



11 March 2015

Royal Mail Wholesale

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Dear Customer,

Withdrawal of the suspended contractual change notices to Access Letters Contracts and C9 Agreements

On 4 March 2014 we wrote to you to let you know that we had decided to suspend the notice periods for certain change notices to the Access Letters Contract and C9 Agreements. These change notices are listed in the attached Schedule 1 (the “**Suspended Change Notices**”). Our decision to suspend these change notices followed an announcement by Ofcom on 21 February 2014 that they had opened an investigation into Access pricing because of a complaint by TNT Post UK (now “Whistl”) about some of the Access contract changes we had announced in November 2013 and January 2014.

We continue to believe that our proposals in the Suspended Change Notices comply with applicable law and our regulatory obligations and that the complaint about them is unfounded.

As you are aware, National Price Plan One (SSCs) is a detailed and specific price plan that assists us in maintaining the sustainability of a national delivery network across the UK by ensuring that customers post proportionate volumes of mail across the SSC network. Averaged Price Plan Two (Zones) also has a detailed posting profile requirement, but it offers customers significantly greater flexibility in relation to where they post in the UK than does National Price Plan One (SSCs). In particular, compliance with APP2 posting profiles is measured at the more aggregated level of four zones and there is a less detailed surcharge mechanism. This additional flexibility has value for Access customers.

The Suspended Change Notices were intended to address a number of issues that result from the specific characteristics of the Access price plans, including the following:

- the ability of certain Access operators to exploit arbitrage opportunities in our Access pricing arrangements in order to gain an unfair competitive advantage over other Access operators, some of whom reported this price plan arbitrage to us and requested us to take steps to prevent it; and
- the need to predict changes in volume at the local level through the forecasting requirements described in Change Notice Number 003 in order to adjust the Universal Service network accordingly in advance of those changes.

A year has now passed since we informed you that we were suspending the Suspended Change Notices. The Suspended Change Notices continue to be suspended under the terms of the Access contracts whilst Ofcom continues with its Competition Act investigation.

Critically, Ofcom has subsequently initiated its Access Pricing Review, which is looking at the regulatory framework for Access as a whole. While we strongly disagree with the initial proposals that Ofcom has put forward in that review, we welcome further dialogue with Ofcom on the need for a comprehensive and robust regulatory framework that would both allow efficient competition and ensure the maintenance of the Universal Service in the context of a declining letters market.

We are of the view that the appropriate framework for Access pricing can be achieved through the exercise of Ofcom's regulatory powers under the Postal Services Act 2011. We do not believe that a competition law investigation can adequately address these issues.

We are therefore now withdrawing the Suspended Change Notices. This will help us focus on engaging with Ofcom in a constructive dialogue about the appropriate regulatory framework for Access pricing, something we highlighted in our response to Ofcom's Access Pricing Review consultation.

Finally, as you may recall, suspended Change Notice Number 001 changes the permitted variances on Averaged Price Plan Two (APP2), authorises APP2 customers to provide zonal data and use a zonal manifest to demonstrate their actual zonal posting profiles, and renames National Price Plan Two (Zones) as Averaged Price Plan Two (Zones), among other things.

We have recently been contacted by Whistl, who now supports implementation of the changes in suspended Change Notice Number 001. Although we are withdrawing the Suspended Change Notices, in light of continued customer demand, we are considering re-introducing proposals that are similar to Change Notice Number 001 shortly. We are currently considering the best way to do this to ensure that we give due notice and comply with our obligation to provide access on fair and reasonable terms.

Yours sincerely,



Luisa Fulci
Regulated Products Director
Consumer and Network Access

SCHEDULE 1

<u>CHANGE NOTICE</u>	<u>SUMMARY OF PROPOSED CHANGES IN WITHDRAWN NOTICE</u>
<u>Access Letters Contract</u>	
Change Notice 001 dated 15 November 2013	Change to Permitted Variances affecting National Price Plan Two (Zones); Renaming of National Price Plan Two (Zones) as Averaged Price Plan Two (Zones); Zonal Data provision at time of Averaged Price Plan Two declarations for use in demonstrating Actual Zonal Posting Profile.
Change Notice 003 dated 10 January 2014	Requirement for Contract Volume Forecast and notification of shortfalls on an SSC specific basis, affecting National Price Plan One (SSCs).
Change Notice 004 dated 10 January 2014	Change to Permitted Variances affecting National Price Plan One (SSCs).
Change Notice 005 dated 10 January 2014	Change to Access Charges for Averaged Price Plan Two (Zones) and Zonal Price Plan; introduction of price differential between Averaged Price Plan Two (Zones) and National Price Plan (SSCs); change to prices including zonal variances for Zonal Price Plan.
<u>C9 Agreement</u>	
Condition 9 Change Notice dated 10 January 2014	Zonal pricing variances to the C9 national prices for letters and large letters.