect of the Determination**

This Determination shall come into effect as of the date of issuance by the Board of Commissioners of the Telecommunications Regulatory Commission (TRC).

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| <p><b>ANNEX:</b></p> <p><b>INDICATIVE APPROACH TO THE IMPLEMENTATION OF PRICE CAP</b></p> <p><b>Implementation Methodology</b></p> <ul style="list-style-type: none"> <li>• The specification and measurement of the required variables.</li> <li>• The data to be collected.</li> <li>• The price cap model form and structure and its relation to the costs of service provision with the corresponding equations.</li> <li>• The method of calculation of the X and V factors.</li> <li>• The method of calculation of the Weighted Average Cost of capital, the Asset Values, and other parameters.</li> <li>• The costing method to be used (Historical, or forward looking).</li> <li>• The choice of asset depreciation models.</li> <li>• The cost allocation rules.</li> </ul> <p><b>Data Collection</b></p> <ul style="list-style-type: none"> <li>• Production of a list of the required data.</li> <li>• Request from JPC to compile the requested data set and submit it to TRC for approval within a specified timescale.</li> <li>• Provision to JPC with requests for any clarifications regarding the required data.</li> <li>• Specification of the timescale for the data collection and submission as part of the detailed pricing methodology.</li> </ul> | <p style="text-align: right;">:</p> <ul style="list-style-type: none"> <li>•</li> <li>•</li> <li>•</li> <li>• ( ) ( )</li> <li>•</li> <li>• ( )</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> <li>•</li> </ul> |

## Revenues and Costs

The required revenues are based upon the costs of the service provision by following a "Building Block" approach to account for the costs of:

- Operation and maintenance.
- Depreciation.
- Return on the assets employed to provide the regulated services

In addition the following matters have to be considered:

- The supply and demand conditions of the postal market in terms of volumes.
- The levels of forward looking operating and capital expenditures required by JPC to meet the Supply/Demand balance over the control period.
- The anticipated and plausible level of operating efficiencies sought in order to calculate the X factor.
- The return on the assets fully or partly employed for the provision of the regulated reserved services over the price cap period.
- The value of the assets employed.
- Depreciation of the assets employed.
- Any other variable which has material impact on the costs of the provision of reserved services.