

Title:

Mr

Forename:

Neil

Surname:

Mccallum

Representing:

Organisation

Organisation (if applicable):

Critiqom Limited

What additional details do you want to keep confidential?:

No

If you want part of your response kept confidential, which parts?:

No parts of response to be kept confidential.

Ofcom may publish a response summary:

Yes

I confirm that I have read the declaration:

Yes

Additional comments:

Question 1:Do you agree with Ofcom's analysis of the case for intervening as proposed in this section:

We do not agree that there is sufficient evidence that Ofcom should intervene in this instance. We believe Ofcom's approach will fundamentally undermine the Universal Service Obligation.

We fail to understand the merit in the analysis particularly relating to the end to end competition and beneficial entry. We do not believe that the end to end competition level currently achieved is not significant.

We are concerned that the Government's aim of maintain the USO is in conflict with the

regulators willingness to allow government departments to contract with a non-regulated three day a week service.

We are concerned relating that the different service levels (three day a week service) offered by other providers is allowed to compete against the Royal Mail without any meaningful regulation.

Though we understand the concern that was raised by the zonal tilt, there was merit to the proposal. As a zonal only poster we welcomed the opportunity the tilt provided us to service all our customers in the UK. The tilt had positive elements and as discussed it enabled us to service all our customers from the Highlands of Scotland to London much more efficiently. We believe that allowing an inferior product onto the market place will result in accelerated volume decline from Royal Mail. Efficiency will not be the problem; the maintenance of the USO will be the issue.

Government Departments, Local Authorities during a period of severe financial pressure will be forced to use the cheapest delivery mechanism and will use a three day per household service and this will drastically impact Royal Mail's ability to cover their overhead costs.

Question 2: Do you think the options of doing nothing and of imposing a price control on the level of Royal Mail's prices are not appropriate or proportionate:

We believe that a better more clear approach which would prohibit smaller access contract holders being adversely impacted by the big two end to end competition would be a wholesale charge control.

We are a zonal operator and wish to remain so, we have been unfairly in our opinion, been impacted in providing our services in London due to the high zonal access rate the challenge to the proposed zonal tilt. A control of the structure of access charges is not desirable. It prohibits competition and fails to reward efficiency gains made in a realistic timescale and actually distorts competition for the rest of us whilst the two large players engage on an end to end battle that should not impact the rest of the access market. Critiqom's approach to Access is to adhere strictly to the terms of the Access contract with Royal Mail. This is demonstrated in the monthly performance pack that Royal Mail issue to us. We are aware that not all Access operators adhere in the same way so increasing costs to Royal Mail an inhibiting efficiencies. Copies of larger Access operator's performance packs from Royal Mail would highlight this financial impact to Royal Mail.

Question 3: Do you agree with our approach to focus on existing Royal Mail zones to develop our response to the threats to end-to-end competition? In not please set out your reasons:

We do not believe that the use of zones in the manner set out would be beneficial. We believe as a zonal operator (one of the largest in the UK) we have for a period of years been unfairly discriminated against with accessing the London Market. The cost base for London is drastically being reduced and there are areas of London that are commercially efficient to deliver mail. We require a 12 zone model that enables our customer to pay actual costs that are reflective on the delivery costs for their work.

The proposed model and approval regime suggests that Royal Mail's ability to change zones will be cumbersome and overly bureaucratic. It will limit flexibility and pricing innovation in the market place. We would suggest that you agree the number of zones allowed (which is greater than 4; preferably 12) and if the number of zones requires to be changed over and

above that then a formal approval process should be considered.

By enabling Royal Mail to have flexibility with the number of zones this will enable key zonal player;

1. Reduce costs to customers in key regions throughout the UK and enable efficiency in letter provision.
2. Reduce costs to highly rural areas. For instance it will enable Highland Councils bill to be reduced as the majority of transactional mail is delivered to highly concentrated areas; particularly benefit notifications and the like.
3. Incentivise segments of the market to gain access to pricing that actually reflective of costs. Such as Local Authorities, Health and Financial Services.

