

Title:

Mr

Forename:

Michael

Surname:

Macclancy

Representing:

Organisation

Organisation (if applicable):

DX Group

What do you want Ofcom to keep confidential?:

Keep nothing confidential

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

Ofcom may publish a response summary:

Yes

I confirm that I have read the declaration:

Yes

Ofcom should only publish this response after the consultation has ended:

You may publish my response on receipt

Additional comments:

DX Group is an member of the Mail Competition Forum and has been involved in the preparation of that organisation's separate response to this consultation, which we support.

Question 5.1: Do you agree with the assumptions set out in paragraph 5.86 above? If not, please set out your reasons.:

We agree that Royal Mail's ability to execute and deliver on its business plan is of primary importance to the achievement of a financially sustainable universal service although we do

believe that there might come a time when the universal service becomes unsustainable at its current level and when Ofcom and Parliament will have to consider reducing its scope. In this regard we note the recently announced intention of the Dutch Government to reduce the universal service obligation to five days.

Question 6.1: Do you agree with our proposal to impose a regulatory condition on Royal Mail to require it to provide the universal service as set out above? If not, what alternative approach would you suggest?:

Yes.

Question 6.2: Do you agree that a price control is not an appropriate option at present for regulating Royal Mail's prices? If not, please explain why and how a price control could be implemented effectively.:

Yes, Ofcom's analysis is convincing. We hope that Royal Mail will use the increased flexibility appropriately.

Question 6.3: Do you agree with Ofcom's proposals to put in place regulatory safeguards as described above? If not, please provide reasons.:

Yes, as Ofcom says, regulatory safeguards are an essential counterbalance if Royal Mail is to have pricing freedom.

Question 6.4: Do you agree with Ofcom's proposals to put in place a monitoring regime? If not, please provide reasons.:

Yes. We particularly welcome the proposal to increase transparency of Royal Mail's Relay, PAF and International Mail products. A suitable monitoring regime is absolutely essential to the maintenance of an efficiently functioning postal market.

Question 6.5: Do you agree with Ofcom's proposals for an index-linked safeguard cap on standard letters from 45p to 55p? If not, please provide reasons.:

As far as we are able to judge, Ofcom appears to have considered the question in a full and proper manner and has reached a justifiable conclusion.

Question 6.6: Do you agree with Ofcom's proposal that the approach outlined above remains in place for seven years? If not, please provide reasons.:

This does not appear unreasonable, subject to Ofcom reserving to itself the power to revisit the subject at intervals during the seven years. We also think it would be helpful for Ofcom to provide additional clarity about its powers to intervene were Royal Mail to fail to attain reasonable efficiency targets.

Question 7.1: Do you agree with our approach to assessing end-to-end competition? If not, please give your reasons.:

This appears to be a pragmatic approach to assessing the risks emanating from certain forms of end-to-end competition. However, we are not aware of any actual evidence that competition harms the universal service.

Question 7.2: Do you agree with Ofcom's proposals to impose an obligation on Royal Mail to provide access at the Inward Mail Centre? If not, please give reasons.:

Yes. We do not believe that Ofcom's proposals will have an unduly deleterious effect on activity in the access market (although see response to 7.3).

We strongly believe that the premium access price should be used as the basis for transfer pricing of First Class mail within Royal Mail. This would be equitable, non-discriminatory and transparent. Royal Mail has so far reserved the most interesting night-time access slots to itself with the result that premium access has failed to develop.

We see clear parallels between the allocation of access slots and the allocation of other limited resources such as take-off and landing slots at airports and we believe that the use of a more commercially realistic transfer price would result in the more efficient allocation and use of access slots.

Question 7.3: Do you agree with Ofcom's proposals in respect of regulating margin squeeze? If not, please give reasons.:

The problem with this is that it is difficult to judge the proposals without hindsight of the manner in which Royal Mail will use the additional flexibility. Also, we see considerable risks in using this margin squeeze model in the absence of reliable cost data.

We do not believe that Ofcom's proposal to use a proportion of FAC as a proxy for LRIC is an adequate safeguard. In any case, we have concerns about the possible abuse of LRIC in an industry in which the bulk of the costs are labour and therefore variable, even when there is a universal service obligation.

Question 7.4: Do you agree with our approach concerning the Terms and Conditions for access, including the role of equivalence and the regulation of zonal pricing? If not, please give your reasons.:

The approach appears to be sensible. We wonder whether the zonal pricing tariff is not an unnecessary complication in a situation in which Royal Mail faces negligible delivery competition.

Question 8.1: Do you agree with the objectives for regulatory financial reporting that we have set out above? Please provide details to support your response. :

Yes, we do agree with these objectives and we encourage Ofcom to ensure that it keeps them in sight, particularly those relating to cost and revenue apportionment and the profitability of different product groups.

Question 8.2: Do you agree that our regulatory financial reporting proposals, set out in this section and the supporting Annex, are appropriate and proportionate? Please provide reasons and evidence to support your views.:

Ofcom has considerable expertise in this area and we trust that this expertise has been applied to ensure that the proposals are appropriate and proportionate.

Question 8.3: Do you agree with our proposals on the rules and requirements contained in the draft Regulatory Accounting Guidelines and do you consider that they are likely to provide an appropriate and proportionate level of cost transparency and accounting separation?:

As for 8.2.

Question 8.4: Do you agree with our proposals set out above in relation to accounting separation? Are there any further risks that you think Ofcom needs also to consider in making decisions in this area? To the extent that you consider there to be risks associated with our proposals, how do you consider they might best be addressed?:

As for 8.2.