

2006 Royal Mail Price and Service Quality Review
Final Proposals December 2005

Supplementary Paper
Proposed Licence Modifications
January 2006

INTRODUCTION

- 1 On 7th December 2005 the Postal Services Commission (“Postcomm”) issued a consultation paper setting out its Final Proposals on how the price and service quality regulation of Royal Mail Group Plc (Royal Mail) should be revised from April 2006. To give effect to those Final Proposals the licence held by Royal Mail will require modification.
- 2 This supplementary paper sets out in draft the modifications that, subject to responses on the Final Proposals on which Postcomm is consulting, Postcomm sees as necessary to give effect to those proposals and offers a brief explanation of their provisions. Royal Mail and all other interested parties had the opportunity to comment on first drafts of proposed modifications to conditions 4 and 19 of Royal Mail’s licence published in connection with Postcomm’s initial proposals in June 2005. Discussion of the new and revised drafts contained in this paper will take place with Royal Mail and other parties over the course of the consultation period on Postcomm’s Final Proposals.
- 3 At the end of the consultation period Postcomm will consider whether these draft modifications need revising in response to points made in the consultation. If Royal Mail consents to the making of the modifications, with such revisions, Postcomm will issue a formal notice under section 14 of the Postal Services Act 2000 (“the Act”). If Royal Mail declines to consent to the modifications (as revised) Postcomm expects that all the issues will be referred by Postcomm to the Competition Commission.
- 4 The modifications set out in this supplementary paper include modifications to give effect to Postcomm’s decision on the services comprised in the universal postal service, modifications to Conditions 4 (Services, standards of service and compensation), 7 (Provision of information to users of postal services), 9 (Access to the licensee’s postal facilities) and 11 (Promotion of effective competition), 19 (Prices for postal services), a new condition on capital expenditure monitoring and a number of changes to tidy up the licence.
- 5 These draft modifications should be read with Postcomm’s Final Proposals which are available on Postcomm’s website at http://www.postcomm.gov.uk/policy-and-consultations/consultations/price-control/Final_proposals_061205.pdf.

MODIFICATIONS TO CONDITION 1

- 6 Condition 1 contains a set of definitions used to explain terms used throughout the licence. The modifications proposed to this condition are –
 - (a) a change to the definition of Generally Accepted Accounting Principles so that the term now refers to International Accounting Standards, which Royal Mail wishes to adopt from 1 April 2006,
 - (b) the deletion of a redundant definition of “interference” which was not deleted when the licence was modified in 2003, and
 - (c) the deletion of paragraph 3, which explained when a universal service is provided; this matter now will be dealt with in condition 2.

MODIFICATIONS TO CONDITION 2

- 7 Condition 2 contains the main elements of Royal Mail's universal service obligation (supplementary provision is made in Condition 3). Changes are proposed to give effect to Postcomm's consultation on the universal service, the outcome of which, in relation to bulk services, was announced in June 2005. For full details of Postcomm's decision please refer to the decision document issued at that time¹.
- 8 Paragraph 1 of the Condition sets out the general obligation on Royal Mail to provide a universal postal service. Paragraph 2 of the Condition requires the universal service to include services for letters posted individually and in bulk (both sorted and unsorted) and a registered and insured service and international services. Paragraph 3 lists a number of services which Royal Mail must provide in connection with its obligations under paragraphs 1 and 2, including first and second class and international services for letters posted individually and Cleanmail and Mailsort 1400 services for letters posted in bulk.
- 9 Paragraph 4 deals with the universal service in geographical conditions and other circumstances that are exceptional. Paragraph 5 makes provision for emergencies and individual agreements with customers. Paragraph 6 saves the direction made by Postcomm for exceptional circumstances in January 2003 so that it can continue to apply under the licence as it will be modified.

MODIFICATIONS TO CONDITION 4

General description of changes

- 10 Condition 4 contains Royal Mail's service quality obligations. It is proposed to replace the whole condition with a new condition, rather than to make piecemeal changes to the existing condition which would be difficult to follow.
- 11 The new condition will adopt broadly the same structure as the present condition, with separate parts dealing with Standards of Service, a Compensation Scheme (for delay) and Publication and Modification. However a new section has been introduced which regulates Royal Mail's power to make schemes under section 89 of the Act.
- 12 The main changes proposed to the quality of service provisions in Condition 4 in Royal Mail's licence are –
 - (a) to rationalise the number of targets that Royal Mail is required to meet by grouping services together and setting a single standard for the group of services, rather than having different standards for each service (Annex to the Condition),
 - (b) a restating of the obligation that Royal Mail is under in relation to quality standards: instead of having to use all reasonable endeavours to achieve standards, Royal Mail will have to use all reasonable endeavours to provide services to the highest possible extent in relation to service standards (paragraph 7),

¹ Available on Postcomm's website at <http://www.postcomm.gov.uk/policy-and-consultations/consultations/universal-service--bulk-mail-products/USOBulkMailfinal2.pdf>

- (c) the provision of greater clarity as to the financial consequences for Royal Mail of not meeting quality of service targets: up to 5% below target Postcomm will be minded to rely on the “C” factor and by Royal Mail’s liability to pay compensation for delay as the main incentives to Royal Mail to meet its quality standards. These measures have the advantage that they compensate users for poor service. If Royal Mail fails its quality standards by more than 5% it will be presumed, unless it provides evidence to the contrary, to be in contravention of its licence. Action then will be available to Postcomm to deal with the failure, either by an enforcement order or by a financial penalty (paragraphs 7(a) to (c)), and
- (d) the introduction of provisions relating to Royal Mail’s power under section 89 of the Act to make schemes establishing price and non-price terms for the conveyance of letters, including arrangements for compensation for loss and damage.

Paragraph by paragraph commentary

Part 1

Paragraph 1, definitions

- 13 Paragraph 1 defines terms that are used in the condition. The definition of “scheduled services” is linked to the definition of Controlled Services in the price control condition (Condition 19). New definitions are required because of the grouping of service standards and because the condition will require Royal Mail to measure its performance against some new measures.

Paragraph 2 – 4, maintenance, nature and changes to services and standards

- 14 Paragraphs 2, 3 and 4 of the proposed condition mirror the obligations of the former paragraphs 3, 4 and 5. Paragraph 3 requires Royal Mail to maintain schedules of services, of standardised measures and of standards and to provide them to users, to Postcomm and to Postwatch. Paragraph 3 describes the general nature of the standards that are to be maintained and Paragraph 4 prohibits changes being made to the schedules of services, of standardised measures and of standards, other than in accordance with the process set out later in the Condition.

Paragraph 5, general obligation to collect and deliver

- 15 The general obligation to collect and deliver contained in paragraph 2 of the current condition is retained as paragraph 5 in the draft of the proposed condition. The purpose of the paragraph is to ensure that there is a minimum enforceable obligation on Royal Mail in respect of all its services, whether or not they are covered by quality standards.

Paragraph 6, publication of statistics in relation to deliveries

- 16 Paragraph 6 of the draft condition imposes a new obligation on Royal Mail to measure and publish data illustrating the percentage of deliveries that occur by their stated delivery time and of collections made no earlier than the last collection time. This information will allow Postcomm, Postwatch and other interested parties to monitor whether Royal Mail is meeting its public commitment for delivery and collection times.

Paragraph 7, Royal Mail's performance obligation

- 17 Paragraph 7 requires Royal Mail to use all reasonable endeavours to provide the scheduled services and to perform the standardised measures (postcode area and delivery and collection performance) to the highest level possible, having regard to the circumstances existing at the time.
- 18 In respect of a full year's performance, the draft condition contains two presumptions in respect of Royal Mail's satisfaction of this obligation. In the event that actual performance exceeds the scheduled standard for a scheduled service or exceeds a standardised measure, Royal Mail is presumed to have met its obligation to use all reasonable endeavours in relation to that standard or measure, as required. However, where Royal Mail's actual performance is below the scheduled standard for the scheduled service, by a specified margin (5% for scheduled services and postcode area performance and 0.5% for other standardised measures) Royal Mail faces a rebuttable presumption that it has failed to use all reasonable endeavours,.
- 19 Unlike the present condition, the draft condition does not, therefore, place the Licensee under an obligation to use all reasonable endeavours to ensure the scheduled services are performed at specified standards. Rather, the obligation is to provide the scheduled services at the highest possible levels in relation to the scheduled services and the standardised measures and is framed so as to give Royal Mail a more certain set of consequences in the event of failure to meet the new obligation. To this end modifications to Postcomm's statement of policy on financial penalties under section 31 of the Act will be proposed to make specific provision for service quality failures. A draft will be made available early in 2006.

Paragraphs 8 and 9, monitoring quality of service performance –

- 20 Paragraphs 8 and 9 of the draft condition broadly repeat current obligations in respect of monitoring service quality performance and providing reports on its performance to Postcomm and to Postwatch and for publication. The obligation is extended to include monitoring of delivery and collection performance.

Paragraph 10 – poor performing districts

- 21 The obligation in paragraph 9 of the present Condition, to establish a code of practice to address causes of failure occurring in postcode districts within postcode areas where standards overall are met, is retained as paragraph 10 in the proposed Condition.

Part II

Compensation Scheme – Paragraphs 11-17

- 22 Paragraphs 11 to 17 in the proposed condition follow the provisions regarding the establishment of a compensation scheme for failure to meet service standards that are contained in paragraphs 10 to 17 of the current condition. The main change is that paragraphs 11 and 14 of the current condition have been replaced by a single paragraph 12 in the proposed condition to reflect the fact that a compensation scheme has been in operation since 2003.

- 23 Paragraph 13 in the current condition has been deleted in acknowledgement of the determination by Postcomm in October 2003 of the current compensation scheme.

Part III

Paragraphs 18 to 22, schemes under section 89 and loss and damage

- 24 Following paragraph 23 of the current Condition, paragraph 18 of the proposed Condition requires Royal Mail, in creating schemes under Section 89 of the Postal Services Act 2000, to ensure that the terms of any such scheme are compatible with the provisions of the Condition.
- 25 This obligation is supplemented by obligations on Royal Mail to comply with any direction made by Postcomm after consultation in relation to the making and application of schemes (proposed paragraph 19) and to meet its obligations under any scheme that it makes (proposed paragraph 20). There are reporting obligations in proposed paragraphs 21 and 22.

Part IV

Paragraphs 23 to 27, publication and modification

- 26 Paragraphs 23 to 27 of the proposed Condition regarding the publication and modification of the quality standards and the compensation scheme largely mirror provisions in paragraphs 18 to 23 of the current Condition.

Annex

- 27 The Annex to the proposed Condition sets out the minimum levels to be adopted by Royal Mail for the purpose of its scheduled standards and standardised measures.

MODIFICATIONS TO CONDITION 7

- 28 Condition 7 deals with the provision of information to users of postal services. It is proposed to modify the Condition to make clear that it does not extend to Parcelforce services (paragraph 2(a)), to require changes to services to be notified to Postcomm and Postwatch not less than three months before they come into effect (paragraph 3) and to include a time requirement in relation to the publication of statements and notifications under the Condition (paragraph 4(a)).

MODIFICATIONS TO CONDITION 9

- 29 Condition 9 deals with access to Royal Mail's postal facilities. It is proposed to include in paragraph 2 in Part 1 of the condition (dealing with negotiated access) an obligation on Royal Mail to offer access equivalents for Controlled and other services provided by Royal Mail within 3 months of receiving a request unless agreed otherwise in writing by Postcomm.

MODIFICATIONS TO CONDITION 11

- 30 Condition 11 of the licence contains restrictions on Royal Mail from behaviour which is damaging to the promotion of effective competition, including excessive and predatory pricing and undue discrimination and preference.
- 31 Postcomm believes that Condition 11 is particularly important as a tool for addressing anti-competitive behaviour, especially during the early stages of full market opening. In proposing changes to Condition 11, Postcomm is seeking to avoid using price control coverage as a tool for addressing anti-competitive behaviour.

MODIFICATIONS TO CONDITION 19

General summary of the proposed Condition

- 32 Condition 19 sets out the price control which applies to Royal Mail. The proposed control is a price control, not a revenue control: it limits the prices that Royal Mail may charge for certain of its services by reference to prices charged immediately before the control came into effect. Royal Mail's allowed revenues will derive from the application of those controlled prices to the volumes of mail it conveys and the control allows Royal Mail to grow revenue by growing volume.
- 33 For the purpose of the control, Royal Mail's tariffs are regarded as being in three groups. Two separate "baskets" are identified, Basket A and Basket B. The third group of price controlled services comprises Access Services.
- 34 The control is framed to last for a minimum of four years from 1st April 2006. Prices of Basket A and Basket B products are limited by the application of an "RPI – X" formula which prevents prices from rising by more than inflation (measured by reference to the index or retail prices) less an efficiency factor. After an initial price rise of 6.2% in the first year of the control, the efficiency factor (X) proposed in the Condition is 1.5% per year for Basket A products and 3.5% per year for Basket B products.
- 35 Prices for Access Services (services under which mail is introduced into Royal Mail's network by competing operators and certain large customers) are not themselves subject to an RPI – X limit but are proposed to be controlled instead by reference to tariffs for equivalent end-to-end services.
- 36 Within the overall RPI-X limit set by the control, which is effectively a limit on average prices, Royal Mail is free to adjust individual tariffs, without reference to Postcomm, by up to 3% above the overall limit, each year. There is provision for the first weight step price for second class stamped and metered letters to be increased by up to 2 pence in the first year of the control. In order to stay within the overall limit, whenever Royal Mail increases some prices above the overall limit, it will need to make compensating reductions in other prices. This provision is applied separately to Baskets A and B.
- 37 The control also prevents Royal Mail from moving away from geographically uniform tariffs without first receiving Postcomm's consent.