We believe that by ensuring prices are capped whilst allowing customers to pay a price that actually reflects actual costs will promote the use of mail.

Restrictions to Access should not be utilised to address the threat to the USO by end to end delivery. Action to limit end to end should be implemented that protect Access providers who wish to utilise the benefit of the existing USO provider.

Question 4: Is our proposed approach to the definition of Zones appropriate:

We do not believe that the proposed approach to the definition of Zones appropriate. As it will prohibit customer's retail price being reflective of the actual cost. To split the UK into only four zones is absurd. We have over 400 Local Authorities, over 25 million households, four countries but you are not willing to allow Royal Mail to have more than four zones without a regulatory approval mechanism. Zones are defined by Royal Mail at Postcode sector level, so the mechanism to create numerous additional zones on a cost reflective basis already exists. This is not required, will distort competition in favour of larger players whilst forcing customers to pay more and reduce overall volumes.

Question 5: Do you agree with our proposals regarding Zonal charges address our competition concerns? If not, please explain why:

We agree with this proposal on a 12 zone basis

Question 6: Do you agree with the proposed weighted average rule? If not, please explain why.:

We do agree with the weighted average rule on a 12 zone basis.

Question 7: Do you agree with our assessment of and proposed approach towards tolerances and profile surcharges on national contracts? If not what alternative would you propose:

We agree with your assessment of and proposed approach towards tolerances and profile surcharges on national contracts. We do not feel it is appropriate for an Access operator to have both a National and a Zonal price plan. It should be restricted to one or the other with both available on the same average price basis.

Question 8: Do you agree that it is appropriate to prohibit non-Zonal sub-national pricing plans at this time? If not please state your reasons.:

We agree that it is appropriate to prohibit non-zonal sub-national pricing plans at this time.

Question 9: Do you agree that the appropriate measure of cost in relation to our proposals is Zonal FAC by format? If not please state your reasons:

We do not have sufficient information to comment on the suitability of both models. However analysis of our customer base would indicate that costs will vary significantly based on service.

Question 10: Do you agree with our proposal to use historic cost data rather than forecast data? If not please state your reasons.:

We strongly disagree with this proposal. We believe that the use of forecast cost data should be incorporated. The proposed use of historic cost data is flawed as it would prohibit competition unduly as the period from efficiency gain to reflection in the retail price would be too long. As you advise you could put in place a mechanism to correct if actual unit costs differ from forecast.

As you state both mechanisms proposed have advantages and disadvantages however the use of historic costs is a backward step and any issues with poor forecasting can be easily corrected.

Question 11: Do you agree that we should require Royal Mail to use the 2012/13 ZCM, subject to a power for Ofcom to specify by direction that a different model be used? If not please give your reasons.:

We agree that we should require Royal Mail to use the 2012/2013 ZCM, subject to a power for Ofcom to specify by direction that a different model be used and the model be adapted on a 12 zone basis.

Question 12: Do you have a view on the appropriate volumes to use as weights in the weighted average rule? Please provide reasons for your view.:

Our view is that Option 2 should be used as this is the most accurate mechanism.

Question 13: Do you agree that it is appropriate to use format level volumes as the weights in the 'weighted average rule'? If not please give your reasons.:

We do agree with the format level weighted average as the costs of delivery differ significantly by format.

Question 14: Do you agree with our proposal that the legal instrument implementing our proposed regulatory changes will come into force six months after the publication of the final Statement on this review? If not please give your reasons.:

We agree with your proposed six month timescale for implementation

Question 15:Do you agree with the proposed scope of our review of the Zonal costing methodology to take place following the publication of our Statement? Are there any other issues that it would be appropriate to consider as part of the review?:

We agree with the proposed scope if the Zonal costing methodology.

