



Safeguard cap for Second Class Large Letters and packets

Statement on the proposed modifications to the safeguard cap condition (DUSP Condition 3)

Statement

Publication date:

28 March 2013

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Section 1

Decision on modification to the safeguard cap condition

Introduction

- 1.1 On 27 March 2012, we published our decision on the new regulatory framework for the postal market (“the March 2012 statement”).¹ This granted Royal Mail significantly more pricing flexibility to help secure the ongoing provision of the universal postal service, subject to certain key safeguards. These included a safeguard cap to ensure vulnerable consumers could afford a basic universal service.
- 1.2 Accordingly, we set a 55p cap on the price of Second Class stamp Letters (“Letters”) effective from April 2012 which would be increased by CPI inflation over the period of the regulatory framework. We also determined that it was appropriate to impose a cap on Second Class stamp Large Letters² and packets up to 2kg (“Large Letters and packets”) and noted that we would consult on the structure, form and level of such a cap. This consultation was published in April 2012 and included the statutory notification for the Designated Universal Service Provider (“DUSP”) condition.³
- 1.3 The calculation of the cap on Large Letters and packets was more complex than the Letters cap as there were a number of different formats and weight steps involved. The basket structure of the cap that we proposed was designed to give Royal Mail significant flexibility to set its prices for individual products as long as the overall level of the cap was not exceeded (given the weighted average of the seven⁴ products included in the basket).
- 1.4 In considering the level of the cap, we noted that in general consumers buy Large Letter and packet products less frequently than Letters and when this is averaged across the year they have a low weekly spend on these products. We therefore proposed that the level of the safeguard cap should be at the same percentage increase as for Letters (53% plus CPI) for the seven year duration of the regulatory framework.
- 1.5 On 20 July 2012, we published the statement setting out our decision to set the level of the safeguard cap for Large Letters and packets at a 53% increase over 2011-12 prices, increasing with CPI inflation for the seven year duration of the regulatory framework.⁵

¹ Available at: <http://stakeholders.ofcom.org.uk/binaries/consultations/review-of-regulatory-conditions/statement/statement.pdf>

² “Large Letters” means any item larger than a Letter and up to length 353mm, width 250mm, thickness 25mm, and weighing no more than 750g.

³ Available at: <http://stakeholders.ofcom.org.uk/binaries/consultations/postal-service-letters-packets/summary/condoc.pdf>

⁴ In 2013-14 there are eight products within the basket, due to changes in Royal Mail’s Second Class stamp products and prices.

⁵ Available at: <http://stakeholders.ofcom.org.uk/binaries/consultations/postal-service-letters-packets/statement/statement.pdf>

- 1.6 Following adoption of DUSP Condition 3, Royal Mail identified a problem with the formula for the calculation of the maximum price to be charged for the services specified in DUSP Condition 3. Having considered Royal Mail's concerns, we agreed that the formula as drafted did not accurately implement our intended policy.
- 1.7 In light of these concerns, we published a consultation on 14 February 2013 ("the February 2013 consultation") which proposed some minor modifications to DUSP Condition 3 to correct this error and ensure that the condition would work as originally intended.⁶
- 1.8 This statement sets out our decision to make the modifications to the safeguard cap for Large Letters and packets that were proposed in the consultation. In addition, the statutory notification of the modified DUSP Condition 3 is contained in Annex 1. Annex 2 contains an unofficial consolidated version of the modified DUSP Condition 3 which has been marked up to show the modifications that have been made and Annex 3 contains an unofficial consolidated clean version of the modified DUSP Condition 3.