- 38 As far as possible the proposed draft price control adopts the concepts and structure of the present price control, in the interest of consistency and the avoidance of unnecessary change.

Changes from Initial Proposals

- 39 Compared with the draft condition published in June 2005, following the publication of Postcomm's Initial Proposals, the following changes have been made –
- (a) the opening price adjustment (P_0) has increased to 6.2%,
 - (b) the X factor has been altered to 1.5% per year for Basket A products and 3.5% per year for Basket B products,
 - (c) Presstream 1 is included in the control,
 - (d) the position of new services has been clarified,
 - (e) the services falling into Baskets A and B have been adjusted,
 - (f) a mechanism has been introduced for adjusting the price control in response to changes in Royal Mail's pension deficit,
 - (g) a mechanism has been introduced to adjust the price control in the event that volumes conveyed by Royal Mail are significantly above or below forecast volumes, and
 - (h) the timescales in which Postcomm expects to respond to xxx have been tightened.

Paragraph by paragraph explanation of the proposed Condition

The obligation to provide services – paragraphs 1 – 4

- 40 Paragraphs 1 and 2 of the proposed Condition require Royal Mail to continue to provide the services regulated by the control on as wide a basis as they were offered in March 2006 and on terms that are as good for users as they were at that time. The purpose of these paragraphs is to prevent the price control from being circumvented by a withdrawal of services.
- 41 Paragraphs 3 and 4 are new, as compared with the existing control. They establish a mechanism under which the obligation in paragraph 2 to continue to offer services on the same terms may be relaxed on the application of Royal Mail. If Royal Mail's application is for non-access services and has the support of the Consumer Council for Postal Services ("Postwatch") and if Postcomm raises no questions about it, the application can proceed. Otherwise and for access services, it may proceed only if Postcomm has consulted and issued a direction agreeing to the application, or agreeing to it in a modified manner.

The overall restriction on prices – paragraph 5 – 10

- 42 Paragraph 5 sets out the overall restriction on prices. Royal Mail is required –
- (a) for Baskets A and B to take all reasonable steps to ensure that it earns in total no more from the provision of the services in each of the baskets than an allowed (or anticipated) revenue which depends on the volume carried,

- (b) for geographically uniformly priced Access Services, to maintain their differentials with equivalent end to end services as at the last day of the current price control (with provision for access differentials to be reviewed from the end of the second year of the control), and
 - (c) for non geographically uniformly priced Access Services, to maintain the differentials between the Zone 3 price for the service with the price for equivalent end to end services as at the last day of the current price control and maintains differentials between prices for different Zones (with provision for differentials between Zone 3 and nationally uniform prices to be reviewed from the end of the second year of the control).
- 43 Paragraph 6 specifies how Royal Mail's earned revenues for each of Baskets A and B are to be determined when assessing compliance with the condition, as the sum of the revenue earned for each of the services in the Basket.
- 44 Paragraph 7 defines how the allowed or anticipated revenue is to be determined for each of Baskets A and B. First an unadjusted basket revenue is calculated. To this is applied an adjustment factor (K) for over or under recovery of revenue for the Basket in the previous year. Then there is added, for Basket A, a customer service quality factor (C) and, for both baskets, an adjustment for unusually large pension volatility (PP) and an adjustment in the event that Royal Mail's volumes differ from forecasts made at the commencement of the control (G).
- 45 Paragraph 8 specifies generally how the unadjusted basket revenue is calculated. For Basket A this is 95%, and for Basket B 100%, of the revenue that would be earned by applying the maximum prices allowed by the control to the volumes actually carried by Royal Mail. This calculation is done service by service and the unadjusted basket revenue is the sum of the revenues for each service. The other 5% of Basket A revenue is the additional revenue that Royal Mail is entitled to earn for delivering a good quality performance for services in the Basket (see paragraphs 51 and 52, explaining the "C" factor, below).
- 46 Paragraph 9 stipulates how the revenues for individual services (which are summed by the formulae in paragraph 8) are to be worked out. The product of the controlled basket price for each price range in the service and the volume carried at that price range is calculated to give the revenue for the price range and the revenues for each of the price ranges offered by the service are added together. The controlled price for each price range is the price for that range as at 31 March 2006, adjusted by the formulae that underly the control.
- 47 Paragraph 10 determines how volumes are to be calculated for the purpose of the control. This provision is necessary because, although volumes are critical to the operation of the control, Royal Mail has difficulty in measuring physical volumes with precision, due to the inclusion in its mail streams of unknown volumes of, for example, redirected mail and mis-sorted mail. The price control therefore uses "revenue equated" volumes, which are calculated by dividing the revenue earned in any price range for a service (which is known) by a representative price for that price range.
- 48 The representative price that is used is the modal price and paragraph 10 includes arrangements for estimating modal prices where they are not known.

When the 2003 price control was introduced it was thought that the determination of representative prices might present difficulties. In practice this has proved not to be a problem and Postcomm's experience has been that the degree of detail in the price control leaves little scope for anything other than the entirely straightforward mechanistic approach which was intended. Nevertheless provisions for the estimation of modal prices have been retained and slightly enhanced because the possible move from weight based to format and weight based prices may mean that, for some price ranges for some tariffs, there are no clear representative prices.

The correction factor "K" – Paragraph 11

- 49 Paragraph 11 recognises that Royal Mail may, despite taking all reasonable steps to avoid over charging, in fact set prices too high. This is because it has to make estimates and assumptions in setting its prices (particularly as to its quality performance) that necessarily involve a degree of error. Equally Royal Mail may recover less revenue than is permitted by the control. Under-recovered or over-recovered revenue in any year of the control is calculated as provided in paragraph 11. It is referred to as "K" in the formulae used in the control and it is added to or deducted from what may be earned in the following year of the control.
- 50 Paragraph 11(a) makes provision for any un-recovered or over-recovered income in the last year of the present price control to be added to or deducted from what may be earned in the first year of the new control. This is to ensure that the discipline of the present control applies in its last year. If the new control cannot be put in place by 1 April 2006, this element of the control (or "X") will need to be adjusted to ensure that any over-earning of revenue by the continued application of the existing price control compared to the new price control is returned to users.

The customer service quality factor "C" – paragraph 12.

- 51 The control is designed to provide strong financial incentives to Royal Mail to meet its service quality standards. For bulk services, including Access Services, this incentive is provided by Royal Mail's quality of service compensation scheme, which requires it to return to customers up to 5% of revenues for service quality failure.
- 52 A compensation scheme of this nature is not possible for most of the services in Basket A because which are not paid for on account. Instead the control requires Royal Mail to set its prices so that 5% of its income from Basket A services is dependent on an estimated weighted average of its performance against relevant service standards. If Royal Mail's estimate of its quality of service performance is wrong, any resulting over or under recovery of revenue feeds through via the "K" factor into the prices that it can charge in the following year.

Pension fund deficit change adjustment

- 53 Paragraph 13 of the proposed Condition deals with volatility in the value of the assets in Royal Mail's pension fund. Paragraph 13 comes into operation if the value of the fund becomes unexpectedly low. A calculation is made of the

accumulated gain or loss of the fund and if there is an accumulated loss in excess of one tenth of the higher of the projected benefit obligation or the fund value, then (subject to adjustment) one tenth of that excess can be added to the anticipated revenue in the following year.

- 54 There are two adjustments in this process: first a fraction of 0.80 is applied to pass through only that element of volatility in the value of the fund that can fairly be attributed to Royal Mail's regulated letters business; secondly an apportionment is made between Baskets A and B on the basis of volumes of letters delivered.

Adjustment for volume growth or decline – paragraph 14

- 55 Paragraph 14 of the proposed Condition provides for unit revenues to be reduced if volumes exceed expectations at the start of the control and to be increased if volumes are below those expectations.
- 56 The volume risk up to 2% around expectations is carried by Royal Mail. The overall adjustment is made on a gross basis, treating Baskets A and B together. The overall adjustment is apportioned between baskets A and B by reference to their respective delivery volumes.

Rebalancing – paragraphs 15 – 19

- 57 Paragraphs 15 and 16 provide that Royal Mail may rebalance its prices within a tariff and rebalance tariffs within (but not between) Baskets A and B by 3% more than the amount otherwise permitted by the price control. 3% is a threshold, up to which Royal Mail can move of its own volition. Greater rebalancing is possible, with Postcomm's agreement. With the challenge of full market opening in January 2006, Postcomm believes that a greater level of freedom is desirable to help Royal Mail better align its prices to its costs as compared with the present control. The thresholds are applied on a two year rolling basis, so that flexibility not taken in one year may be carried through to the following year.
- 58 Rebalancing is subject to the overall limitations of the control. Therefore, if Royal Mail increases prices for one service or for one element of a service, it will have to reduce prices elsewhere in the same Basket to stay within the overall limits of the control. As compared with the draft Condition published in June 2005 and adjustment factor, c_t , has been introduced to ensure as far as possible that "C" factor revenue is not available to depress prices of the bulk services in Basket A.
- 59 Paragraphs 17 – 19 set out a new proposal which will apply when Royal Mail proposes to move from a geographically uniform tariff to a geographically variable (or zonal) tariff. The possibility of Royal Mail moving to zonal tariffs will arise when services that presently are offered as universal services no longer have to be offered as universal services.
- 60 The proposed Condition sets out a mechanism under which consent is required before services can cease to be priced on a geographically uniform basis. A timetable is provided for this process and Postcomm will have to be satisfied as to a number of factors, including cost reflectivity and revenue neutrality.
- 61 These proposed provisions on moving away from geographically uniform tariffs are framed to apply to all Controlled Services that are not required to be provided as universal services. In practice this means all but the universal services in Basket B (all products in Basket A are universal service products).

Change to the price basis for controlled services – paragraphs 19 – 22

- 62 Paragraphs 20 – 22 retain and enhance the provisions in the present control under which Royal Mail can apply to change the basis on which a tariff is established. It is under this provision in the present control that Royal Mail has applied to introduce Pricing in Proportion (size based pricing).
- 63 The enhancement to the condition is the introduction of a timetabling provision (paragraph 21) for the handling of requests to change the basis of pricing.

Unpriced and miscellaneous services – paragraphs 23 and 24

- 64 Paragraph 23 requires Royal Mail to continue to provide certain unpriced services. Paragraph 24 applies an RPI –X limit to prices for a number of miscellaneous services, including proof of delivery and recorded delivery.

Relaxation of condition – paragraphs 25 - 27

- 65 Paragraph 25 is a continuation of the existing provisions under which Royal Mail can apply for the price control to be relaxed in the event of a fundamental change in circumstances which affects its economic performance and puts at risk its ability to provide the universal service or finance activities authorised or required by the licence.
- 66 Paragraphs 26 and 27 are new provisions which establish a process under which Royal Mail may apply to Postcomm to remove services from the control, on the basis that competition is sufficiently developed to protect the interests of users. These provisions have been streamlined compared with the draft published in June 2005.

Information provisions – paragraphs 29 – 31

- 67 Paragraphs 28 to 31 carry forward the existing provisions of the present control under which Royal Mail must provide estimates of prices and of the main parameters of the control (looking forward) and statements of the outturn of the main parameters (looking back). These provisions are to ensure that users are provided in advance with price information and to enable Postcomm to monitor Royal Mail's compliance with the control.

Disapplication and termination of the control – paragraphs 32 to 37

- 68 Paragraphs 32 to 37 provide that the control cannot be terminated before 31 March 2010. The mechanism to achieve this is to enable Royal Mail to give not less than eighteen months' notice terminating the control and to provide that that notice cannot be given before 30th September 2008. The control can run on after 31 March 2010. In the event that Postcomm and Royal Mail cannot agree to a new condition the matter would be referred to the Competition Commission.

Definitions – paragraph 38

- 69 Paragraph 38 defines a number of the terms used in the rest of the condition. The most significant change in the proposed Condition as compared with the draft published in June 2005 (and with the current Condition) is the way in which Controlled Services now are defined to include services substantially similar to Controlled Services. The aim of this change is to ensure that services cannot be removed from the control by making minor changes to the service specification and renaming the service.

- 70 Other changes from the June draft are to the definitions of Baskets A and B and in the inclusion of Presstream 1.

NEW CAPITAL EXPENDITURE MONITORING CONDITION

- 71 Postcomm proposes to include a new Condition in Royal Mail's licence requiring it to keep Postcomm informed of its capital expenditure plans and of the expenditure it undertakes pursuant to those plans. This condition will follow the existing condition 17 in Royal Mail's licence and subsequent conditions will be renumbered.
- 72 The proposed new condition requires a capital expenditure plan statement to be provided by the beginning of the financial year and a statement of the actual expenditure against plan to be provided within six months of the end of the financial year.
- 73 The purpose of the condition is to enable Postcomm to gather the information required to monitor the actual roll forward of the regulated asset base (RAB) during the next price control.