Question 16:Do you consider that there is a need for a structured compliance process with respect to the proposed remedies? If so, why and what would be the value of such a process, if not why not?:

We believe that there is a need for structured compliance monitoring, we would favour sufficient information being published that enables us to review internally and report to Ofcom if need be.

Question 17:If we were to establish a compliance process what form should it take? :

We would request in a six monthly basis Royal Mail publishes sufficient information on zonal cost ratio's volumes and Mailmark internal reports by zone. For the industry to review and feedback in a tripartite manner with Ofcom involvement at this stage.

Question 18:Do you consider there is are reasons we should extend the access obligation to the crown dependencies? If so please state your reasons. :

We do not agree that the Access obligations should extend to the crown dependencies. Current Access to these dependencies is through mainland Inward Mail Centres with Royal Mail bearing the additional cost of flights to the dependencies. There is no provision in the Access charging mechanism to take account of this additional Royal Mail cost. Therefore, Access Operators who do not mail to the crown dependencies are in effect subsidising those that do. Removal of these crown dependencies would enable Royal Mail to reduce costs and Access prices accordingly.

Question 19:Do you agree that our proposals are likely to address the concerns we have identified? Are there ways that Royal Mail could take action which would undermine the effectiveness of our proposals? :

No we do not agree. We believe that the proposals will hinder innovation, over-regulate the number of zones prohibiting innovation for segments of the marketplace. We also believe that in using a weighted mechanism you are protecting rural communities whilst in the same breath hindering competition in London. Cost calculations should be based on forecasts and not backwards facing.

We are further concerned that the commercial actions that Royal Mail will need to take to protect itself from end to end competition, who are also an Access operator will have a detrimental impact upon other less dominant Access providers. We believe regulation should consider the dominance of large Access operators as a barrier to competition. A single USO provider i.e. Royal Mail, regulated by Ofcom is in our opinion preferable to the market and consumers than a duopoly of Royal Mail and competitor. This is certainly the case when the

competitor is not regulated in the same way and are not required to provide Access to its end to end delivery network.

Question 20: Do you agree with our assessment of the impact of our proposals? If not, please explain why. :

We do not agree with your assessment of the impact across zones. We service many markets, one example in the Debt Market which is highly focused on three zones (London, Suburban and Urban) this market would be adversely impacted by your proposals. We also know that the majority of mail that we deal with (Transactional) goes to Urban and Suburban. These will be unfairly disadvantaged to create beneficial entry for an end to end player in London. We do not agree with the concept of “beneficial entry”.

We also believe that competition and two separate postmen going down the path is frankly ludicrous. You would not allow multiple providers to access a dwelling with cables in Telecoms. You created BT Open reach. This should be created for the postal market with the providers paying an access fee. Royal Mail should turn their retail business into a wholesale business and there should be one set of rules for all.

Question 21: Do you agree with our proposals, if not please explain why?:

We do not agree with your proposals for the reasons set out above.

Question 22: does the way in which we have drafted the proposed modified access condition appropriately reflect the proposals and in particular do you find it sufficiently clear? In your response, you should suggest alternative wording if you have drafting concerns.:

Though we do not agree with the proposal the drafting is clear.

Question 23: Which of our proposed two alternative definitions of ‘Relevant Postal Services’ discussed above do you prefer and what are your reasons for your preference:

No comment.

Question 24: Do you agree with our proposal to base the concepts related to the concept and definition of ‘Zones’ on Royal Mail’s own methodology (as referred to above)? If not, please explain in detail why.:

Yes but on a 12 zone basis.

Question 25: Do you have any comments on our proposed new concepts and their definitions discussed in this Annex:

No comments.

Question 26: Do you have any comments on our proposed corrections to the USPA Condition discussed in this Annex that are unrelated to our proposed

new remedies in USPA 2.1A, USPA 6A and USPA 6B (and their associated new expressions):

No comments

Question 27: Do you agree with our thinking and proposals for the rounding (decimal places) to assess compliance with our proposed new remedies in USPA 6A and USPA 6B? If not, please explain in detail why.:

No comments