

Royal Mail Group

Response to Consultation on Charging Principles for Postal Services

31 January 2012

Proposed charging principles

Royal Mail would like to comment on three areas in response to Ofcom's consultation on charging principles for postal services.

Scope of the USO

- 1 Schedule 4 of the Act allows Ofcom to recover administrative charges from postal operators providing services within the scope of the universal postal service. Those services within the scope of the universal postal service need to be defined. Royal Mail's view is that they should include the minimum requirements of the universal service, which under Section 31 of the Act are defined to include activities such as a daily delivery and collection service. Access operators use this universal service delivery network which is regulated by Ofcom and therefore should make a fair contribution to the cost of regulating the universal service.
- 2 Royal Mail notes that the scope of the universal service definition proposed by Ofcom in paragraph 3.5 of the Principles under which it will collect the charges is different from that proposed elsewhere, in particular in N1.1.2 of its proposed Notification Condition¹. We believe that this is an area which Ofcom will need to reconsider when it reviews the statement of principles for future charging years during 2012/2013.

Minimum turnover and treatment of access payments

- 3 Royal Mail believes that a larger number of regulated postal operators providing services within the scope of the universal service should contribute to the cost of regulation. According to the Ofcom document "Designation and Relevant Activity Guidelines for the purposes of administrative charging" (Final Statement, March 2005) the threshold for telecoms is £5m turnover for relevant activities. For post Ofcom has retained the £10m threshold on turnover for contributions but has not explained its reasoning for this.
- 4 Ofcom also proposes that generated turnover should exclude access payments in the case of postal operators other than the universal service provider. Royal Mail's view is that access payments for other operators should not be excluded from the turnover calculation as such payments are required to operate the services they are being paid to provide. These payments do not appear to be excluded for telecoms, where in the definition of relevant turnover in the March 2005 Ofcom Final Statement, referred to

¹ Review of Regulatory Conditions Postal Regulation, 13 December 2011, Annex 15

above, no mention is made of revenues for charging purposes being net of payments to BT Openreach.

- 5 £10m revenue net of DSA payments is an extremely high threshold for post – low value services, with relatively small margins likely to be made in excess of the access price and an inappropriate net revenue measure due to such small margins. By contrast a threshold of £5m in total revenue for telecoms is very low – these services are relatively high value with far greater unit revenue than post and the threshold is based on total revenue, not net revenue.
- 6 The following hypothetical examples illustrate this point (note all numbers are hypothetical and not factual):
 - An access operator with a margin of, say, 2p per item would need to handle 500m items p.a. to achieve a net revenue threshold of £10m before it contributed to payments for Ofcom.
 - A telecoms operator charging, say, £10/month to its consumers with a margin of, say, £1 per month over what it pays BT Openreach, would earn net revenue of £12 p.a. per household and total revenue of £120 p.a. per household. On a net revenue basis, the operator would have to supply just over 400,000 households before reaching the threshold for telecoms. Alternatively, on a total revenue basis it would have to supply just a tenth of this, i.e. 40,000 households. This is an over-cautious estimate, as it does not include any revenue from call charges. The £5m threshold therefore captures a relatively small player in the market.
- 7 Royal Mail believes it would be reasonable for the threshold for post to be reduced to at least the £5m used for telecoms and that access payments to the universal service provider should not be netted off the turnover. If the generated turnover were to continue to exclude these access payments then a lower threshold, e.g. £1m, should be adopted.

Monthly payments

- 8 Royal Mail welcome Ofcom's proposal to allow postal operators to pay their charges monthly, where those charges are over £75,000 pa, as for the telecoms industry. It would be helpful for the charging principles to indicate when Ofcom will give notice of the charges due.