MODIFICATIONS TO TIDY UP THE LICENCE

- 74 Postcomm proposes to take the opportunity to tidy up the licence by –
- (a) removing all references to Consignia plc, Royal Mail's name at the time of grant of the licence,
 - (b) removing a redundant definition of "interference",
 - (c) removing a provision in Condition 8 (Protecting the integrity of mail) that will be redundant when the Conditions are introduced,
 - (d) moving the new Common Operational Procedures to a more appropriate section of the licence and deleting a redundant provision from it (its commencement date, which will have passed), and
 - (e) renumbering conditions and changing cross references as necessary as a result of these changes.

COMMENTS AND QUESTIONS

- 75 Postcomm would be grateful for any comments from any interested parties on the provisions of the proposed Conditions. Postcomm is ready to respond to any questions in connection with them. Comments and questions should be referred to Postcomm in the same way as comments and questions on Postcomm's Final Proposals, published on 7th December 2005.

POSTCOMM

5 January 2006

**DRAFTS OF PROPOSED MODIFICATIONS TO THE LICENCE UNDER THE
POSTAL SERVICES ACT 2000 GRANTED TO ROYAL MAIL GROUP PLC**

Condition 1

1. For the definition of Generally Accepted Accounting Principles in the right hand column in the table in Paragraph 1 of Condition 1 substitute the following:
“means the International Financial Reporting Standards, International Accounting Standards and other accounting principles and conventions, most recently promulgated by the International Accounting Standards Board (or by any successor to that body);”
2. In the table of definitions in paragraph 1 of Condition 1 delete –
““interference” in relation to any postal packet or mail bag means the commission of offences under sections 83(1) and 84(1) (subject to subsections 83(2) to (5)) of the Act;”
3. Delete Paragraph 3.

Condition 2

Delete the existing condition and replace it by –

Condition 2: Provision of universal postal service in the United Kingdom

1. The Licensee shall provide a universal postal service within the United Kingdom, subject to the following paragraphs of this condition.
2. The universal service to be provided by the Licensee pursuant to paragraph 1 shall include services for letters posted individually and services for letters posted both sorted and unsorted in bulk and shall include a registered and an insured service and incoming and outgoing services for letters posted from and to addresses outside the United Kingdom.
3. The Licensee, in the discharge of its obligations under paragraphs 1 and 2, shall –
 - (a) provide the services numbered 1, 2, 3, 4, 5, 6, 7, 8, 9, 14, 15, 16, 17, 18, 27, 28, 29 and 30 in the definition of Controlled Services² in paragraph 38(a) in condition 19, in accordance with a public tariff that is uniform throughout the United Kingdom, and
 - (b) use reasonable endeavours directly or indirectly to establish arrangements with postal operators in countries outside the United Kingdom for them to deliver to the Licensee relevant postal packets posted from outside the United Kingdom to addresses within the United Kingdom.
4. The Licensee shall ensure that –
 - (a) except in such geographical conditions or other circumstances as Postcomm, after consultation with the Licensee and the Council, may by direction designate³ as exceptional –

² Note that service numbers are those proposed for the 2006 price control, as set out later in this document.

³ The current Direction was issued on 31 January 2003 and will be made to apply for the purposes of this condition as amended.

- (i) at least one delivery of relevant postal packets is made every working day to the home or premises of every individual or other person in the United Kingdom or to such identifiable points for the delivery of relevant postal packets within that area as Postcomm may approve in writing⁴, and
 - (ii) at least one collection of relevant postal packets is made every working day from each access point, and
 - (b) a service of conveying relevant postal packets from one place to another by post and the incidental services of receiving, collecting, sorting and delivering such packets are provided at affordable prices determined in accordance with a public tariff that is uniform throughout the United Kingdom.
5. For the purposes of this condition –
- (a) the interruption, suspension or restriction of any service in cases of emergency, or
 - (b) the conclusion with customers of individual agreements as to prices, shall not be taken to preclude the provision of a universal postal service.
6. Subject to such further direction as may be made by Postcomm pursuant to this condition, the direction made on 31 January 2003 pursuant to what was then paragraph 3 of condition 1 in Schedule 2 to this Licence shall apply for the purposes of this condition as if the reference in the direction to that paragraph 3 were a reference to paragraph 4(a) of this condition.

⁴ Approval issued 31 January 2003.

Condition 4

Delete the existing condition and replace it by –

Condition 4: Services, standards of service and compensation

Part I. Standards of Service

1. In this condition –

- (a) “scheduled services” are the products and services described in groupings and individually, in lines 1 to 8 in the Table in the Annex to this Condition, and more particularly defined in Note 1 to the Annex to the Controlled Services listed in paragraph 38(a) in Condition 19 and to a table of definitions approved by Postcomm for the purpose of that condition,
- (b) “scheduled standards” are the levels of performance, set out in column I in the Annex to this condition, that the Licensee ought reasonably to achieve in respect of the scheduled services and the standardised measures, in the discharge of the obligation in paragraph 7,
- (c) the “standardised measures” are the measures referred to in lines 9 to 12 of the table in the Annex to this Condition, covering the percentage that all postcode areas should achieve, the percentage of collection points served each day, the percentage of delivery routes completed each day and the percentage of items delivered correctly,
- (d) the “non-standardised measures” are those measures described in paragraphs 6(a) and (b) of this condition,
- (e) a letter is “delivered correctly” if it has been delivered either to the named recipient or to the address on the letter,
- (f) “performance bands” are the graduations in the levels of the scheduled standards set out in the Annex to this condition,
- (g) the “Christmas period” is the period commencing on the first Monday in December in any year and ending at the start of the first working day after the New Year public holiday in the following year or, in Scotland, at the start of the first working day after the Scottish New Year public holiday in the following year,

- (h) the “latest delivery time” for each UK address is the time by which the Licensee endeavours to make a delivery every working day in accordance with the Licensee’s classification, as at [1 December 2005], of addresses as either "urban" or "rural".
2. The Licensee shall at all times –
- (a) maintain a schedule in writing of the scheduled services and the standardised measures (including, where applicable, a table of definitions by way of references to the Controlled Services referred to in paragraph 38(a) of condition 19 of this Licence) and of each of the corresponding scheduled standards, to be provided to users without charge on request, and
- (b) ensure that Postcomm and the Council are provided with up to date copies of the schedule maintained in accordance with paragraph 2(a).
3. The schedule maintained in accordance with paragraph 2(a) shall –
- (a) specify the routing times, the regularity and reliability of services to be achieved;
- (b) specify quality standards for national mail that are compatible with those laid down for intra-Community cross-border mail;
- (c) specify quality standards for intra-Community cross-border mail services in a manner consistent with the Annex to the Postal Services Directive⁵; and

⁵ Annex A to the Directive provides:

“The quality standards for intra-Community cross-border mail in each country are to be established in relation to the time limit for routing measured from end to end for postal items of the fastest standard category according to the formula $D + n$, where D represents the date of deposit and n the number of working days which elapse between that date and that delivery to the addressee.

Quality standards for Community cross-border intra-mail	
Time limit	Objective
D + 3	85% of items
D + 5	97% of items

The standards must be achieved not only for the entirety of intra-Community traffic but also for each of the bilateral flows between two Member States.”

- (d) specify minimum levels of performance in respect of each of the scheduled services and the standardised measures that the Licensee ought reasonably to achieve, having regard to the obligation in paragraph 7, that are no less demanding for the Licensee than the scheduled standards set out in the Annex to this condition.
- 4. The Licensee shall not make any change to the scheduled services, the standardised measures or the scheduled standards, other than in accordance with paragraphs 25 and 26.
- 5. The Licensee shall use reasonable endeavours –
 - (a) to collect postal packets –
 - (i) from its customers as agreed with them, and
 - (ii) on a regular and reasonable basis from any post office letter box or other access point it uses, and
 - (b) appropriately to deliver, or to procure the delivery of, any postal packets it receives in the course of its business as a postal operator, within a reasonable time.
- 6. The Licensee shall measure and publish on a quarterly basis in such manner as Postcomm may direct –
 - (a) the percentage of deliveries in the United Kingdom that are made every working day by the latest delivery time, as notified to Postcomm and the Council in accordance with paragraph 6(c),
 - (b) the percentage of collections in the United Kingdom that are made every working day from all post office letter boxes and other access points in the United Kingdom at or after the final time of collection advertised on the access point, and
 - (c) for the purposes of paragraph 6(a), the Licensee shall notify Postcomm and the Council of the latest delivery times for the UK and shall notify Postcomm and the Council of any changes to its latest delivery times that it intends to make not less than three months prior to the change being made,

- (d) the Licensee shall notify Postcomm and the Council of every re-classification of addresses that will result in the latest delivery time of an address becoming later, within one month of such a change, and
 - (e) the Licensee shall publish its latest delivery times and shall ensure any changes to the latest delivery times are published within one month of the change.
7. Except as Postcomm may by direction determine, the Licensee shall use all reasonable endeavours to provide the scheduled services and to perform the standardised measures to the highest possible extent, in relation to the relevant scheduled standards for groupings of scheduled services, scheduled services not in a grouping and for the standardised measures, having regard to all the circumstances and, in the application of this obligation –
- (a) if the performance of the Licensee in respect of any grouping of scheduled services, scheduled service not in a grouping or standardised measure in any period of twelve months ending on 31 March in any year (excluding the Christmas period) meets or exceeds the relevant scheduled standard the Licensee shall be deemed to have used all reasonable endeavours in respect of that grouping of scheduled services, scheduled service or standardised measure in that year,
 - (b) if the performance of the Licensee in respect of any grouping of scheduled services, scheduled service not in a grouping or standardised measure in any period of twelve months ending on 31 March in any year (excluding the Christmas period) falls short of the relevant scheduled standard to the extent of being five percent or more below the level shown for that service or measure in performance band I of the Table in the Annex to this condition (or 0.5 percent below that level for standardised measures 10, 11 and 12) the Licensee shall be presumed, subject to consideration of evidence in rebuttal, not to have used all reasonable endeavours in respect of that grouping of scheduled services, scheduled service or standardised measure in that year, unless Postcomm has indicated by direction in writing, following consideration of information submitted by the Licensee, that it is satisfied that the Licensee has complied with its

obligation to use all reasonable endeavours in respect of that service or measure, and

- (c) where the performance of the Licensee in respect of any grouping of scheduled services in any period of twelve months ending on 31 March in any year (excluding the Christmas period) is below the level shown for that grouping of scheduled services in performance band I of the Table in the Annex to this condition by less than five percent but the performance of the Licensee in respect of any product or service within that grouping during the same period falls short of the relevant scheduled standard for the grouping to the extent of being five percent or more below the level referred to, the scheduled standard for the grouping shall apply to that product or service as if the product or service were a single scheduled service although the presumption of failure to use all reasonable endeavours provided for in paragraph 7(b) shall not apply in respect of that product or service.

8. The Licensee shall –

- (a) with the exception of the percentage of delivery routes completed each day and the percentage of collection points served each day, monitor its performance of each of the scheduled services and the standardised measures, in relation to the scheduled standards using a testing methodology that –
 - (i) is representative of the range of services and customers for whom these scheduled standards or standardised measures are relevant and which is capable of providing results with measurable statistical significance,
 - (ii) is applied independently of the Licensee, and
 - (iii) is compliant with Article 16 of the Postal Services Directive,
- (b) permit and cooperate with audit of its monitoring pursuant to paragraph 8(a) by persons appointed by the Council with the agreement of the Licensee which shall not be unreasonably withheld;

- (c) monitor its performance of the percentage of delivery routes completed each day and the percentage of collection points served each day, in relation to the scheduled standards and the non-standardised measures, using a measurement methodology that
 - (i) is representative of the range of services and customers for whom these standardised and non-standardised measures are relevant, and
 - (ii) is compliant with Article 16 of the Postal Services Directive,
 - (d) with the agreement of Postcomm, after consultation by Postcomm with the Council, appoint an independent person to test and give an opinion on the suitability of the methodology used for the purpose of paragraph 8(c), and on the extent and consistency of its application, and
 - (e) except as Postcomm has by direction in writing indicated otherwise, monitor its performance in the provision of Controlled Services 43 to 49 in the manner provided in sub paragraphs (a) and (b) of this paragraph.
9. Except as Postcomm may by direction determine, the Licensee shall –
- (a) submit written quarterly reports on its performance in respect of each of the scheduled services and standardised measures relative to each of the corresponding scheduled standards and of its performance in respect of the non-standardised measures to Postcomm and to the Council, not later than two months from the end of the quarter to which they relate;
 - (b) include with each report submitted under paragraph 9(a) for a quarter ending on 31 December in any reporting year, a statement, in such form as Postcomm may direct, of the action the Licensee intends to take in the following reporting year, in order to ensure the discharge of the obligation in paragraph 7;
 - (c) submit for publication a written report on its performance in respect of each of the scheduled services and standardised measures relative to each of the corresponding scheduled standards to Postcomm and the Council for each Christmas period not later than two months from the end of each Christmas period, and

- (d) submit for publication a written annual report on its performance in respect of each of the scheduled services and standardised measures relative to each of the corresponding scheduled standards (containing both adjusted and unadjusted results in the event that Postcomm agrees to the adjustment of results) to Postcomm and the Council for each period of twelve months, ending on 31 March and not later than three months from that date.
10. The Licensee shall at all times –
- (a) maintain and comply with a code of practice for identifying the incidence of, and addressing the causes of, significant failure to meet the scheduled standards in postcode districts within postcode areas in which the scheduled standards overall are met, and
 - (b) ensure that Postcomm and the Council are provided with up to date copies of the code of practice maintained in accordance with paragraph 10(a).