Legal framework

- 1.9 We set out the details of the legal framework for imposing regulatory conditions, including the safeguard cap for Large Letters and packets, in our consultation on the structure, form and level of the safeguard cap for Large Letters and packets. This was published on 27 April 2012 with the subsequent statement published on 20 July 2012.
- 1.10 In addition, we explained in those two documents why the statutory tests for imposing regulatory conditions were met in relation to the safeguard cap for Large Letters and packets.
- 1.11 The relevant statutory tests that apply to the modifications that we have decided to make are those set out in Schedule 6 to the Postal Services Act 2011 (the "Act") for modifying a regulatory condition.⁷ Schedule 6 provides that we may modify a regulatory condition only if we are satisfied that the modification:
 - is objectively justifiable;
 - does not discriminate unduly against particular persons or a particular description of persons;
 - is proportionate to what it is intended to achieve; and
 - is transparent in relation to what it is intended to achieve.
- 1.12 As explained in the February 2013 consultation, we did not consider it necessary to carry out a detailed impact assessment of the proposed modification as this was carried out for the decision to adopt the safeguard cap for Large Letters and packets and the decision as to the structure, level and form of that cap. The changes to the formula for calculating the level of the safeguard cap that we have decided to make

⁶ Available at: <http://stakeholders.ofcom.org.uk/binaries/consultations/safeguard-cap/summary/safeguard-cap.pdf>

⁷ The expression "regulatory condition" is defined in section 28(2) of the Act as including a designated USP condition and a USP access condition; that definition applies to Schedule 6 by virtue of sections 53 and 63 of the Act, when read together.

merely ensure that DUSP Condition 3 can operate effectively and as originally intended.

Our proposed modifications

- 1.13 In the February 2013 consultation, we noted that, during the process to set prices for 2013-14, Royal Mail had identified an issue with the safeguard cap formula for the calculation of the maximum price to be charged for the specified basket of products, which was set out in DUSP Condition 3.2.2. As we had not specifically defined which CPI index period would be used within the formula, both the CPI index and the maximum increase in prices were to be calculated in reference to the time period “t”. The letter “t” referred to the Relevant Year, which we had defined as the period beginning on 1 April and ending on 31 March for each year that the regulatory framework would be in place.
- 1.14 Therefore for Royal Mail to calculate the level of the cap, the formula required it to use the level of CPI for the following year (i.e. a forecast for the year for which the prices are to be set) in the calculation. However the Office for National Statistics (the “ONS”) publishes the Consumer Prices Indices approximately two weeks after the end of the month for the previous 12 months (on a rolling basis). As a result, to complete the calculation Royal Mail would have needed to use a forecast and ONS does not provide forecasts of CPI. In addition, forecasts are inherently inaccurate and the formula in the DUSP condition did not provide a correction mechanism if the forecast ultimately proved to be incorrect.
- 1.15 Furthermore, using the period of the Relevant Year as the basis of the level of CPI was inconsistent with that used for the corresponding Letters cap. The Letters cap uses actual CPI from the 12 months ending in September of the previous year. We had not intended that the CPI period to be used in determining the level of the safeguard cap for Large Letters and packets would be different to the corresponding Letters cap.
- 1.16 On this basis we proposed to define the term CPX within the formula so that it related to the level of the CPI index on the 30 September immediately before the beginning of a “Relevant Year”. This would allow Royal Mail to use published CPI figures produced by the ONS and ensure that the Large Letters and packets cap would have the same percentage increase in level as the Letters cap will over the seven year period of the regulatory framework.⁸
- 1.17 In addition, to ensure the formula worked as intended and was consistent with the basis for CPI used in the Letters cap, we also proposed to clarify the base year for the CPI increase (2012-13), and define year 0 and the initial prices ($P_{1,0}$) within the condition.

⁸ Although the same percentage increase in level applies to both caps over the seven year period, they are calculated in slightly different ways. The Large Letter and packets cap is a control on the maximum level of prices for the basket of products, which is adjusted each year to reflect the level of the CPI in the month of September prior to the start of the Relevant Year relative to its level in the September preceding the first Relevant Year (i.e. September 2011). By contrast the Letters cap is a control on the maximum annual increase in price (for this single price point), which is calculated on the basis of the percentage increase in the CPI over the relevant year compared to the previous year (starting at 55p in 2012-13).

