

Royal Mail's Price and Service Quality Review 2006-2010

Licence Modifications

June 2006

Executive Summary

- S.1 The purpose of Royal Mail's price and service quality control is to set maximum prices and minimum service quality standards for Royal Mail's regulated services from April 2006 whilst ensuring that Royal Mail can finance its licensed activities. This document explains the final changes made to the licence modifications proposed on 31 March 2006 for the price and service quality review to apply until April 2010. Royal Mail's licence was amended to incorporate these revised modifications on 25 May 2006. .
- S.2 Postcomm has made a very limited number of changes to the proposed licence modifications which it issued on 31 March 2006. These changes have been made to ensure that the licence correctly reflects the policy intention as written in the Final Proposals document and the Proposed Licence Modifications document and in response to consultation responses. The significant changes have been made to:
- Condition 4 - the definitions of Special Delivery and European International Delivery have been changed to ensure consistency with the policy intent and other parts of the licence.
 - Condition 7(5) – changes have been made to this Condition as a result of consultees' responses. The changes have been made to ensure that Royal Mail provides Postcomm with the necessary details of any agreements made through the tender process within seven days. The condition also now requires Royal Mail to notify the market about agreements won through tenders 14 days after the final day in the month when an agreement is struck. Both of these changes are designed to ensure transparency of Royal Mail's pricing behaviour and to allow Postcomm to respond to any anti-competitive behaviour (accidental or otherwise).
 - Condition 19(5) – changes have been made to this Condition to ensure that the licence properly reflects the policy intent in relation to price differentials for access services as set out in the Initial and Final Proposals.

S.3 Postcomm believes that with the above changes to the licence modifications proposed to give effect to the price and service quality review (and to Postcomm's decisions on the nature of the universal postal service) represent a proper discharge of its statutory duties and will contribute to the achievement of its vision for the market: *"A range of reliable, innovative and efficient postal services, including the universal service, valued by customers, and delivered through a competitive market"*. Key outcomes of the review are as follows:

- **Safeguarding the universal service.** The price control ensures Royal Mail has sufficient revenue to finance its licensed activities, which include its "one price goes anywhere" universal services. The price control is also sufficiently flexible to take into account significant changes in economic circumstances over the period of the control that are outside Royal Mail's control. If Royal Mail's volumes decline significantly or its pension deficit deteriorates substantially, risk sharing mechanisms are in place to enable Royal Mail to recover an appropriate amount of additional revenue.
- **Providing £1.2 billion for Royal Mail to invest in modernising its network.** This represents a significant increase in capital expenditure from the present control. The degree of mail automation and modernisation that this permits should help bring Royal Mail more in line with best practice among its European peers. It should enable Royal Mail radically to transform its ways of working and focus on customer service, innovation, quality, efficiency and flexibility.
- **Allowing Royal Mail an average of £320m a year towards reducing the significant deficit in its pension fund.** Postcomm has taken into account Royal Mail's pension deficit in assuring itself that the price control package has regard to the need for Royal Mail to finance its licensed activities. In addition to allowing Royal Mail a specific amount each year to contribute towards the deficit, it has also introduced a risk sharing mechanism which allows Royal Mail to pass through further costs to customers if the deficit increases beyond £5.9bn. This means that Royal Mail and the Pension Fund Trustees can now plan for the future with greater confidence and security. Going forward, Postcomm expects Royal Mail's management to take responsibility for the pension deficit and, as a commercial enterprise, to do all it can to manage it.

- **Requiring Royal Mail to increase its efficiency by at least 3% per year.**
Customers can expect that with the revenue from prices they pay providing funds for the capital expenditure programme and recovery of the pension deficit, Royal Mail will be able to save costs by becoming much more efficient. Postcomm expects Royal Mail to achieve these cost savings through innovation and genuine efficiency, rather than through a degradation of customer service such as later delivery times or earlier collections. Postcomm will be monitoring these areas to ensure that there is no degradation.
- **Encouraging competition through tougher regulation of third-party access and the extension of anti-competitive powers.** This will safeguard against the risk of “margin squeeze” for users of downstream access, which is currently the main route to market for new entrants. Postcomm will achieve this through freezing the current margins between access and analogous retail products for at least two years. The extension of the restraints in the licence against anti-competitive activity to cover all Royal Mail’s Letters business will enable Postcomm more effectively to safeguard the competitive process in respect of products that are outside the price control, including new products.

S.4 Since the end of the statutory notice period, Royal Mail has now agreed a financing package with the Government. As stated in previous documents Postcomm has set the price control package independently of any decision by the Government on its financing package, however Postcomm believes that the package offered by the Government will compliment the price control it has set.