Part II. Compensation Scheme

11. The Licensee shall at all times maintain a scheme to be known as the “standards of service compensation scheme” for compensating users of postal services affected by failure to meet the quality standards applicable in accordance with the scheduled standards to any postal packet.
12. Subject to modification in accordance with paragraphs 25 and 26, the standards of service compensation scheme shall provide, as minimum benefits to users of the Licensee’s postal services, the benefits provided for in the scheme established pursuant to the Direction issued by Postcomm on 7th October 2003.
13. The standards of service compensation scheme shall –
- (a) provide for the Licensee paying, to any such person as is mentioned in paragraph 11, such compensation as may be specified in the scheme as being appropriate, and
 - (b) where a dispute arises between a person claiming compensation under the scheme and the Licensee as to whether compensation is due or

whether the compensation is appropriate, provide for the Licensee to inform the person claiming compensation of his right to refer the matter to the Council.

14. The Licensee shall not make any change to the standards of service compensation scheme other than in accordance with paragraphs 25 and 26.
15. The Licensee shall meet its obligations under the standards of service compensation scheme.
16. The Licensee shall submit annual reports on the operation of the standards of service compensation scheme categorised by products and services (making reference to the table of definitions approved by Postcomm for the purpose of condition 19) to Postcomm and to the Council setting out for the United Kingdom as a whole and, except as Postcomm may agree otherwise in writing, for each of the postcode areas –
 - (a) for automatic payments under the bulk compensation scheme for delay not later than three months from the end of the year following the year to which they relate, the payments made to customers for each of the relevant standards; and
 - (b) for other claims not later than three months from the end of the year to which they relate,
 - (i) the number of complaints received and claims for compensation made;
 - (ii) the number of claims for compensation in relation to which compensation was paid; and
 - (iii) the amount of compensation (including any payments in lieu of compensation) that was paid,in each case broken down by not less than ten of the main causes of the claims.
17. The reports submitted pursuant to paragraph 16 shall be accompanied by a statement of the action the Licensee intends to take in the year following submission of the report to address the causes of claims for compensation.

Part III: Schemes under section 89 and loss and damage

18. The Licensee shall not –
 - (a) establish any scheme under section 89 of the Act, or
 - (b) include any provision in such a scheme,that is incompatible with any of the Licensee’s obligations under this condition.
19. In the making and application of any scheme under section 89 of the Act, the Licensee shall comply with any direction that Postcomm, after consultation with the Licensee, the Council and such other persons as appear to Postcomm to be appropriate, may give to the Licensee by notice in writing in relation to compensation for loss of or damage to postal packets, including the process for making claims for compensation and the maximum amount of compensation that may be paid.
20. The Licensee shall at all times meet its obligations under any scheme made under section 89 of the Act.
21. The Licensee shall submit annual reports on the operation of its compensation scheme for loss and damage to Postcomm and to the Council setting out for the United Kingdom as a whole and, except as Postcomm may agree otherwise in writing, for each of the postcode areas not later than three months from the end of the year to which they relate,
 - (a) the number of complaints received and claims for compensation made;
 - (b) the number of claims for compensation in relation to which compensation was paid; and
 - (c) the amount of compensation (including any payments in lieu of compensation) that was paid,in each case broken down by the main causes of the claims.
22. The reports submitted pursuant to paragraph 21 shall be accompanied by a statement of the action the Licensee intends to take in the year following submission of the report to address the causes of claims for compensation.

Part IV. Publication and Modification

23. The Licensee shall –
- (a) publish the schedule of scheduled services and scheduled standards, particulars of the standards of service compensation scheme, the reports required to be submitted under paragraphs 9, 16 and 21 and the statements required to be submitted under paragraphs 17 and 22 in such manner as will ensure reasonable publicity for them,
 - (b) not assert copyright against, or otherwise oppose, any publication arranged by Postcomm or by the Council of the schedule, reports and statement, and
 - (c) make copies of the schedule, reports and statement available free of charge to any person requesting them.
24. The Licensee shall –
- (a) offer to review the schedule of scheduled services, standardised measures and scheduled standards and the standards of service compensation scheme with the Council in every second year ending on the anniversary of this Licence, and
 - (b) discuss in good faith with the Council and endeavour to agree modifications to the scheduled services, standardised measures and scheduled standards and to the standards of service compensation scheme that are appropriate in the interests of users of the Licensee's postal services for the period until the next review.
25. The schedule of scheduled services, standardised measures and scheduled standards and the standards of service compensation scheme may be amended by the Licensee at any time with the agreement of the Council or of Postcomm provided, in the case of amendments agreed with the Council, that not less than three months' notice of the proposed amendments has been given to Postcomm and Postcomm has not within two months of being notified directed that the proposed amendments be not made.
26. If the Council recommends to the Licensee, following a review under paragraph 24, that the schedule of scheduled services, standardised measures and

scheduled standards or the standards of service compensation scheme should be changed, and if Postcomm advises the Licensee in writing that it is of the view that the changes recommended by the Council should be made, or made with modifications, then the Licensee shall either –

- (a) alter the schedule of scheduled services, standardised measures and scheduled standards or the standards of service compensation scheme in the manner recommended by the Council, with any modifications advised by Postcomm, or
- (b) advise both the Council and Postcomm in writing that it declines to alter the schedule of scheduled services, standardised measures and scheduled standards or the standards of service compensation scheme (as the case may be) in the manner aforesaid and publish in such manner as Postcomm may direct the full reasons for its decision.

27. The Licensee shall appoint an official reporting directly to a member of its board of directors and charged with responsibility for monitoring the Licensee's compliance with the scheduled standards and for meeting representatives of the Council on not less than two occasions per year to discuss the schedule of scheduled services, standardised measures and scheduled standards, the standards of service compensation scheme, the reports submitted pursuant to paragraphs 9, 16 and 21 and the statements required to be submitted under paragraphs 17 and 22.

ANNEX TO CONDITION 4

Minimum levels for the Licensee's scheduled standards and standardised measures maintained in accordance with paragraph 2(a) of Condition 4

	Scheduled services	Performance bands for scheduled standards			
		I	II	III	IV
		Standard (%)	No automatic consequences (%)	Users receive price reductions or compensation (%)	Postcomm considers investigation (%)
1	Grouping 1 Retail first class	93.0	92.9 to 92.0	91.9 to 88.0	87.9
2	Grouping 2 Retail second class	98.5	98.4 to 97.5	97.4 to 93.5	93.4
3	Grouping 3 Bulk first class	91.0	90.9 to 90.0	89.9 to 86.0	85.9
4	Grouping 4 Bulk second class	97.5	97.4 to 96.5	96.4 to 92.5	92.4
5	Grouping 5 Bulk third class	97.5	97.4 to 96.5	96.4 to 92.5	92.4
6	Standard Parcels	90.0	89.9 to 89.0	88.9 to 85.0	84.9
7	European International Delivery	85.0	84.9 to 84.0	83.9 to 80.0	79.9
8	Special Delivery (Next Day sold at Post Offices)	99.0	Compensation in accordance with contractual specification		93.9
Standardised measures					
9	Postcode area target % (delivered)	91.5	91.4 to 90.5	90.4 to 86.5	86.4
10	% of collection points served each day	99.9	99.89 to 99.80	99.79 to 99.40	99.39
11	% of delivery routes completed each day	99.9	99.89 to 99.80	99.79 to 99.40	99.39
12	% of items delivered correctly	99.5	99.49 to 99.40	99.39 to 99.00	98.99

Notes

1. The scheduled services numbered 1 to 8 in the table above are more particularly described by reference to services referred to in condition 19 of this licence as shown in the table below –

Scheduled Services referred to in Table above	Controlled Services listed in paragraph 38(a) of Condition 19 which are included in the Scheduled Services or Groups of Scheduled Services referred to in the left hand column
1 – Retail First Class	1, 2.
2 – Retail Second Class	3, 4.
3 – Bulk First Class	10, 12, 15, 16, 19, 20, 23, 24, 27, 28, 31, 32, 34, 36, 38.
4 – Bulk second Class	11, 13, 17, 18, 21, 22, 25, 26, 29, 30, 33, 35, 37, 39.
5 – Bulk Third Class	40, 41, 42.
6 – Standard Parcels	5.
7 – European International Delivery	6.
8 – Special Delivery (Post Offices)	14.

2. The standards for the scheduled services numbered 1 to 7 show the percentages of letters that should meet the service requirements of delivery by the end of the first, third or seventh working day for first class services, second class services or third class services respectively, in each case after the day of collection or receipt by the Licensee.
3. The service numbered 6 (Standard Parcels) is a second class service.
4. The standard for Standardised Measure 9 is the percentage of Postcode Areas (excepting HS, KW and ZE) in which the Standard for Grouping 1 should be achieved or exceeded throughout the periods of 12 months ending at the end of March in each of the years shown, excluding the Christmas and New Year period.
5. The percentages for each standard are to be measured on average in the United Kingdom as a whole throughout the periods of 12 months ending on 31 March in each year.

Condition 7

Replace the existing condition by the following condition

Condition 7: Provision of information to users of postal services

1. This condition shall apply to the extent that the information referred to in paragraph 2 is not made available to users of postal services pursuant to any other condition of this Licence.
2. The Licensee shall submit to Postcomm and to the Council a statement setting out –
 - (a) details of the tariffs (including discounts and credit facilities), standards of service and compensation arrangements under which the Licensee offers to provide licensed services and non-licensed services (other than postal services offered under the Parcelforce brand which were offered on 1 April 2006 or which may be offered subsequently and which are substantially similar to those services),
 - (b) details of the general conditions of, and the physical provisions for, access to such services offered by the Licensee,
 - (c) details of any services offered by the Licensee specifically for customers who are blind and partially sighted, disabled or chronically sick, of pensionable age, with low incomes or residing in rural areas,
 - (d) a summary of the Licensee's performance against its standards of service in the year for which it most recently has become due to submit an annual report to Postcomm under paragraph 16 of condition 4 of this Licence.
3. The Licensee shall notify Postcomm and the Council promptly in writing of any changes to the matters referred to in any statement submitted pursuant to paragraph 2 not less than three months before any such changes come into effect.
4. The Licensee shall –
 - (a) publish the statements and notifications required to be submitted under paragraphs 2 and 3 as soon as reasonably practicable after

their submission in such manner as will ensure reasonable publicity for them,

- (b) not assert copyright against, or otherwise oppose, any publication arranged by Postcomm or by the Council of the statements and notifications,
 - (c) make copies of the statements and notifications available free of charge to any person requesting them, and
 - (d) place copies of statements and notifications on any relevant website operated or controlled by the Licensee.
5. The Licensee shall ensure that the full address and telephone number of the Council is displayed with reasonable prominence in all explanatory literature it produces for users of its postal services.

Condition 9

Amend paragraph 2 in Part 1 to read –

“2. If any person who is a postal operator or user seeks access to the Licensee’s postal facilities the Licensee shall –

- (a) negotiate with that person in good faith with a view to agreeing with him terms for such access, and
- (b) unless Postcomm agrees otherwise in writing, where the service sought by a postal operator or user is substantially similar to a Controlled Service or to any other service offered by the Licensee when access is sought, make an offer of terms for access to that person within three months of the receipt of his written request to enter into negotiations in accordance with this paragraph.”

Condition 11

Delete the existing condition and replace it by –

Condition 11: Promotion of effective competition.

1. Paragraph 2 of this condition shall not apply –
 - (a) to postal services offered under the Parcelforce brand –
 - (i) which were offered on 1 April 2006, or
 - (ii) which may be offered subsequently and which are substantially similar to those services;

and in each case were or are neither authorised nor required by this Licence, or
 - (b) where the postal services are supplied in a sector of the market where there is effective competition, or
 - (c) where the terms on which the Licensee supplies or offers to supply postal services are necessary for it to comply with the obligations of condition 2 of this Licence.
2. Subject to paragraphs 1, 3 and 4 and to its obligations under condition 2 of this Licence, the Licensee –
 - (a) in the terms on which it supplies or offers to supply postal services to customers –
 - (i) shall not show undue preference to any person or class of persons,
and
 - (ii) shall not exercise any undue discrimination against or seek to impose any undue restriction on any person or class of persons,
and
 - (b) shall not set terms or charges for the supply of postal services –
 - (i) which are excessive, or
 - (ii) which are predatory.