Response to consultation

- 1.18 We received one response to this consultation, from Royal Mail. It welcomed the consultation on this technical change to the formula for the safeguard cap for Large Letters and packets. Royal Mail noted that the current condition would require a forecast of CPI to be used which would create uncertainty in the level of the cap and would require a correction mechanism, which was not included in DUSP Condition 3. It also noted that using a historical inflation figure was consistent with the approach typically adopted by other regulators in price cap formulae.
- 1.19 Royal Mail agreed with the proposed changes and concluded that the modifications would allow DUSP Condition 3 to work as originally intended. It therefore supported the proposed technical changes to the safeguard cap for Large Letters and packets.

Our decision

- 1.20 In light of the response to our consultation, we have decided to modify DUSP Condition 3 as proposed.
- 1.21 We consider that the modifications to the safeguard cap for Large Letters and packets satisfy the statutory tests set out in Schedule 6 for modifying regulatory conditions. In particular, the changes are:
- **objectively justifiable** because the safeguard cap formula contained an error that prevented the level of the cap being calculated at the time when Royal Mail is setting its prices for the year ahead. Furthermore the safeguard cap for Letters used a different period for CPI from the safeguard cap for Large Letters and packets when no such distinction was intended;
 - **not unduly discriminatory** because it affects the USP – and there is only one such USP (Royal Mail) in the UK;
 - **proportionate** because the modifications are the minimum alterations required to allow the safeguard cap formula to function as intended; and
 - **transparent** because the change to the DUSP condition was clearly set out in the consultation and the modified condition is set out in the Annexes to this statement.

Annex 1

Statutory notification: modification of DUSP condition 3

NOTIFICATION OF A DECISION TO MODIFY A REGULATORY CONDITION IN ACCORDANCE WITH SECTION 36 OF, AND PARAGRAPH 3 OF SCHEDULE 6 TO, THE POSTAL SERVICES ACT 2011

BACKGROUND

- (A) On 14 February 2013, at Annex 5 to the consultation document entitled ‘Safeguard cap for Second Class Large Letters and packets: Consultation on the proposed modification to the safeguard cap condition (DUSP Condition 3)’, OFCOM published a notification in accordance with section 53 of, and paragraph 3(3) of Schedule 6 to, the Postal Services Act 2011 (the “**Act**”) setting out their proposals to modify Designated USP condition 3 that was imposed on Royal Mail on 20 July 2012 pursuant to their powers in section 36 of the Act (the “**First Notification**”).
- (B) A copy of the First Notification was sent to the Secretary of State in accordance with Schedule 6 paragraph 5(1)(a) of the Act.
- (C) In the First Notification (and the accompanying consultation document), OFCOM invited representations about any of the proposals set out therein by 15 March 2013.
- (D) By virtue of section 53 of, and paragraph 3(5) of Schedule 6 to, the Act OFCOM may give effect, with or without modifications, to a proposal with respect to which they have published a notification only if they—
 - (i) have considered every representation about the proposal that is made to them within the period specified in the First Notification; and
 - (ii) have had regard to every international obligation of the United Kingdom (if any) which has been notified to them for this purpose by the Secretary of State.
- (E) OFCOM received one response to the First Notification and have considered such representation made to them in respect of the proposals set out in the First Notification (and the accompanying consultation document); and the Secretary of State has not notified OFCOM of any international obligation of the United Kingdom for this purpose.

DECISION

1. OFCOM hereby modify Designated USP condition 3 with effect from 28 March 2013, in accordance with section 36 of, and paragraph 3 of Schedule 6 to, the Act and pursuant to powers and duties in section 36 of the Act to make provision for matters set out in that section 36.

2. The modifications to Designated USP condition 3 are specified in the Schedule hereto.
3. The effect of, and OFCOM's reasons for making, this decision are set out in the accompanying explanatory statement.

OFCOM'S DUTIES AND LEGAL TESTS

4. OFCOM are satisfied that this proposal satisfies the general test in paragraph 1 of Schedule 6 to the Act.
5. In making this decision, OFCOM have considered and acted in accordance with their principal duty in section 29 of the Act and their general duties in section 3 of the Communications Act 2003.