1. Introduction

Purpose of this document

- 1.1 This document explains Postcomm's final licence modifications to Royal Mail's licence under the Postal Services Act 2000, to introduce the price and service quality controls for Royal Mail for the period from the expiry of the last control (scheduled for April 2006) until April 2010. The licence was modified on 25 May 2006. This document explains the final changes to Postcomm's licence modification proposals relating to Royal Mail's price and service quality control published on 31 March 2006.
- 1.2 This document outlines the responses that Postcomm received during the Statutory Notice period for the proposed licence modifications and explains the changes that have been made in response to them. It also briefly outlines other changes that Postcomm has made since the publication of the proposed licence modifications to ensure that the licence is consistent with the intended policy. It does not, however, contain an exhaustive discussion of all the issues relevant for the Price Control and Service Quality Review. Nor does it repeat the detailed discussion and analysis that supports all the licence modifications now proposed. This document is intended to be read in conjunction with previous price control documents.

Further potential changes to the price control

- 1.3 Postcomm envisages that this price control will be in place until 1 April 2010. However the licence conditions will continue in force until Royal Mail delivers a Disapplication Request. A Disapplication Request cannot be delivered before 30th September 2008 and must state a Disapplication Date which cannot be earlier than 18 months after the date of request. The price control therefore cannot end before 31 March 2010 but can continue beyond that date. However, in principle Postcomm can make changes to the licence in agreement with Royal Mail, following a consultation with stakeholders, or can refer the licence to the Competition Commission, at any time.
- 1.4 On 21 August 2006, Royal Mail will introduce Pricing in Proportion ("PiP") which will change the way Royal Mail determines its prices, moving from just weight to the size and weight of letters, packets and parcels. These changes will not require

any further changes to these final licence modifications.

- 1.5 There could be a change to the licence after April 2008 in relation to the required margin between access and retail products. As outlined in Chapter 4 of the Final Proposals, Postcomm has proposed an option for Royal Mail, other licensed operators or customers to ask Postcomm to consider a different margin between access and retail products after two years if there have been material changes in the relative upstream and downstream costs. The ability to amend the margin will be subject to agreement with Royal Mail as it requires a licence modification to Condition 19. In the absence of agreement a reference would need to be made to the Competition Commission to modify the licence.
- 1.6 This document is structured as follows
- Chapter 2 discusses the issues raised by stakeholders during the consultation and Postcomm's response to them;
 - Chapter 3 discusses changes made during the consultation by Postcomm to ensure that the licence accurately reflects the intention of the price and service quality review decision documents; and
 - Annex 1 contains the final licence modifications.

2. Responses to the proposed licence modifications

- 2.1 This chapter sets out Postcomm's response to the issues raised by stakeholders during the Statutory Notice period for the proposed licence changes.
- 2.2 Postcomm received three written responses to that final stage of consultation. Postcomm has received responses from the following organisations:
- Mail Competition Forum (MCF);
 - Postwatch; and
 - SMS
- 2.3 All the non-confidential responses to this and the earlier consultations are available from Postcomm's website (www.postcomm.gov.uk).
- 2.4 Royal Mail confirmed that it accepted the proposed licence modifications, amended in the manner described in this paper shortly before they were made.

Condition 7

Condition 7(5)

- 2.5 Condition 7(5) as proposed on 31 March 2006 was modified as compared with Postcomm's December 2005 Final Proposals to exempt Royal Mail from the requirements of Conditions 7(2) and 7(3), in situations where prices and terms had been entered into following a competitive tendering process.¹ Conditions 7(2) & 7(3) required Royal Mail (subject to any exempting direction) to notify Postcomm and Postwatch of its tariffs and of any changes to its prices and terms, not less than 3 months before they come into effect. These obligations covered all new products offered by Royal Mail (other than products offered in a tendering process) and included new products such as bespoke products and TMIs and trial products. Under condition 7(4) notifications under conditions 7(2) and 7(3) had to be published.

¹ A competitive tender process is one which must be open to other postal operators who can reasonably be expected to be capable of responding to it.

2.6 Condition 7(5) in the licence modifications proposed in December 2005 required Royal Mail, where prices and terms had been entered into following a competitive tendering process, to provide a copy of the contract to Postcomm within seven days of entering into it. The condition also required Royal Mail to provide Postcomm and Postwatch at the end of each calendar month with a statement setting out the main terms of all contracts entered into in the previous month and to publish that statement.