3. Where conduct is prohibited under section 18 of the Competition Act 1998_or Article 82 EC Treaty, questions as to whether paragraph 2 has been breached by that conduct shall be dealt with in a manner which is consistent with the treatment of corresponding questions arising under section 18 of that Act or Article 82 EC Treaty.
4. Where conduct under paragraph 2 is not prohibited by section 18 of the Competition Act 1998 or Article 82 EC Treaty, questions as to whether paragraph 2 has been breached shall be dealt with in a manner which is consistent in so far as possible with the treatment of questions arising under section 18 of that Act or Article 82 EC Treaty.
5. Paragraph 4 shall apply except to the extent that such treatment of questions as to whether paragraph 2 has been breached is inconsistent with the duties of Postcomm arising under sections 3 and 5 of the Act.
6. The Licensee shall furnish to Postcomm full copies of any written submissions to the Office of Fair Trading or to the European Commission or any other National Competition Authority (within the meaning of Council Regulation (EC) 1/2003) which relate to –
 - (a) the Competition Act 1998 or Articles 81 or 82 of the Treaty of Rome; and
 - (b) the Licensee’s business as a provider of postal services in the United Kingdomwithin seven days of the making of the submission.
7. The Licensee shall furnish Postcomm with such information concerning any submissions of the kind referred to in paragraph 6 as Postcomm may by notice in writing require.
8. Information required to be furnished under paragraph 7 shall be furnished in such manner, in such form, at such place and at such times as Postcomm may reasonably require.

Condition 19

Replace the existing condition with the following condition.

Condition 19: Prices for postal services

Obligation to continue to provide the Regulated Services

1. Except in so far as Postcomm on the application of the Licensee and after consultation with the Council directs otherwise, the Licensee shall at all times offer and provide the Regulated Services on as wide a basis within the United Kingdom as they were offered and provided in the month ending on 31 March 2006.
2. Subject to paragraphs 3 and 4, the Licensee shall at all times offer and provide the Regulated Services on terms other than price that are no less beneficial to the persons for whom the services are offered and provided than the terms on which they were offered and provided in March 2006.
3. In relation to any of the Regulated Services, the Licensee may apply to Postcomm at any time for approval to change the terms other than price on which the service is offered and provided and if the service is not an Access Service and if –
 - (a) the application is accompanied by a statement of agreement from the Council, and
 - (b) Postcomm has not, within one calendar month of receipt of the application, given notice in writing to the Licensee that Postcomm –
 - (i) rejects the application as being unclear or insufficiently detailed, or
 - (ii) is of the view that consultation is required before the change may be introduced,then the terms on which the service is offered may be changed from the end of that period of one month in the manner specified in the notice given by the Licensee;
4. Where an application by the Licensee under paragraph 3 relates to an Access Service, or relates to a service that is not an Access Service and is

not accompanied by a statement of agreement from the Council, or Postcomm has indicated pursuant to paragraph 3(b)(ii) that consultation is required then, if Postcomm has –

- (a) consulted with the Council and with such other persons as it sees fit,
- (b) considered such further information (if any) as it may required to be furnished, and
- (c) issued to the Licensee a direction in writing stating that it has concluded that the terms on which the service in question is offered may be changed in the manner applied for by the Licensee with such modifications (if any) as may be specified in the direction,

then with effect from such date as may be specified in the direction those terms may be changed as provided in the direction.

Overall price controls for Tariff Baskets A, B and Access services

5. Except in so far as Postcomm, on the application of the Licensee in the interest of relieving users of postal services from adverse volatility in prices charged by the Licensee for postal services, may by direction in writing agree otherwise the Licensee shall take all reasonable steps to ensure that in each Formula Year after Formula Year $t = 0$ it sets prices for the Controlled Services in each of Baskets A and B so as to meet the following conditions, namely–
- (a) in respect of each of Baskets A and B –

$$ER_t \leq AR_t$$

where –

ER_t is the revenue earned from the Basket in Formula Year t calculated on an accruals basis in accordance with paragraph 6, and

AR_t is the allowed revenue for the Basket in Formula Year t calculated in accordance with paragraph 7, and

- (b) in respect of Access Services the following conditions are met –
- (i) when the service is priced on a uniform national basis, for each Price Range in respect of each Access Service, s ,

$$rp_{st} \leq rp_{yt} * \left(\frac{100 - D_{sy}}{100} \right)$$

where –

rp_{st} is the representative price in Formula Year t for any Price Range for any Access Service, s , established in the manner provided for the establishment of rp_{prt} in paragraph 10(c),

rp_{yt} is the representative price in Formula Year t for the same Price Range of a corresponding end-to-end service in Basket B, numbered y , established in the manner provided for the establishment of rp_{prt} in paragraph 10(c), and

D_{sy} is a price differential, calculated as at 31 March 2006, between the price for each Price Range of an Access Service, s , and the price for each Price Range of its corresponding end-to end service, y , where –

for $s = 43, y = 29$,

for $s = 44, y = 30$,

for $s = 45, y = 30$,

for $s = 46, y = 21$,

for $s = 47, y = 22,$

for $s = 48, y = 26,$ and

for $s = 49, y = 39,$ and

s and y refer to the numbers of Controlled Services listed in paragraph 38(a), and

D_{sy} , shall be calculated using the formula –

$$D_{sy} = \left(\frac{rp_{yt=0} - rp_{st=0}}{rp_{yt=0}} \right) * 100$$

where

$rp_{st=0}$ is the representative price on 31 March in Formula Year $t = 0$ for any Price Range for any Access Service, s , established in the manner provided for the establishment of rp_{prt} in paragraph 10(c), and

$rp_{yt=0}$ is the representative price on 31 March in Formula Year $t = 0$ for the same Price Range for the corresponding Controlled Service, y , established in the manner provided for the establishment of rp_{prt} in paragraph 10(c), and

provided that in Formula Years subsequent to Formula Year $t = 2$, if

- (aa) Postcomm has received a request to review any of the values of D_{sy} as calculated above from the Licensee, or from any person to whom the Licensee provides an Access Service,
- (bb) Postcomm has given not less than three months' notice of its intention to review such values to the Licensee, to

all persons to whom the Licensee provides an Access Service and to the Council, and

(cc) Postcomm has given to the persons referred to in paragraph (bb) the opportunity in that period to make representations to it in relation to the relevant request,

then, to the extent that Postcomm determines that it is appropriate, and if the Licensee consents, there shall be substituted such other value or values for D_{sy} (if any) as Postcomm may determine by direction in writing, and

(ii) when the service is not priced on a geographically uniform basis the Licensee shall set prices by reference to Zones and, for each Price Range in respect of each service, the Zone 3 price shall equal the uniform national price calculated in accordance with paragraph (i) and for each Price Range in respect of every other Zone the price shall be the same multiple of the Zone 3 price as it was on 31 March 2006, provided that in Formula Years subsequent to Formula Year $t = 2$, if

(aa) Postcomm has given not less than three months' notice to the Licensee, to all persons to whom the Licensee provides an Access Service and to the Council of its intention to review the relationship of Zone 3 prices to uniform national prices or the relationship of Zone 3 prices to prices in other Zones, and

(bb) Postcomm has given to the Licensee, to the persons referred to in paragraph (aa) the opportunity in that period to make representations to it in relation to its intention,

then, to the extent that Postcomm determines that it is appropriate, and if the Licensee consents, there shall be substituted such other relationships (if any) between Zone 3 prices and national uniform prices and between Zone 3 prices

and prices in other Zones as Postcomm may determine by direction in writing.

6. For each Formula Year, t , the term ER_t shall be calculated for each of Baskets A and B using the formula –

$$ER_t = \sum_{s=a}^{s=b} er_{st}$$

where –

er_{st} is the revenue earned from the conveyance of postal packets by a Controlled Service, s , in Formula Year t , and

s is the number of a Controlled Service within a Basket, as set out in paragraph 38(a) and

for Basket A $a = 1$ and $b = 13$, and

for Basket B $a = 14$ and $b = 42$.

7. For each Formula Year the term AR_t shall be calculated for each of Baskets A and B using the formula –

$$AR_t = BR_t - K_t + C_t + PP_t + G_t$$

where –

BR_t is the revenue from the services in the Basket in Formula Year t that would be derived from pricing those services in accordance with a basket of prices determined in the manner described in paragraphs 8, 9 and 10,

K_t is an adjustment factor for over or under recovery of revenue from the services in the Basket in Formula Year $t - 1$, calculated in accordance with paragraph 11,

C_t is a customer service quality factor for services in the Basket in Formula Year t calculated in accordance with paragraph 12,

PP_t is a pension deficit pass-through for Formula Year t calculated in accordance with paragraph 13, and

G_t is a volume growth or decline factor for Formula Year t calculated in accordance with paragraph 14.

8. The term BR_t shall be calculated—

(a) for Basket A using the formula

$$BR_t = \left(\frac{100 - QP}{100} \right) * \left(\sum_{s=1}^{s=9} br_{st} \right) + \sum_{s=10}^{s=13} br_{st}$$

and

(b) for Basket B using the formula

$$BR_t = \sum_{s=14}^{s=42} br_{st}$$

and

in the formulae used in paragraphs (a) and (b)

QP , the quality percentage, is 5 percentage points,

br_{st} is the revenue that would have been derived from a service, s , in Formula Year t if it had been calculated in accordance with paragraph 9, and

s is the number of one of the Controlled Services, as set out in paragraph 38(a) of this condition.

9. For any Controlled Service, s , in each of the Baskets A and B, the term br_{st} in paragraph 8 shall be calculated for any Formula Year, t , in accordance with the formula –

$$br_{st} = \sum_{pr=1}^{pr=n} (bp_{prt} * v_{prt})$$

in which –

n is the number of Price Ranges for the service,

v_{prt} is the number of postal packets conveyed in Formula Year t under each Price Range for the service, calculated as described in paragraph 10(a), and

bp_{prt} is the basket price for each of the Price Ranges for the service for Formula Year t calculated –

in Formula Year $t = 1$ using the formula –

$$bp_{prt} = bp_{pr(t=0)} * \left(\frac{100 + P_0}{100} \right)$$

in which –

P_0 is **6.2** percentage points for Controlled Services in both Baskets A and B, and

$bp_{pr(t=0)}$ is determined in the manner described in paragraph 10(b),
and

in subsequent Formula Years using the formula –

$$bp_{prt} = bp_{prt-1} * \left(\frac{100 + RPI_t - X}{100} \right) ,$$

in which –

RPI_t is the change in percentage points (whether of a positive or negative or zero value) between the average of the levels of the Retail Price Index published or determined with respect to each of the six months up to and including September in Formula Year $t - 1$ and the average of those levels with respect to each of the six months up to and including September in the preceding year, and

X is 1.5 percentage points for Controlled Services in Basket A and 3.5 percentage points for Controlled Services in Basket B.

10. The following provisions shall apply for the purpose of calculating terms used in paragraph 9.

(a) v_{prt} shall be calculated for each Price Range for each Controlled Service in each Formula Year after Formula Year $t = 0$ using the formula –

$$v_{prt} = \left(\frac{er_{prt}}{rp_{prt}} \right)$$

in which –

er_{prt} is the revenue earned from the conveyance of postal packets in that Formula Year in that Price Range for that service, and

rp_{prt} is the representative price in that Formula Year for postal packets conveyed in that Price Range for that service.

- (b) For any Price Range, pr , for any Controlled Service in Formula Year $t = 0$, $bp_{pr(t=0)}$ is a price that is fairly representative of the prices at which postal packets were conveyed in that Price Range on 31 March in that Year and shall be –
- (i) where there is a Modal Price for that Price Range for that service in that year and it has been Certified as fairly representative by the Auditors, that Modal Price, or
 - (ii) where there is not a Modal Price for that Price Range for that service on that date, such other price as the Auditors may have certified as being fairly representative of the price that prevailed for that Price Range for that service on that date, or
 - (iii) otherwise, such other price fairly representing the price for postal packets conveyed in that Price Range for that service on that date as Postcomm may reasonably determine on the basis of such financial and statistical advice as it may reasonably seek.
- (c) For any Price Range, pr , for any Controlled Service in Formula Year $t = 1$ and subsequent Formula Years, rp_{prt} is a price that is fairly representative of the prices at which postal packets are conveyed in that Price Range in that Formula Year and shall be –
- (i) where the Modal Price for that Price Range for that service in that year has been Certified as fairly representative by the Auditors, the Modal Price, or
 - (ii) where the Auditors have not Certified that Modal Price for that Price Range for that service in that year such other price fairly representing the price for postal packets conveyed in that Price

Range for that service in that year as Postcomm may reasonably determine on the basis of such financial and statistical advice as it may reasonably seek.

- (d) If the Licensee changes the price or prices at any Price Range for any Controlled Service within a Formula Year, then paragraph (c) shall be applied so as to give a value of rp_{prt} weighted pro-rata to the reasonable estimates of the Licensee of revenues received for postal packets conveyed by the Licensee within the Formula Year in that Price Range before and after the change in price or prices.

