

27 April 2012

Royal Mail Group

Zahid Deen

[...]

Ofcom
Riverside House
2a Southwark Bridge Road
London
SE1 9HA

Dear Zahid

Re: Modification to the Postal Common Operational Procedures Agreement

Thank you for the opportunity to make representations on the proposed modifications to the Postal Common Operational Procedures Agreement.

Whilst the volume of mail handled under the code and agreement has fallen in recent years we expect this to change as end to end competition expands. It is therefore important that the agreement reflects the likely demands of the market and is robust, and that the charges for handling the mail are appropriate.

In particular we expect the recent TNT delivery trials in west London, which may serve as the platform for a wider roll-out, to surface a number of issues with the current agreement. We are developing our views and will raise these in due course.

Schedule 2 charges

The charges defined in schedule 2 were prescribed by Postcomm in 2005 based on an estimate of what procedures would need to be undertaken to handle the mail and using a number of assumptions, for example about the volumes of mail and number of operators. These charges have never been revisited and we believe that both the level and structure need to be reviewed. We are undertaking analysis and will bring forward a change proposal under clause 12 of PCOPA when this is completed.

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Ofcom has queried whether the charges P and F should be inflated by CPI or RPI. Due to the nature of the control these charges have each increased by just over 20% in total over the 6 years since they were introduced and they were actually reduced in 2010 as RPI went negative. We do not believe any additional constraints should be placed on the charges whilst they are undergoing review and we do not support a move to CPI.

Ofcom is consulting on changes proposed by other parties to the charges in Schedule 2. We do not agree that the default and standard return charges FC and SC should be based on the public tariff meter price. Postcomm did not specify in its analysis and consultation that the return charges (as opposed to extraction and handover charges) should be set as the meter price rather than the stamp price. Postcomm also accepted that the return charges would cover additional costs such as bundling and readdressing the mail. Royal Mail Wholesale has always set the values of SC and FC as the stamp price rather than the meter price. Ofcom has not explained why it considers the meter price should now be used. Although a small number of operators have specified exchange centres they are failing to collect their mail and therefore in recent years all misdirected mail has been returned to the intended operator rather than collected. To the best of our knowledge no operator has queried the use of the stamp price when paying the return charges. We believe that the stamp price should continue to be used pending a review of the charges and paragraphs 5 and 6 of Schedule 2 should be amended to reflect this.

Membership of the agreement

We have expressed our concerns on three previous occasions with the lack of enforcement of the requirement to sign up to PCOPA and the uncertainty surrounding how the agreement will work under a general authorisation regime (e.g. how code identifiers will be issued outside a licensing process), most recently in our January 2012 response to the Regulatory Conditions consultation. A large number of former licence holders are not party to this agreement nor do they have bilateral arrangements with Royal Mail although it is a legal requirement for them to do so. As more end to end delivery networks evolve there is the likelihood that more mail will need to be repatriated and without all regulated postal operators (RPOs) being a part of the agreement the end customers' mail may be delayed as other RPOs may not wish to incur the expense of delivery or collection of this mail. Our view is that unless membership of the default agreement is enforced by Ofcom then there is no point in having a default agreement and the industry should be left to negotiate its own bilateral arrangements and prices.

At 30 September 2011 there were 59 RPOs, including Royal Mail, and two more operators who have since been issued with code identifiers. At April 2012 Royal Mail as the PCOPA secretary holds signed copies of the agreement from only 17 RPOs. Although the other

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RPOs, including those issued with a code identifier by Ofcom since 1 October 2011, have all been sent a copy of the agreement for completion and return, to date none of the notified companies has returned a copy as requested, which means they are not party to the agreement and have no arrangements in place for the effective repatriation of mis-posted, mis-collected or mis-directed items of mail. When PCOPA is amended following this consultation, Royal Mail as the Secretary of the PCOPA will write out again to those Regulated Postal Operators who have not signed up to the agreement. If an RPO does not either sign the agreement or confirm that it is not carrying any mail within the scope of the agreement, the Secretary will ask Ofcom to take enforcement action.

Other proposed changes

If Schedule 2 is to be rebased as 2012 then the values of P and F at January 2012 should be stated at paragraphs 4, 5 and 6 of the Schedule. We propose that, in order to avoid having to resend the whole agreement each year to existing signatories, a set of words is inserted after each price point for P and F to inform signatories of annual amendments, as follows:

“ [x price], and as amended from time to time in accordance with paragraph 8 of this Schedule 2.”

We are happy to publish the current and future charges on the Royal Mail Wholesale website. We believe that the wording about annual publication is better suited to paragraph 8 of Schedule 2 and not paragraph 7 of Schedule 2, as paragraph 7 is just a statement of fact of the values for the Formula Year 2011-12. We propose that the opening sentence of paragraph 8 is amended as follows:

8. “The values of ‘P’ and ‘F’ in subsequent Formula Years shall be published in January each year of this agreement at www.royalmailwholesale.com, and shall be calculated in accordance with the following formula: ...

We accept the proposed amendment to clause 10.14 and will set out our views on the grounds for expulsion from the agreement as part of the review of the code of practice.

We are happy for you to publish this response with my name, signature and contact details removed.

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Yours sincerely

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