Respondents' views

- 2.7 The MCF argued strongly against the proposed changes to Condition 7(5) notified by Postcomm on 31 March as compared with the December 2005 Final Proposal. It believes that variations of products or new products offered through a tender process should be subject to the same three months notification prior to their being offered as is the case with other new products. It suggested that it was possible to require a three month notification after the contract had been won but before the service was provided to customers and without such scrutiny and transparency there was likely to be a string of complaints and potential market disruption. Alternatively it has argued that in many tender cases there would be a three month period between an operator winning a contract and the contract being signed, during which time Royal Mail could notify the market of the main terms of the contract.
- 2.8 In subsequent meetings to discuss its concerns the MCF also asked for the period for publication of Royal Mail's tenders to be reduced from the end of the month following that month in which the tender was won. It argued that the way the licence was proposed to be drafted it meant that it was possible for 60 days to elapse from the date of Royal Mail winning a tender until the tender was published.
- 2.9 The MCF also argued that applying a three month notice period to tenders need not be so restrictive if the notice period was, instead, a "quarantine" period which would apply after the award of a tender. The MCF said that this accorded with commonly applied practices in tenders.
- 2.10 Postwatch was concerned that Condition 7(5) allowed significant scope for Royal Mail to act in an anti-competitive manner with the potential to damage the emerging competitive environment. It made a comparison with the telecoms sector, where at the same stage of competitive supply, there were considerably

more requirements on BT, as a dominant operator, to pre-notify its prices and terms in tenders.

- 2.11 Postwatch also added that when Royal Mail provides competitive tender information to Postcomm, Postcomm must look at the associated costs for provision of the service together with other costs involved in providing such service for example partial haulage costs, personnel and marketing costs.

Postcomm's response

- 2.12 Postcomm notes that Royal Mail's obligation to provide a geographically uniform tariff for universal service purposes does not exclude its right, subject to the restraints of European and UK competition law, to conclude individual agreements on prices with customers². Postcomm had modified Condition 7(5) as compared with its December 2005 Final Proposals because of a concern that, as originally drafted, it could have the effect of preventing Royal Mail from responding to competitive tenders. This would restrict Royal Mail from competing and would reduce the choice available to users. On reflection, it appeared to Postcomm to be too restrictive.
- 2.13 In relation to MCF's argument for a "quarantine period" before a contract entered into through a tender could start to operate, Postcomm's judgement is that this is not a practical option. It is highly unlikely that any customer undertaking a competitive tendering process will be content with the outcome of that process being made public before it has concluded the contract. Additionally imposing a three month delay for a company between awarding a tender and Royal Mail being able to provide the service would be an unattractive option for customers undertaking a tender. Postcomm therefore believes that such a requirement would have the same effect as applying the three month notification generally, in that it would effectively prevent Royal Mail from responding to tenders and entering individual agreements which were not anti-competitive.
- 2.14 Postcomm is also optimistic that concerns about anti-competitive behaviour by Royal Mail will be met by both ex ante and ex post provisions elsewhere in Royal Mail's licence. Royal Mail is required to maintain headroom between its retail and equivalent access services, so it cannot use the tender process to cut its competitors' margins on products where an analogous access product exists.

² Postal Services Directive 97/67/EC Article 12, third indent.

Royal Mail also cannot price in a manner that is discriminatory, or predatory, under both its licence and under general competition law. If it were to attempt to do so in a tender, Postcomm would have the option of serving a provisional order on Royal Mail, instructing it to withdraw the offer.

- 2.15 However Postcomm agrees with the MCF's argument that there could be a significant period between the time Royal Mail wins a tender and the time the market is notified about the main terms and conditions of the contract. Therefore, Postcomm has decided to reduce the notification period from the end of the month following the month in which the contract is won (in Condition 7(5)(b)), to 14 days after the start of the month following the month in which the contract is won.
- 2.16 Postcomm has also modified the requirement in Condition 7(5)(a) of the licence for the information to be provided by Royal Mail to Postcomm within seven days of winning the contract, to deal with a situation when a contract has not been signed. Formerly Postcomm had required Royal Mail to provide a copy of the contract within seven days: this has now been modified so that if a signed copy of the contract is not available then Royal Mail must provide a summary of its main terms. This should then be followed by a copy of the written contract within seven days of being signed. In each case Royal Mail is also required to provide Postcomm with a statement detailing the differences from its standard terms for the most closely comparable controlled service.
- 2.17 Condition 7(5) of the licence as introduced in the licence modifications actually made by Postcomm therefore differs from the text proposed on 31 March 2006 in the manner described in paragraphs 2.16 and 2.17. Postcomm is preparing draft guidance for business users of mail services in the UK, explaining how the obligations in Royal Mail's licence are applied in relation to competitive tenders which include contract terms – including prices, terms and conditions, and bundling of services. The draft will be subject to a consultation exercise, which is expected to commence shortly.