11. The correction factor K_t is calculated for each Basket for each Formula Year as follows –

- (a) in Formula Year $t = 1$
for Basket A using the formula –

$$K_t = K_{old} * \left(\frac{Arev}{Arev + Brev} \right) * \left(\frac{100 + i_t}{100} \right) ,$$

and for Basket B using the formula –

$$K_t = K_{old} * \left(\frac{Brev}{Arev + Brev} \right) * \left(\frac{100 + i_t}{100} \right) ,$$

- (b) and thereafter for each of Baskets A and B using the formula –

$$K_t = (ER_{t-1} - AR_{t-1}) * \left(\frac{100 + i_t}{100} \right) , \text{ and}$$

- (c) in the formulae in paragraphs (a) and (b) –

K_{old} is the value of K_t calculated in accordance with the Previous Control for Formula Year $t = 1$, of this control,

$Arev$ is the revenue earned in Formula Year $t = 0$ from the services in Basket A,

$Brev$ is the revenue earned in Formula Year $t = 0$ from the services in Basket B,

ER_{t-1} and AR_{t-1} are calculated in accordance with paragraphs 6 and 7 respectively for each of Baskets A and B for Formula Year $t - 1$, and

i_t is a rate of interest in percentage points which for each Basket is the Base Rate on 30 September in Formula Year $t - 1$ if $ER_{t-1} < AR_{t-1}$ and is that Base Rate + 4 percentage points if $ER_{t-1} > AR_{t-1}$.

12. The customer service quality factor, C_t , in any Formula Year, t , is zero for Basket B and for Basket A is the amount found using the formula –

$$C_t = \left(\frac{QP}{100} \right) * f_t * \left(\sum_{s=1}^{s=9} br_{st} \right)$$

where –

QP is 5 percentage points,

br_{st} is the revenue that would have been derived from a service, s , as defined in paragraph 38(a) if it had been calculated in accordance with paragraph 9,

f_t is a performance fraction for Formula Year t found using the formula –

$$f_t = \sum_{m=1}^{m=8} \left(\frac{(5 - n * (tm_{mt} - pm_{mt})) * mw_m}{5} \right)$$

where –

tm_{mt} is the Licensee's standard in percentage points in Formula Year t for each of the quality measures, m , set out in the table below,

pm_{mt} is the Licensee's performance in percentage points in Formula Year t against each of those quality measures,

n is a normalising factor which is 1 for quality measures $m = 1, 2, 3$ and 4 and 10 for quality measures $m = 5, 6, 7$ and 8,

mw_m is the weight applicable to each of those quality measures, as set out in the table below,

Quality of Service indicator	Measure			Standard (%) tm
	No m	Description	Weight mw	
First class stamped and metered transit time	1	% of items delivered by next working day delivery	34%	93.0
Second class stamped and metered transit time	2	% of items delivered by third working day	18%	98.5
Standard parcel transit time	3	% of items delivered by third working day	1%	90.0
European International Delivery	4	% of items delivered by third working day	7%	85.0

Postcode area floor	5	% of PCAs in which at least 90.5% of first class items delivered by the next working day	10%	100.0
Collection completion	6	% of collection points served daily	10%	99.9
Delivery completion	7	% of delivery walks completed daily	10%	99.9
Correct delivery	8	% of items delivered to correct addressee	10%	99.5

provided that –

in any evaluation of $(tm_{mt} - pm_{mt})$ for $m = 1, 2, 3$ and 4 in the formula for f_t above, –

if $(tm_{mt} - pm_{mt}) < 1$ then the value of $(tm_{mt} - pm_{mt})$ shall be taken to be 0 , and

if $(tm_{mt} - pm_{mt}) > 5$ then the value of $(tm_{mt} - pm_{mt})$ shall be taken to be 5 , and

in any evaluation of $(tm_{mt} - pm_{mt})$ for $m = 5, 6, 7$ and 8 in the formula for f_t above, –

if $(tm_{mt} - pm_{mt}) < 0.1$ then the value of $(tm_{mt} - pm_{mt})$ shall be taken to be 0 , and

if $(tm_{mt} - pm_{mt}) > 0.5$ then the value of $(tm_{mt} - pm_{mt})$ shall be taken to be 0.5 ,

and provided further that, on the application of the Licensee on the basis that industrial action has prejudiced or may prejudice the ability of the Licensee to finance the activities authorised or required by this Licence, the value of f_t for any Formula Year, t , may be increased to such number not exceeding 1 as Postcomm may, by direction in writing, determine.

Pension fund deficit change adjustment

13. The pension deficit pass-through, PP_t , shall be determined in accordance with the following provisions of this paragraph.

(a) PP_t shall be calculated for each Formula Year, t , using the formulae –
for Basket A –

$$PP_t = GAPP_t \left(\frac{VA_{t-1}}{VT_{t-1}} \right)$$

and for Basket B –

$$PP_t = GAPP_t \left(\frac{VB_{t-1}}{VT_{t-1}} \right)$$

where ⁶–

$GAPP_t$ is a gross attributable pension fund deficit pass through factor for the Licensee's letters business calculated in accordance with paragraph (b),

VA_{t-1} is the number of postal packets conveyed using services in Basket A in Formula Year $t - 1$,

VB_{t-1} is the number of postal packets conveyed using services in Basket B in Formula Year $t - 1$, and

⁶ The formula makes an apportionment between baskets A and B of the part of the overall pension pass through for the mails business which relates to the services in those baskets. It works by reference to volumes.

VT_{t-1} is the number of postal packets delivered through Royal Mail's delivery offices in Formula Year $t - 1$.

- (b) $GAPP_t$ the gross attributable pension deficit pass through factor for the Licensee's letters business shall be calculated for each Formula Year, t , using the formula –

$$GAPP_t = GPP_t * 0.80$$

Where ⁷–

GPP_t is a gross pension fund deficit pass through factor for the Funds calculated in accordance with paragraph (c),

and the fraction 0.80 is the number of employees and former employees of the Licensee's letters business entitled to deferred pensions and pensions from the Funds expressed as a proportion of the number of all persons entitled to deferred pensions and pensions from the Funds;

- (c) GPP_t the gross pension fund deficit pass through factor for each Formula Year, t , shall be zero in Formula Year $t = 0$ and in subsequent Formula Years shall be calculated using the formulae –

$$\text{if } (FAL_{t-1} / 10 + TGL_{t-1}) > 0 \text{ then } GPP_t = 0$$

$$\text{otherwise } GPP_t = -((FAL_{t-1} / 10) + TGL_{t-1}) / Y$$

where –

FAL_{t-1} is the higher of –

- (a) the actual value of the assets of the funds at 31 March in Formula Year $t - 1$, and

⁷ This formula is intended to ensure that only pension costs attributable to the UK mails business are charged to the mails business.

- (b) the projected benefit obligation of the Funds as at 31 March in Formula Year $t - 1$,

in each case as advised by the Actuary appointed by the Licensee for the purpose of International Accounting Standard 19,

TGL_t is the accumulated actuarial gains or losses incurred up to the end of Formula Year t and is calculated using the formula –

$$TGL_t = TGL_{t-1} + AGL_t + GPP_t$$

in which –

in Formula Year $t = 1$ the value of TGL_{t-1} shall be zero,

AGL_t is the actuarial gain or loss for the Funds (such that a gain is positive and a loss is negative) arising in Formula year t as advised by the Actuary appointed by the Licensee for the purpose of International Accounting Standard 19 and

Y is the number of years over which an element of a shortfall in the Funds which may be recovered through PP_t and is 10 .

Adjustment for volume growth or decline

14. The volume growth or decline factor, G_t , shall be determined in accordance with the following provisions of this paragraph.

- (a) G_t shall be calculated for each Formula Year, t , using the formulae –
for Basket A –

$$G_t = GG_t \left(\frac{VA_{t-1}}{VT_{t-1}} \right)$$

and for Basket B –

$$G_t = GG_t \left(\frac{VB_{t-1}}{VT_{t-1}} \right)$$

where ⁸–

GG_t is a gross volume growth or decline factor calculated in accordance with paragraph (b),

VA_{t-1} is the number of postal packets conveyed using services in Basket A in Formula Year $t - 1$,

VB_{t-1} is the number of postal packets conveyed using services in Basket B in Formula Year $t - 1$, and

VT_{t-1} is the number of postal packets delivered through Royal Mail's delivery offices in Formula Year $t - 1$; other than postal packets delivered using the Licensee's Door to Door service;

- (b) GG_t shall be zero in Formula Year $t = 1$ and thereafter shall be calculated for each Formula Year, t , using the formulae –

$$\text{if } \left(\frac{AV_{t-1} - FV_{t-1}}{FV_{t-1}} \right) * 100 < (-D)$$

$$\text{then } GG_t = \left(FV_{t-1} * \left(\frac{100 - D}{100} \right) - AV_{t-1} \right) * AR_{t-1} * R$$

$$\text{otherwise, if } (-D) \leq \left(\frac{AV_{t-1} - FV_{t-1}}{FV_{t-1}} \right) * 100 \leq D$$

$$\text{then } GG_t = 0$$

⁸ The formula makes an apportionment between baskets A and B by reference to volumes.

and if $\left(\frac{AV_{t-1} - FV_{t-1}}{FV_{t-1}} \right) * 100 > D$

then $GG_t = \left(FV_{t-1} * \left(\frac{100 + D}{100} \right) - AV_{t-1} \right) * AR_{t-1} * R$

where –

FV_{t-1} is the forecast volume of letters delivered through Royal Mail's delivery offices in Formula Year $t - 1$ as set out in the table below,

Formula Year, t	Forecast Volume of Letters, FV_t (million items)
1	20552
2	21205
3	21151
4	21176

AV_{t-1} is the actual volume of letters delivered through Royal Mail's delivery offices in Formula Year $t - 1$,

D is a dead band and is 2 percentage points,

AR_{t-1} is the average unit access revenue for Formula Year $t - 1$ found by dividing the aggregate revenue earned by the Licensee in that Formula Year from the provision of Controlled Services 43 to 48 by the number of postal packets conveyed by those Controlled Services in that Formula Year, and

R is cost to volume ratio and is 0.4.

Tariff rebalancing and Price Range price variation for Controlled Services

15. The obligations in paragraph 16 and 17 shall apply in addition to the obligations in paragraph 5 in each Formula Year after Formula Year $t = 0$.
16. Except as Postcomm on the application of the Licensee may by direction in writing approve otherwise, the Licensee shall take all reasonable steps to ensure

that in each Formula Year after Formula Year $t = 0$, in relation to each of the Controlled Services in Basket A and to each of the Controlled Services in Basket B, the following conditions are met –

(a) in Formula Year $t = 1$

for the lowest Price Range for Controlled Services 3, 4, and 13

$$p_t - p_{t=0} \leq 2 \text{ pence}$$

and, for all other Price Ranges for all other services,

$$p_t \leq p_{t=0} * \left(\frac{100 + P_0 + 3}{100} \right)$$

where –

p_t is a price for the conveyance within the Price Range for such service at any time in Formula Year t ,

$p_{t=0}$ is the price for the same conveyance on 31 March in Formula Year $t = 0$,

P_0 is 6.2 percentage points, and

(b) In Formula Year $t = 2$

$$\sum_{t-1}^t \Delta p_t \% \leq (\max \Delta p\%_{t-1} + RPI_t - X + 3 - c_t)$$

and

(c) in subsequent Formula Years,

$$\sum_{t-1}^t \Delta p_t \% \leq (\max \Delta p \%_{t-1} + RPI_t - X + 3 - c_t + c_{t-1})$$

where –

RPI_t is as defined in paragraph 9,

$\max \Delta p \%_{t-1}$ is $(3 + P_0)$ in Formula Year $t = 2$ and

in each subsequent Formula Year, t is

$$(RPI_{t-1} - X + 3 - c_{t-1} + c_{t-2}),$$

P_0 is 6.2 percentage points for Controlled Services in Baskets A and B,

$\Delta p_t \%$ is the change in price for the conveyance in year t as compared with year $t - 1$ in percentage points and is found by the application of the formula –

$$\Delta p_t \% = \left(\frac{p_t - p_{t-1}}{p_{t-1}} \right) * 100$$

in which –

p_t and p_{t-1} are as defined in paragraph (a),

X is 1.5 percentage points for Controlled Services in Basket A and 3.5 percentage points for Controlled Services in Basket B, and

c_t, c_{t-1} and c_{t-2} for Controlled Services $s = 1$ to $s = 9$ inclusive are found using the formula –

$$c_t = \left(5 - \left(\frac{C_{(t-1)} * 100}{\sum_{s=1}^{s=9} br_{s(t-1)}} \right) \right)$$

where –

$C_{(t-1)}$ is calculated in accordance with paragraph 12 and

$br_{s(t-1)}$ is the revenue that would have been derived from a service, s , in Formula Year $t = -1$ if it had been calculated in accordance with paragraph 9.

and for all other Controlled Services are zero.

17. Subject to paragraphs 18 and 19, in relation to each of the Controlled Services that are not required by Condition 2 to be provided as universal services the tariffs under which the services are offered shall be geographically uniform.
18. The Licensee may apply to Postcomm in writing at any time for approval to offer any of the Controlled Services (except Access Services) on a tariff under which prices are not geographically uniform and where Postcomm has confirmed by notice in writing that it has been provided by the Licensee with sufficient information of good quality to consider the application then paragraph 19 shall apply.
19. Where this paragraph applies, if Postcomm has not, after consultation with the Council and with such other persons as it sees fit, and after consideration of such further information (if any) as it may require to be furnished, within nine months of the date of giving notice under paragraph 18, by determination in writing indicated that it is not satisfied that the change sought by the Licensee will –
 - (a) be revenue neutral,
 - (b) lead to prices for the service being more reflective of costs than they would be if the existing geographically uniform tariff was retained,

- (c) be introduced in a manner that avoids unreasonable changes for users of the service, and
- (d) not lead to a circumvention of paragraph 1, and
- (e) not lead to a failure to provide services priced in a manner referred to in the Directive,

then the Licensee may change the tariff structure for the service to one in which prices are not geographically uniform in the manner proposed in its application.