INTERPRETATION

6. Except insofar as the context otherwise requires, words or expressions shall have the meaning assigned to them in this Notification and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the Act.
7. In this Notification—
 - (a) "**Act**" means the Postal Services Act 2011 (c.5);
 - (b) "**First Notification**" has the meaning given to it in recital (A) above; and
 - (c) "**Royal Mail**" means Royal Mail Group Ltd, whose registered company number in England and Wales is 04138203.
8. For the purpose of interpreting this Notification—
 - (a) headings and titles shall be disregarded;
 - (b) expressions cognate with those referred to in this Notification shall be construed accordingly;
 - (c) the Interpretation Act 1978 (c. 30) shall apply as if this Notification were an Act of Parliament.
9. The Schedule to this Notification shall form part of this Notification.
10. Unless otherwise is stated in that Schedule, this Notification shall take effect on 28 March 2013.

Signed by Chris Rowsell

A handwritten signature in black ink, appearing to read 'Chris Rowsell', is written over a horizontal line.

Competition Policy Director

A person duly authorised by OFCOM under paragraph 18 of the Schedule to the Office of Communications Act 2002

28 March 2013

SCHEDULE

MODIFICATIONS TO DESIGNATED USP CONDITION 3

| | Modification |
|---|---|
| 1 | In the definition of “Consumer Prices Index” in DUSP 3.1.2(b) delete the words “or “ CPX ””. |
| 2 | In the definition of “Relevant Year” in DUSP 3.1.2(e), insert before the definition of First Relevant Year the following definition: “(0) The period beginning on 1 April 2011 and ending on 31 March 2012 (the “ Base Year ”)” |
| 3 | In the formula set out in DUSP 3.2.2, for the term “CPX ₀ ” substitute “CPX ₁ ”. |
| 4 | In the definition of $P_{i,t}$ in DUSP 3.2.2, delete the word “and”. |
| 5 | In the definition of $V_{i,t-2}$, for the full stop at the end of the definition substitute a semi-colon. |
| 6 | After the definition of $V_{i,t-2}$ in DUSP 3.2.2, insert the following two definitions: “ $P_{i,0}$ is the maximum price charged for sending a single <u>Large Letter</u> or <u>Relevant Packet</u> by <u>Second Class Post</u> in the <u>Base Year 0</u> ; and CPX_t is the <u>Consumer Prices Index</u> for the month of September immediately before the beginning of a <u>Relevant Year</u> (rounded to one decimal place).” |

Annex 2

Consolidated marked-up version

UNOFFICIAL CONSOLIDATED MARKED-UP VERSION OF THE MODIFIED
DESIGNATED USP CONDITION 3.

This consolidated marked-up version of the modified Designated USP Condition 3 is provided as an aid to understanding but is not the legal instrument making the modification. In case of conflict, the modifications as set out in the Notification in Annex 1 take precedence.

- Deletions are marked in red struck-through text.
- Additions are marked in red.

**DESIGNATED USP CONDITION 3
SAFEGUARD CAP PRICE CONTROL FOR LARGE LETTERS AND RELEVANT
PACKETS**

3.1. Application, Definitions and Interpretation

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| DUSP 3.1.1 | This designated USP condition (“ DUSP Condition ”) shall apply to the <u>universal service provider</u> . |
| DUSP 3.1.2 | In this DUSP Condition— |
| | <p>(a) Basket means the services of sending <u>Large Letter</u> and <u>Relevant Packet</u> products by <u>Second Class Post</u> that the <u>universal service provider</u> currently provides;</p> <p>(b) “Consumer Prices Index” or “CPX” means the index of consumer prices compiled by an agency or a public body on behalf of Her Majesty’s Government or a governmental department (which is the Office for National Statistics at the time of publication of this Notification) from time to time in respect of all items;</p> <p>(c) “Large Letter” means a letter weighing up to 750 grams that is no more than 25 millimetres thick and up to 353 millimetres in length and up to 250 millimetres in width.</p> <p>(d) “Relevant Packet” means any item greater than a <u>Large Letter</u> in dimensions but weighing no more than 2kg;</p> <p>(e) “Relevant Year” means one of the following periods:</p> <p style="text-align: center;">(0) The period beginning on 1 April 2011 and ending on</p> |