Condition 7(6)

- 2.18 This condition requires Royal Mail to 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.

Respondent's view

- 2.19 Postwatch has argued that the condition needs to be amended so that Royal Mail is also required to display the 'title' of the Council and that it should be required in 'all **customer** explanatory literature'.

Postcomm's response

- 2.20 This is an issue that Postwatch had raised previously with Postcomm, as it felt that Royal Mail was not displaying the details of the Council sufficiently clearly on all information that it produced for customers. As a consequence of this Postcomm, prior to modifying the licence, voiced the concern to Royal Mail, which has addressed the matter in a manner which Postcomm regards as satisfactory.
- 2.21 Postcomm recognises the importance of Royal Mail clearly displaying details of the Council in the interest of customers, however it believes that the practices that are currently in place, reinforced by the requirements of the licence are sufficient to provide this clarity. Postcomm does not believe that it would further the interest of customers if the licence was modified as has been suggested by Postwatch.

Condition 9

Condition 9(2) and 9(6)(b)

- 2.22 Condition 9(2) of the Licence requires Royal Mail to provide an offer of the main terms on which it is prepared to offer access, within three months of receiving an access seeker's request, unless an alternative period is agreed in advance with Postcomm. For Royal Mail to provide an offer of the main terms within three months, an access seeker is required to make an application that meets a set of guidelines published for the purpose of the condition.
- 2.23 Condition 9(6) relates to the guidelines referred to under Condition 9(2). Royal Mail is able to provide guidelines about the information required by access seekers to start the process of making a request. The guidelines have to be approved by Postcomm. In the absence of guidelines being produced by Royal Mail and approved by Postcomm, Postcomm may publish guidelines for the purpose.

Respondent's view

- 2.24 The MCF argued that no guidelines are currently available, that there is no timetable for the production of the guidelines and until such guidelines exist it will not be possible for Postcomm to enforce Condition 9(2).
- 2.25 In relation to Condition 9(2), the MCF argued that there needs to be a rigid, short time period by which all terms are proposed by Royal Mail and if acceptable terms are not provided within this period, an applicant should be permitted to request a determination from Postcomm. Condition 9(4) states that an applicant can apply to Postcomm for a determination "if negotiations conducted pursuant to paragraph 2 fail to lead to an agreement." The MCF argued that this needs to be altered to make it clear that a determination is possible if the statement of the main terms is not acceptable or if agreement on the main terms and other terms is not reached within 30 days of the provision of the main terms by Royal Mail.

Postcomm's response

- 2.26 Postcomm has received a set of draft guidelines from Royal Mail. To ensure transparency, it published the guidelines on 7 June 2006 to seek stakeholder views on their appropriateness through a short consultation process. The consultation process is expected to last six weeks followed by the publication of the approved guidelines.
- 2.27 In the absence of guidelines Royal Mail is not obliged to offer the main terms within three months of receiving an access request. However, as under the existing Condition 9, Royal Mail is obliged to negotiate in good faith with a view to agreeing terms for access. Postcomm accepts there will be a short period without approved guidelines but considers the process to approve the guidelines with through consultation is relatively short in the context of a four year price control.
- 2.28 Postcomm considered at some length the process and timescales for Royal Mail to make an offer of terms for access following an access request. A two-stage approach, suggested by the MCF, whereby all other terms would need to be offered within a fixed period following the acceptance of main terms by the access seeker, is considered 'over-engineered'. Condition 9(4) does not prohibit an operator from seeking a determination after three months of making a request if the main terms offered are unacceptable or the offer of all remaining terms is not progressing satisfactorily. The access seeker can make a choice to request a

determination or continue negotiations with Royal Mail when offered the main terms. Overall, therefore, Postcomm is not persuaded that there is a need to make further amendments to Condition 9(4).

Condition 19

Condition 19(3)

2.29 Condition 19(3) refers to the process which Royal Mail must undertake for approval to change non-price terms. It states that if Royal Mail is able to agree a change to non-price terms with the Council then unless Postcomm objects within one month on the grounds that application is unclear or that it requires a consultation³, then this change can be made.