Change to price basis for Controlled Services

- 20. The Licensee may apply to Postcomm in writing at any time for approval for a change to the criteria by which the price or prices for a Controlled Service are determined and where Postcomm has confirmed by notice in writing that it has been provided by the Licensee with sufficient information of good quality to consider the application then paragraph 21 shall apply.
- 21. Where this paragraph applies, if Postcomm has not, after consultation with the Council and with such other persons as it sees fit, and after consideration of such further information (if any) as it may require to be furnished, within nine months of the date of giving notice under paragraph 20, by direction in writing indicated that it is not satisfied that the change sought by the Licensee will –
 - (a) be revenue neutral,
 - (b) lead to prices for the service being more reflective of costs than they would be if the existing pricing basis was retained,
 - (c) be introduced in a manner that avoids unreasonable changes for users of the service,
 - (d) not lead to a circumvention of paragraph 1, and
 - (e) not lead to a failure to provide services priced in a manner referred to in the Directive,

then the Licensee may change the pricing criteria for the service in the manner approved in the direction.

- 22. Where the criteria by which the price or prices for a Controlled Service are determined are changed pursuant to paragraph 21, this Condition shall apply with

such variations as may be specified by Postcomm by direction in writing, including, without prejudice to the generality of this paragraph, –

- (a) variations to apply paragraph 5 to the service so that, notwithstanding the provisions of paragraph 9, the term br_{st} shall be calculated with reference to that service in such manner as may be provided in the direction, and
- (b) variations to provide for tariff rebalancing limitations by substituting, for paragraphs 15 and 16, an obligation on the part of the Licensee, in relation to the service, to take all reasonable steps to ensure that in each Formula Year the following conditions are met –

in Formula Year $t=1$

$$cu_t \leq cu_{t=0} * \left(\frac{100 - P_0 + 3}{100} \right)$$

and in any subsequent Formula Year, t ,

$$cu_t \leq cu_{t-1} * \left(\frac{100 + RPI_t - X + 3}{100} \right)$$

where –

cu_t , cu_{t-1} and $cu_{t=0}$ are the charges in Formula Year t and on the last day of Formula Years t , $t - 1$ and $t = 0$ respectively for any conveyance of postal packets having any particular Set of Price Determining Parameters,

P_0 is 6.2 percentage points for Controlled Services in Baskets A and B,

RPI_t is as defined in paragraph 9, and

X is 1.5 percentage points for Controlled Services in Basket A and 3.5 percentage points for Controlled Services in Basket B.

Unpriced services

23. Except as Postcomm on the application of the Licensee may by direction in writing approve otherwise, the Licensee shall provide free of charge the services named in the table below.

Return to sender as part of a Regulated Service	Poste restante
Petitions to Parliament	Petitions to Her Majesty the Queen
Certificate of Posting	

Miscellaneous services

24. Except as Postcomm on the application of the Licensee may by direction in writing approve otherwise, the Licensee shall take all reasonable steps to ensure that in each Formula Year after Formula Year $t = 0$ it sets prices for the Miscellaneous Services so as to meet the conditions –
in Formula Year $t = 1$

$$p_t \leq p_{t=0} * \left(\frac{100 - P_0}{100} \right)$$

and, in subsequent Formula Years

$$p_t \leq p_{t-1} * \left(\frac{100 + RPI_t - X}{100} \right)$$

where –

p_t represents any price for any service, or any amount of any service, that is a Miscellaneous Service in any Formula Year t ,

p_{t-1} and $p_{t=0}$ represent the equivalent price on 31 March in Formula Years $t - 1$ and $t = 0$ respectively,

P_0 is 6.2 percentage points,

RPI_t is as defined in paragraph 9, and

X is 1.5 percentage points.

Relaxation of condition

25. If –

- (a) the Licensee applies to Postcomm for a direction under this paragraph on the basis of –
 - (i) a fundamental change of circumstances outside the control of the Licensee which adversely affects the underlying economic performance of the Licensee to a significant extent, or
 - (ii) any other significant risk to the ability of the Licensee to –
 - (aa) meet its obligations under condition 2 of this Licence, or
 - (bb) finance the activities authorised or required to be provided by this Licence, and
- (b) the Licensee has provided a copy of its application to the Council, and
- (c) the Licensee, after being afforded an opportunity to make representations, has satisfied Postcomm that –
 - (i) in the case of an application made as provided in paragraph (a)(i), the change of circumstances described by the Licensee does adversely affect the underlying economic performance of the Licensee to a significant extent, or
 - (ii) in the case of an application made as provided in paragraph (a)(ii), the Licensee –

- (aa) is an efficient operator, or
 - (bb) is using all reasonable endeavours to become an efficient operator,
- and at least one of the risks referred to in paragraph (a)(ii) is significant, and

- (d) Postcomm after consultation with the Council and with such other persons as it sees fit has issued a direction in writing in response to the application by the Licensee,

then, to the extent and for so long as may be specified in that direction, this condition shall not apply.

26. Where the Licensee has applied to Postcomm for a direction that this Condition shall no longer apply to –

- (a) one of the Controlled Services listed in Paragraph 38(a), or
- (b) to that the supply of that Controlled Service to a particular class of users on the basis of competition in the provision of the service in question being sufficiently developed to protect the interests of users or of that class of users and where Postcomm has confirmed by notice in writing that it has been provided by the Licensee with sufficient information of good quality to consider the application then paragraph 27 shall apply.

27. Where this paragraph applies, if –

- (a) there is not outstanding a notice in writing from Postcomm to the Licensee to the effect that the number of applications made under paragraph 26 is such that they cannot all be dealt within the timescale referred to in paragraph (b), and
- (b) Postcomm has not, after consultation with the Council and with such other persons as it sees fit, and after consideration of such further information (if any) as it may require to be furnished, and within five months of the date of giving notice under paragraph 26, by direction in writing stated that it is of the opinion that competition in the provision of the Controlled Service in question is not sufficiently developed to protect the interests of consumers

or of the particular class of users referred to in the application of the Licensee,

then this Licence shall apply from the first day of the next Formula Year as if the price of the Controlled Services in question or the price at which that Controlled Service is supplied to that class of users is not restricted by this condition.

Advance notice of schedules of prices and close of year information

28. The Licensee shall, not later than 31 December in each Formula Year after Formula Year $t = 0$,
- (a) submit to Postcomm and to the Council a schedule showing all the prices for all the Price Ranges or other pricing criteria for each of the Controlled Services proposed to be charged or applied by the Licensee from the commencement of the following Formula Year, $t + 1$,
 - (b) publish the schedule submitted pursuant to paragraph (a) in a reasonably prominent and accessible manner on its website, and
 - (c) provide to Postcomm, with each schedule submitted pursuant to paragraph (a), a statement showing its estimates for Formula Year $t + 1$ for each of Baskets A and B of each of the parameters –

$ER,$	$BR,$	PP
$K,$	$C,$ and	G
29. Except as Postcomm on the application of the Licensee may by direction approve otherwise, the Licensee shall in each Formula Year t occurring after Formula Year $t = 0$ offer the Controlled Services in Baskets A and B to users at the prices shown in, or determined in accordance with, the schedule submitted in accordance with paragraph 28 in year Formula Year $t - 1$, subject to such changes as may result from variations permitted by paragraphs 15 to 22.
30. The Licensee shall, not later than 31 July after the end of each Formula Year after Formula Year $t = 1$, provide to Postcomm a statement showing its estimates for that year for each of Baskets A and B for each of the parameters –

<i>ER,</i>	<i>BR,</i>	<i>PP</i>
<i>K,</i>	<i>C,</i>	<i>G</i>
<i>rp_{st}</i>	<i>rp_{yt}</i> , and	<i>cu.</i>

31. The Licensee shall cause the statements and information referred to in paragraphs 28(c) and 30 to be reviewed by Auditors, who shall be required to report on whether, in their opinion,
- (a) in relation to paragraph 28(c), those statements contain forecasts of the parameters referred to in them that have been prepared in a reasonable and consistent manner that can be expected to give forecasts that are not misleading, and on the basis of information that has been obtained, recorded and processed in a competent manner, and
 - (b) in relation to paragraph 30, those statements contain estimates of the parameters referred to in them that have been prepared in a reasonable and consistent manner that can be expected to give estimates that are not misleading, on the basis of information that has been obtained, recorded, and processed in a manner that complies with Condition [14] of this Licence,

and the Licensee shall furnish Postcomm with a copy of each such report as soon as possible after receiving it.

Disapplication and termination of condition

32. This condition shall apply so long as this Licence continues in force but shall cease to have effect if –
- (a) the Licensee delivers a Disapplication Request to Postcomm and Postcomm agrees in writing to the Disapplication Request, or
 - (b) its application is terminated by notice given by the Licensee in accordance with either paragraph 36 or paragraph 37 below.
33. Any Disapplication Request shall be in writing, addressed to Postcomm, and shall state the Disapplication Date which shall be not earlier than the date occurring 18

months after the date upon which the Disapplication Request is delivered to Postcomm.

34. The Licensee shall not deliver any Disapplication Request to Postcomm before 30th September 2008.
35. The Licensee may at any time withdraw a Disapplication Request.
36. If –
- (a) Postcomm has not made a reference to the Competition Commission under section 15 of the Act relating to the modification of this condition before the beginning of the period of 12 months which will end with the Disapplication Date, and
- (b) the Licensee has not withdrawn the Disapplication Request,
- the Licensee may deliver written notice to Postcomm terminating the application of this condition with effect from the Disapplication Date or a later date save that no such notice may take effect before the end of a period of 12 months from the date of delivery of that notice to Postcomm.
37. If the Competition Commission makes a report on a reference made by Postcomm relating to the modification of this condition after a Disapplication Request and such report does not include a conclusion that the cessation of this condition, in whole or in part, operates, or may be expected to operate, against the public interest, the Licensee may within one month after the publication of the report by Postcomm deliver to Postcomm written notice terminating the application of the condition with effect from the Disapplication Date or a later date.

General interpretation

38. In this condition –
- (a) the terms in the left hand column in the table below have the meanings set out adjacent to them in the right hand column in the table –

Access Services	means the Controlled Services numbered 43 to 49;
Auditors	means competent independent auditors appointed by the Licensee with the approval of Postcomm;

Base Rate	is the base rate of interest offered by Barclays Bank plc, or, if Barclays Bank plc ceases to publish a base rate, such other rate of interest as Postcomm, after consultation with the Licensee, may reasonably determine;	
Basket A	means the Controlled Services numbered 1 to 14;	
Basket B	means the Controlled Services numbered 15 to 42;	
calculate on a revenue equated basis	means calculated using the method for establishing volumes of letters or postal packets set out in paragraphs 8 and 9 of this Condition;	
Certified	means certified as reasonably calculated, on the basis of professional financial and statistical analysis having due regard whenever possible to revenues invoiced by the Licensee by reference to stated prices and volumes and by reference to subcategories of the Controlled Services where, in the opinion of the Auditors, such reference is appropriate;	
Controlled Services	The Controlled Services and the numbers by which they are referred to in this condition are the services referred to below and services substantially similar to those services–	
	No.	Service
	1	1st Class mail not conveyed by other services listed below;
	2	1 st Class Metered
	3	2nd Class mail not conveyed by other services listed below;
	4	2 nd Class Metered

	5	Standard Parcel;
	6	Airmail Europe;
	7	Airmail World Zone 1;
	8	Airmail World Zone 2;
	9	Surface Mail;
	10	Response Services 1 st Class;
	11	Response Services 2 nd Class;
	12	1 st Class Postage Paid Impression (PPI)
	13	2 nd Class Postage Paid Impression (PPI)
	14	Special Delivery (Next Day);
	15	Cleanmail OCR 1 st Class;
	16	Cleanmail CBC 1 st Class;
	17	Cleanmail OCR 2 nd Class;
	18	Cleanmail CBC 2 nd Class;
	19	Mailsort 120 OCR 1 st Class;
	20	Mailsort 120 CBC 1 st Class;
	21	Mailsort 120 OCR 2 nd Class;
	22	Mailsort 120 CBC 2 nd Class;
	23	Mailsort 700 OCR 1 st Class;
	24	Mailsort 700 CBC 1 st Class;
	25	Mailsort 700 OCR 2 nd Class;
	26	Mailsort 700 CBC 2 nd Class;