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| | <p>31 March 2012 (the “Base Year”)</p> <p>(1) the period beginning on 1 April 2012 and ending on 31 March 2013 (the “First Relevant Year”);</p> <p>(2) the period beginning on 1 April 2013 and ending on 31 March 2014 (the “Second Relevant Year”);</p> <p>(3) the period beginning on 1 April 2014 and ending on 31 March 2015 (the “Third Relevant Year”);</p> <p>(4) the period beginning on 1 April 2015 and ending on 31 March 2016 (the “Fourth Relevant Year”);</p> <p>(5) the period beginning on 1 April 2016 and ending on 31 March 2017 (the “Fifth Relevant Year”);</p> <p>(6) the period beginning on 1 April 2017 and ending on 31 March 2018 (the “Sixth Relevant Year”);</p> <p>(7) the period beginning on 1 April 2018 and ending on 31 March 2019 (the “Seventh Relevant Year”);</p> <p>(f) “Second Class Post” means a service of sending an item by post where the <u>universal service provider</u> aims to deliver the item no later than the third working day after it was posted. For the purposes of this DUSP Condition it does not include services which are not universal services or which include charges in respect of additional registered, insured, tracked or recorded services;</p> |
| <p>DUSP 3.1.3</p> | <p>For the purpose of interpreting this DUSP Condition—</p> <p>(a) except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in DUSP 3.1.2 above and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the <u>Act</u>;</p> <p>(b) headings and titles shall be disregarded;</p> <p>(c) expressions cognate with those referred to in this DUSP Condition shall be construed accordingly; and</p> <p>(d) the Interpretation Act 1978 (c. 30) shall apply as if this DUSP Condition were an Act of Parliament.</p> |
| <p><u>3.2 Maximum price to be charged for specified services</u></p> | |

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| DUSP 3.2.1 | This DUSP Condition specifies the maximum prices that the <u>universal service provider</u> shall be permitted to charge for the group of services within the <u>Basket</u> in each <u>Relevant Year</u> . |
| DUSP 3.2.2 | <p>In each <u>Relevant Year</u> t the price of services in the <u>Basket</u> shall be set such that –</p> $\frac{\sum_i P_{i,t} V_{i,t-2}}{\sum_i V_{i,t-2}} \leq \left(\frac{\sum_i P_{i,0} V_{i,t-2}}{\sum_i V_{i,t-2}} \times X_t \right)$ <p>where –</p> $X_t = (1 + 53\%) \times \frac{CPX_t}{CPX_0}$ <p>$P_{i,t}$ is the maximum price charged for sending a single <u>Large Letter</u> or <u>Relevant Packet</u> by <u>Second Class Post</u> in <u>Relevant Year</u> t; and</p> <p>$V_{i,t-2}$ is the volume of stamped mail delivered by the <u>universal service provider</u> in the twelve months to March in the year t-2 for service i as calculated by the <u>universal service provider</u> using a reasonable methodology which has been disclosed to <u>OFCOM</u>;</p> <p>$P_{i,0}$ is the maximum price charged for sending a single <u>Large Letter</u> or <u>Relevant Packet</u> by <u>Second Class Post</u> in the <u>Base Year</u> 0; and</p> <p>CPX_t is the <u>Consumer Prices Index</u> for the month of <u>September</u> immediately before the beginning of a <u>Relevant Year</u> (rounded to one decimal place).</p> |
| DUSP 3.2.3 | Where the <u>universal service provider</u> makes a material change (other than to a charge) to any product or service which is subject to this Condition or there is a material change in the basis of the <u>Consumer Prices Index</u> , DUSP Conditions 3.2.1 and 3.2.2 shall have effect subject to such reasonable adjustment to take account of the change as <u>OFCOM</u> may direct to be appropriate in the circumstances. For these purposes a material change to any product or service which is subject to this DUSP Condition includes the introduction of a new product or service wholly or substantially in substitution for that existing product or service. |

