

“Updating the Regulatory Reporting Framework”

- UK Mail Response to Ofcom October 2013 Consultation November 2013

Note: Throughout this document:

UKM	= UK Mail
RM	= Royal Mail
Consultation	= Ofcom's October consultation on “Updating the Regulatory Reporting Framework”
UPS	= Universal Postal Service (the ‘universal service’)

Numbering used in referring to the Consultation is as per the paragraph and figure numbering in the Consultation. Quotations from the Consultation are shown in *italics*; paragraph numbers are referenced in square brackets []

UKM welcomes the opportunity to respond to Ofcom's consultation on this very important facet of its regulation of Royal Mail as the provider of the Universal Postal Service and a service provider with effective market power in many sectors of the UK postal market.

Our comments follow below and may be made public and attributed to UKM.

2. Regulatory Financial Reporting

UKM notes the proposals outlines in this section and concurs with the rationale given; we hence support the proposals.

In paragraph 2.50, Ofcom propose that RM provide revenue and volume split by format on a monthly basis. Ofcom mentions:

“trends in letters and large letters are significantly different from the trend for parcels”

which suggests the format split Ofcom will require is by Letters, Large Letters and Parcels.

UKM is concerned that “Parcels” is a very wide format distinction and, in particular, that “Parcels” would cover postal items carried within both the RM network and the Parcelforce network.

However, as this proposal relates to the Reported Business, which UKM understands does not include Parcelforce Worldwide, it may be that the Parcels covered by this proposed reporting requirement would only be those carried in the RM network.

UKM would welcome Ofcom clarification and confirmation on what would be included within the suggested format categories.

In paragraph 2.56, Ofcom proposes a reduction in the Product Profitability Statements (PPSS) from 32 to 25 (a 22% reduction).

As a postal service provider operating using an access contract with RM, UKM is highly concerned that the margin squeeze protections set out in the USP Access Condition are effective and that Ofcom necessarily has all the information needed rigorously to apply the USP Access Conditions.

Ofcom says (paragraph 2.57) that one of two main changes in the reduction of PPSs from 32 to 25 is in relation to bulk mail products which are subject to the margin squeeze protection. These changes are shown in Annex 5:

23	Pre-sorted D+1 Business and Advertising Mail D+2 Letters and Large Letters	<u>non-USO Products Entity</u>
34	Pre-sorted D+2 and later Letters and Large Letters Other Bulk Mail products	
4	High volume D+1 unsorted Letters	
5	High volume D+1 unsorted Large Letters	
6	High volume unsorted D+2 and later Letters	
7	High volume unsorted D+2 and later Large Letters	
8	Low volume unsorted <u>non-USO</u> Letters	
9	Low volume unsorted <u>non-USO</u> Large Letters	

This shows that there would in future be two PPSs key to the margin squeeze protection provisions:

- 1) Business and Advertising Mail D+ 2
- 2) Other Bulk Mail Products

As the margin squeeze protection is written so as to relate to RMs D+ 2 or later services it is necessary to have one (or more) of the PPSs which corresponds to the margin squeeze protection provision.

However, it is not just Business and Advertising Mail which RM sells as D+ 2 services. Both Publishing Mail and Sustainable Advertising Mail (for example) are also sold as a D+ 2 services yet would be reported under "Other Bulk Mail Products".

Under the proposed PPSs, Publishing Mail and Sustainable Advertising Mail would come under "Other Bulk Mail Products", not under "Business and Advertising Mail D+ 2".

This seems to UKM to mean that the proposed PPS would not achieve the reporting distinction necessary for correct operation of the margin squeeze protection provisions.

UKM asks Ofcom to clarify how the proposed PPSs do achieve the reporting distinction necessary for correct operation of the margin squeeze protection provisions, or to alter the proposed PPSs.

UK Mail
 March 2013