	27	Mailsort 1400 1 st Class;
	28	Mailsort 1400 Residues 1 st Class;
	29	Mailsort 1400 2 nd Class;
	30	Mailsort 1400 Residues 2 nd Class;
	31	Presstream 1 st Class;
	32	Packetpost 1 st Class;
	33	Packetpost 2 nd Class;
	34	Packetsort 8 1 st Class;
	35	Packetsort 8 2 nd Class;
	36	Flatsort 8 1 st Class;
	37	Flatsort 8 2 nd Class;
	38	Walksort 1 st Class;
	39	Walksort 2 nd Class;
	40	Mailsort 700 3;
	41	Mailsort 1400 3;
	42	Flatsort 1400 3;
	43	Access 1400
	44	Access 120 Letter
	45	Access 120 Flat & Packet
	46	Access 120 OCR
	47	Access 120 CBC
	48	Access 700 CBC

	49	Access Walksort
	and any question as to whether or not a service is substantially similar to a service referred to above shall be determined by such direction as may be issued by Postcomm;	
Conveyance	has the meaning given in section 6(6) of the Act;	
Disapplication Date	the date specified in a Disapplication Request from which the Licensee wishes Postcomm to agree that this condition shall cease to have effect;	
Disapplication Request	a written request delivered in accordance with paragraph 32 of this condition;	
Door to Door service	means the Licensee's service for the conveyance and delivery to every address in an area selected by the Licensee's customer of unaddressed letters weighing up to 100 grams;	
Formula Year	a year ending on any 31 st March during or immediately before the currency of this condition and for the purpose of this condition the Formula Years are numbered as follows –	
	<i>t</i>	Year to 31 March
	0	2006
	1	2007
	2	2008
	3	2009
	4	2010
	with 1 added	for each subsequent year;

the Funds	means the pension funds known as the Royal Mail Pension Plan for the payment of pensions and deferred pensions to former employees and employees of the Licensee;	
Miscellaneous Services	the Miscellaneous Services are –	
	Proof of delivery	Private Boxes Transfer to PO Box 12 Months
	Recorded delivery	Response services Licence fees
	Redirection services	Ministerial Pouch services;
Modal Price	means, in any Formula Year, the price, after deduction of discounts, charged by the Licensee for the conveyance of postal packets at the mid weight price for a Price Range for a Controlled Service under the tariff applicable within that service which made the greatest contribution to total revenue for the service in Formula Year $t = 0$;	
Previous Control	this Condition 19 as it applied from 1 April 2003 until 31 March 2006;	
Price Range	means a weight range or a format and weight combination by reference to which a price for a Controlled Service is determined as published on 31 March 2006;	
Regulated Services	the Regulated Services comprise – (a) all the Controlled Services, (b) all the unpriced services listed in paragraph 23, (c) the Miscellaneous Services, and (d) Business Collections;	

	and all such services shall be more fully defined by reference to such descriptions of them as are contained in a table of definitions approved by Postcomm with the agreement of the Licensee for the purpose of this Condition and of Condition 4 ⁹ ;
Retail Price Index	the General Index of Retail Prices (for all items) published by the Office of National Statistics (or by any body to which the functions of that Office may be transferred); and if that index is not published for any month means any substituted index or index figures published by that Office for that month; and, in the absence of any substituted index, such other index as Postcomm may, after consultation with the Licensee, determine;
Set of Price Determining Parameters	any set of values for factors that determine the charge for having postal packets conveyed using a Controlled Service, which may include, but shall not be limited to, the weight of postal packets, the number of postal packets presented to the Licensee, the degree of sortation and the size or format of the postal packets; and
Zone	means one of the Zones numbered 1 to 5 adopted by the Licensee as at 31 March 2006 for the purpose of setting prices on a basis that is not geographically uniform and “zonal” and other cognate terms shall be construed accordingly;

- (b) unless the context requires otherwise and reference in this Condition to volumes of letters or other postal packets conveyed by the Licensee is a reference to those volumes calculated on a revenue equated basis;

⁹ This power of approval has been moved from its former position in Note 1 to Condition 4. In the modification document the approval made under that provision will need to be preserved for the purpose of this provision unless a new set of product descriptions is ready for approval when the modifications are introduced.

- (c) the mathematical and other notational symbols set out in the left hand column in the table below are intended to be applied in the manner set out in the right hand column of the table –

Symbol	Meaning and application
Σ	The symbol sigma indicates that a range of values for a variable parameter should be summed and $\sum_{i=1}^{i=n} X_i$ indicates that where a parameter X has a number of different values dependent on the value of another parameter, i , which occur on n different occasions, then the values of X for all n different values of i are to be summed;
*	Indicates that the parameters occurring on either side of it in a formula should be multiplied together;
Δ	Delta is used to indicate the change that occurs to the value of a parameter when moving from one set of circumstances or time to another;
<	When occurring in an expression such as $a < b$ means that the parameter represented by the letter a should meet the condition that it is less than the parameter represented by the letter b ;
>	When occurring in an expression such as $a > b$ means that the parameter represented by the letter a should meet the condition that it is greater than the parameter represented by the letter b .
\leq	When occurring in an expression such as $a \leq b$

	means that the parameter represented by the letter a should meet the condition that it is less than or equal to the parameter represented by the letter b .
\geq	When occurring in an expression such as $a \geq b$ means that the parameter represented by the letter a should meet the condition that it is greater than or equal to the parameter represented by the letter b .

New capital expenditure reporting condition

Insert a new condition after Condition 17

Condition 18: Capital expenditure planning and reporting

- 1 The Licensee shall keep Postcomm informed of its planning for capital expenditure and of the amount of its capital expenditure in pursuance of its plans, in accordance with the following provisions of this condition.
- 2 The Licensee shall ensure that Postcomm is provided at all times with a current copy of the policy and procedures approved and applied by its Board for the authorisation and control of expenditure on fixed assets, which procedures shall include a statement of the appraisal techniques adopted by the Licensee to assess the financial return on investments.
- 3 Not later than 31 March in any year the Licensee shall submit to Postcomm a statement in writing summarising the capital expenditure it expects to incur in the period of twelve months starting immediately after that date and in each of the two periods of twelve months occurring thereafter showing, for each category of expenditure referred to in paragraph 5, the expected internal rate of return based on discounted cash flow analysis on the expenditure and the expected payback period.
- 4 Not later than 30 September in any year the Licensee shall submit to Postcomm a statement in writing summarising –
 - (a) capital expenditure it has committed to spend, and
 - (b) capital expenditure it actually has incurredin the period of twelve months ending on the immediately preceding 31 March.
- 5 Except as Postcomm may agree otherwise, a statement submitted for the purpose of paragraph 3 or 4 shall show separately expected or actual capital expenditure on –
 - (a) land and buildings
 - (b) plant and machinery
 - (c) vehicles

- (d) computers and information technology items, and
- (e) other capital assets,

in each case subdivided by the period over which the assets acquired as a result of the expenditure will be depreciated in Royal Mail's published financial accounts.

- 6 A statement submitted for the purpose of paragraph 3 shall contain an explanation of any changes made in relation to any item included in the statement submitted in the previous year, including any downward revision to the expected internal rate of return.
- 7 A statement submitted for the purpose of paragraph 4 shall contain an explanation of any difference in excess of 5% between the amount of any item included in the statement and the amount shown as expected for that item in the most recent statement submitted under paragraph 3 which refers to it.
- 8 For the purpose of this condition capital asset includes –
 - (c) any asset not mentioned in paragraphs (a) to (d) of paragraph 5 that would fall within the description of intangible assets or of tangible asset for the purpose of Schedule 4 to the Companies Act 1985, and
 - (d) any asset employed for the purpose of the postal business under the provisions of a finance lease

Modifications to tidy up the Royal Mail Licence

1. Substitute “Royal Mail Group plc” for “Consignia plc” wherever the latter occurs.
2. Amend Condition 8 “Protecting the integrity of mail” to read –

“Condition 8: Protecting the integrity of mail

1. In this condition -
 - (a) the “Mail Integrity Code” means the code of practice set out in the Annex to this Condition established for the purposes of facilitating the achievement of the Mail Integrity Objectives, and
 - (b) the “Mail Integrity Objectives” mean the objectives set out in paragraph 1.1 of the Mail Integrity Code.
2. Unless Postcomm otherwise consents, the Licensee shall at all times comply with the Mail Integrity Code.”

with the Annex to the Condition unaltered.

3. Move the existing condition 21 entitled “Common Operational Procedures”, so that it appears after Condition 13 and re-number it as Condition 14.
4. Re-number all subsequent conditions accordingly.
5. Amend re-numbered condition 14 to read –

Condition 14: Common Operational Procedures

1. In this condition:
 - (a) “Access Agreement” means an agreement other than a Royal Mail Access Agreement between Licensees which permits access to a Licensee’s postal facilities;
 - (b) “Access Code” means a code relating to access to Royal Mail’s postal facilities established in accordance with Condition 9 in Schedule 2 to the licence granted to Royal Mail under section 11 of the Act;
 - (c) the “Code Objectives” means the objectives set out in paragraph 1.1 of the “Postal Common Operational Procedures Code”;

- (d) "Intermediary Agreement" means an agreement other than a Royal Mail Access Agreement between a Licensee and Royal Mail under which that Licensee delivers postal packets to Royal Mail for subsequent conveyance;
- (e) "Licensees" means the holders of licences under section 11 of the Act from time to time;
- (f) the "Postal Common Operational Procedures Agreement" means the default contract designated by Postcomm by direction given for the purpose of this condition generally and published on 31 December 2005 (as modified from time to time in accordance with paragraph 3 below) established for the purpose of giving effect to the Postal Common Operational Procedures Code in the absence of alternative contractual arrangements between Licensees;
- (g) the "Postal Common Operational Procedures Code" means the code of practice entitled "Common Operational Procedures – A Code of Practice" set out in the Annex to this Condition established for the purpose of facilitating the achievement of the Code Objectives;
- (h) "Royal Mail" means Royal Mail Group plc registered in England and Wales with company number 4138203 and having its registered office at 148 Old Street London EC1V 9HQ; and
- (i) "Royal Mail Access Agreement" means an agreement between Royal Mail and the Licensee or customer entered into pursuant to Condition 9 in Schedule 2 to the licence granted to Royal Mail under section 11 of the Act which permits access to Royal Mail's postal facilities.

Compliance with the code and adherence to the agreement

- 2. Unless Postcomm otherwise consents, the Licensee shall:
 - (a) comply with the Postal Common Operational Procedures Code,
 - (b) become and thereafter remain a party to the Postal Common Operational Procedures Agreement which shall apply insofar as
 - (i) it is consistent with, and deals with matters not provided for in, the terms and conditions of any Access Agreement, Intermediary

- Agreement or Royal Mail Access Agreement to which the Licensee is a party,
- (ii) it is consistent with, and deals with matters not provided for in, the terms and conditions of any Access Code to which the Licensee is a party,
 - (iii) the Licensee has not established alternative arrangements with other Licensees relating to the treatment of misdirected and miscollected mail;
- (c) at all times refrain from acting in a manner which is inconsistent with the Code Objectives or which is likely to prejudice the effective functioning of the Postal Common Operational Procedures Code;
 - (d) not use any information pertaining to the business or operations of another person (including information relating to that person's customers) obtained by virtue of being a party to any agreement of the type referred to in paragraph (b) in order to secure, or in a manner that reasonably could be expected to secure, any unfair commercial advantage;
 - (e) within one month of becoming a party to any agreement of the types referred to in paragraphs (i), (ii) and (iii) of paragraph (b), provide a copy of the terms of that agreement to Postcomm and such other information in relation to that agreement as Postcomm may require, and
 - (f) if nominated by Postcomm by direction in writing given for the purposes of this condition generally to the office of Secretary of the Postal Common Operational Procedures Agreement, perform the functions of that office in an efficient, timely, impartial and professional manner, subject to reimbursement by Postcomm of the costs reasonably incurred in the discharge of those functions.
3. The Postal Common Operational Procedures Agreement shall be deemed to be modified in accordance with this paragraph if:
- (a) Postcomm has received a proposal to change the Postal Common Operational Procedures Agreement from a person entitled under its provisions to make such a proposal, and

- (b) that proposal has been submitted to Postcomm in the manner, and containing the information, provided for in the Postal Common Operational Procedures Agreement, and
 - (c) Postcomm:
 - (i) is of the opinion that modification of the Postal Common Operational Procedures Agreement in the manner proposed will enable the Code Objectives better to be fulfilled,
 - (ii) has given notice of the proposed modification in accordance with paragraphs 5 and 6 below,
 - (iii) has considered any representations made in accordance with that notice and not withdrawn, and
 - (iv) has directed by a direction given for the purpose of this condition generally that the proposed modification be made.
4. A notice under paragraph 4(c)(ii) shall be in accordance with this paragraph if it states:
- (a) that Postcomm proposes to make the modification,
 - (b) the effect of the proposed modification,
 - (c) the reasons for the proposed modification, and
 - (d) the period (of not less than 28 days starting with the date of publication of the notice) within which representations may be made in relation to the proposed modification.
5. A notice under paragraph 4(c)(ii) shall be in accordance with this paragraph if it is given by:
- (a) serving a copy of the notice on each of the parties to the Postal Common Operational Procedures Agreement as at the date of such notice and on the Council, and
 - (b) publishing the notice in such manner as Postcomm considers appropriate for the purpose of bringing the matters included in the notice to the attention of persons likely to be affected by them.”

6. Correct all cross references in conditions to other conditions that have been re-numbered.