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| DUSP 3.2.4 | The <u>universal service provider</u> shall record, maintain and supply to <u>OFCOM</u> in writing, no later than three months after the end of each <u>Relevant Year</u> , the data necessary for <u>OFCOM</u> to monitor compliance of the <u>universal service provider</u> with the requirements of this Condition. |
| DUSP 3.2.5 | This DUSP Condition shall not apply to such extent as <u>OFCOM</u> may direct. |
| DUSP 3.2.6 | The <u>universal service provider</u> shall comply with any direction <u>OFCOM</u> may make from time to time under this DUSP Condition. |

Table of terms defined in the Act

This table is provided for information and does not form a part of this condition. We make no representations as to its accuracy or completeness. Please refer to the Act.

| Defined term | Section of the Act |
|-----------------------------------|--|
| <i>OFCOM</i> | <i>90</i> |
| <i>universal service provider</i> | <i>65(1) and Schedule 9 paragraph 3(3)</i> |

Annex 3

Consolidated clean version

UNOFFICIAL CONSOLIDATED CLEAN VERSION OF THE MODIFIED DESIGNATED
USP CONDITION 3.

This consolidated clean version of the modified Designated USP Condition 3 is provided as an aid to understanding but is not the legal instrument making the modification. In case of conflict, the modifications as set out in the Notification in Annex 1 take precedence.

**DESIGNATED USP CONDITION 3
SAFEGUARD CAP PRICE CONTROL FOR LARGE LETTERS AND RELEVANT
PACKETS**

3.1. Application, Definitions and Interpretation

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| DUSP 3.1.1 | This designated USP condition (“ DUSP Condition ”) shall apply to the <u>universal service provider</u> . |
| DUSP 3.1.2 | In this DUSP Condition— |
| | <p>(a) Basket means the services of sending <u>Large Letter</u> and <u>Relevant Packet</u> products by <u>Second Class Post</u> that the <u>universal service provider</u> currently provides;</p> <p>(b) “Consumer Prices Index” means the index of consumer prices compiled by an agency or a public body on behalf of Her Majesty’s Government or a governmental department (which is the Office for National Statistics at the time of publication of this Notification) from time to time in respect of all items;</p> <p>(c) “Large Letter” means a letter weighing up to 750 grams that is no more than 25 millimetres thick and up to 353 millimetres in length and up to 250 millimetres in width.</p> <p>(d) “Relevant Packet” means any item greater than a <u>Large Letter</u> in dimensions but weighing no more than 2kg;</p> <p>(e) “Relevant Year” means one of the following periods:</p> <p style="padding-left: 40px;">(0) The period beginning on 1 April 2011 and ending on 31 March 2012 (the “Base Year”)</p> <p style="padding-left: 40px;">(1) the period beginning on 1 April 2012 and ending on 31 March 2013 (the “First Relevant Year”);</p> |

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|---|---|
| | <p>(2) the period beginning on 1 April 2013 and ending on 31 March 2014 (the “Second Relevant Year”);</p> <p>(3) the period beginning on 1 April 2014 and ending on 31 March 2015 (the “Third Relevant Year”);</p> <p>(4) the period beginning on 1 April 2015 and ending on 31 March 2016 (the “Fourth Relevant Year”);</p> <p>(5) the period beginning on 1 April 2016 and ending on 31 March 2017 (the “Fifth Relevant Year”);</p> <p>(6) the period beginning on 1 April 2017 and ending on 31 March 2018 (the “Sixth Relevant Year”);</p> <p>(7) the period beginning on 1 April 2018 and ending on 31 March 2019 (the “Seventh Relevant Year”);</p> <p>(f) “Second Class Post” means a service of sending an item by post where the <u>universal service provider</u> aims to deliver the item no later than the third working day after it was posted. For the purposes of this DUSP Condition it does not include services which are not universal services or which include charges in respect of additional registered, insured, tracked or recorded services;</p> |
| <p>DUSP 3.1.3</p> | <p>For the purpose of interpreting this DUSP Condition—</p> <p>(a) except in so far as the context otherwise requires, words or expressions shall have the meaning assigned to them in DUSP 3.1.2 above and otherwise any word or expression shall have the same meaning as it has been ascribed for the purpose of Part 3 of the <u>Act</u>;</p> <p>(b) headings and titles shall be disregarded;</p> <p>(c) expressions cognate with those referred to in this DUSP Condition shall be construed accordingly; and</p> <p>(d) the Interpretation Act 1978 (c. 30) shall apply as if this DUSP Condition were an Act of Parliament.</p> |
| <p><u>3.2 Maximum price to be charged for specified services</u></p> | |
| <p>DUSP 3.2.1</p> | <p>This DUSP Condition specifies the maximum prices that the <u>universal service provider</u> shall be permitted to charge for the group of services within the <u>Basket</u> in each <u>Relevant Year</u>.</p> |
| <p>DUSP 3.2.2</p> | <p>In each <u>Relevant Year</u> t the price of services in the <u>Basket</u></p> |

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|-------------------|--|
| | <p>shall be set such that –</p> $\frac{\sum_i P_{i,t} V_{i,t-2}}{\sum_i V_{i,t-2}} \leq \left(\frac{\sum_i P_{i,0} V_{i,t-2}}{\sum_i V_{i,t-2}} \times X_t \right)$ <p>where –</p> $X_t = (1 + 53\%) \times \frac{CPX_t}{CPX_1}$ <p>$P_{i,t}$ is the maximum price charged for sending a single <u>Large Letter</u> or <u>Relevant Packet</u> by <u>Second Class Post</u> in <u>Relevant Year t</u>;</p> <p>$V_{i,t-2}$ is the volume of stamped mail delivered by the <u>universal service provider</u> in the twelve months to March in the year t-2 for service i as calculated by the <u>universal service provider</u> using a reasonable methodology which has been disclosed to <u>OFCOM</u>;</p> <p>$P_{i,0}$ is the maximum price charged for sending a single <u>Large Letter</u> or <u>Relevant Packet</u> by <u>Second Class Post</u> in the <u>Base Year 0</u>; and</p> <p>CPX_t is the <u>Consumer Prices Index</u> for the month of September immediately before the beginning of a <u>Relevant Year</u> (rounded to one decimal place).</p> |
| DUSP 3.2.3 | <p>Where the <u>universal service provider</u> makes a material change (other than to a charge) to any product or service which is subject to this Condition or there is a material change in the basis of the <u>Consumer Prices Index</u>, DUSP Conditions 3.2.1 and 3.2.2 shall have effect subject to such reasonable adjustment to take account of the change as <u>OFCOM</u> may direct to be appropriate in the circumstances. For these purposes a material change to any product or service which is subject to this DUSP Condition includes the introduction of a new product or service wholly or substantially in substitution for that existing product or service.</p> |
| DUSP 3.2.4 | <p>The <u>universal service provider</u> shall record, maintain and supply to <u>OFCOM</u> in writing, no later than three months after the end of each <u>Relevant Year</u>, the data necessary for <u>OFCOM</u> to monitor compliance of the <u>universal service provider</u> with the requirements of this Condition.</p> |

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| | |
| DUSP 3.2.5 | This DUSP Condition shall not apply to such extent as <u>OFCOM</u> may direct. |
| DUSP 3.2.6 | The <u>universal service provider</u> shall comply with any direction <u>OFCOM</u> may make from time to time under this DUSP Condition. |

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| Defined term | Section of the Act |
|-----------------------------------|-------------------------------------|
| <i>OFCOM</i> | 90 |
| <i>universal service provider</i> | 65(1) and Schedule 9 paragraph 3(3) |