Respondent's view

2.30 Postwatch has raised a concern about the first part of the condition which would allow Royal Mail to agree a change directly with Postwatch. It has argued instead that Royal Mail should be required to make a formal application to Postcomm, copying the application for the change to Postwatch

Postcomm's response

2.31 Postcomm, in proposing a change to the process by which non-price terms are approved, was attempting to formalise the existing mechanism by which Postcomm consults Postwatch, trade associations and large customers about potentially adverse changes to non-price terms and conditions. However, Condition 19(4) allows Royal Mail to approach Postcomm simultaneously to Postwatch, therefore Postcomm considers that there is no need for a change in the licence in response to Postwatch's point.

Condition 19(26) and 19(27)

2.32 This part of the price control condition outlines a process for Royal Mail to apply to remove products from the control. Provided that the information that Royal Mail has presented to Postcomm is sufficient to assess the application, a product may be removed from the price control after five months, unless before the expiry of

³ A consultation in this context does not necessarily refer to a full public consultation, but rather a consultation with interested parties.

that period Postcomm determines that the product may not be removed from the control. If Postcomm does not make a statement, during this time, the relevant product will automatically be removed from the price control on the first day of the next Formula Year.

Respondent's view

- 2.33 Postwatch has responded that whilst it believes that five months is a reasonable period of time for Postcomm to reach a decision, it is concerned that there are insufficient resources within Postcomm to react within the given timeframes, particularly if it is already dealing with a number of other issues raised by Royal Mail.

Postcomm's response

- 2.34 Postcomm shares Postwatch's concern and is very aware of the importance of carrying out detailed analysis to ensure that products are not removed from the price control prior to there being sufficient competition in the market. However, this has to be balanced against Royal Mail's needs to have some certainty over which products will be included in the price control. Postcomm believes that the five months, as suggested in the proposed licence modifications, meets this balance and is a sufficient period in which to undertake the necessary analysis..

3. Changes to proposed licence modifications

- 3.1 This chapter outlines the changes that Postcomm has made to its notified modification proposals during the Statutory Notice period, following concerns that the proposed amendments notified on 31 March 2006 might not properly reflect Postcomm's intended policy as set out in the Final Proposals document and the Licence Modification notice.

Condition 4

Condition 4(8)(a)

- 3.2 This condition specifies the methodology which Royal Mail should adopt in monitoring its performance.
- 3.3 The condition has been modified to exclude Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account).
- 3.4 This exception reflects the fact that the performance of Royal Mail's Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account) is measured via Royal Mail's internal track and trace system. This system measures the great majority of items rather than a sample of items and is therefore more accurate than the results that would be provided if an end-to-end survey methodology was employed.

Condition 4(8)(b)

- 3.5 This condition requires Royal Mail to co-operate with an auditor appointed by the Council to audit the methodology for monitoring performance.
- 3.6 The condition has been modified to exclude Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account). This exception reflects the fact that the auditors employed by the Council are used to audit the end-to-end survey methodology required by Condition 8(4)(a) and that the Special Delivery product is excepted from this obligation.

Condition 4(8)(c)

- 3.7 This condition requires that those products for which quality of service is not monitored using the methodology referred to in Condition 4(8)(a) and (b), nevertheless are tested by an independent person appointed by Royal Mail with agreement of Postcomm.
- 3.8 The condition has been modified to include Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account). This change reflects the need to ensure that the accuracy of Royal Mail's Track and Trace system is independently monitored.

Annex to Condition 4 – notes

- 3.9 The definition of the Special Delivery (Next Day) product which is price controlled has been modified from Special Delivery (Next Day) sold through Post Offices to Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account).
- 3.10 This change has been made to reflect the policy intent in the Final Proposals and to ensure consistency with other parts of the licence.
- 3.11 The details of the European International Outbound scheduled service have also been changed. The modified licence now describes the product as the public tariff outbound international services within the scope of the Unipost External Monitoring System survey undertaken by International Postal Corporation on end-to-end quality of service measures for European cross border international priority mail.
- 3.12 This change was made in order to coincide with the methodology which is used to monitor European Outbound mail.

Condition 9

Condition 9(2)(b)

- 3.13 This Condition outlines the information that Royal Mail is required to give regarding the terms for proposed access agreement. The change in the proposed modifications to the provisions of this Condition is to replace 'Royal Mail' with 'the Licensee' this to make it consistent with the rest of the licence.

Condition 18

Condition 18(5)

- 3.14 This Condition outlines the information that Royal Mail is required to give to Postcomm in relation to capital expenditure planning and reporting. The change in this Condition is to replace 'Royal Mail' with 'the Licensee' this to make it consistent with the rest of the licence.

Condition 19

Condition 19(5)

- 3.15 Condition 19(5) is intended to regulate the minimum level of headroom between all current access products and their analogous retail products at levels existing in the market at publication of Postcomm's Licence Modifications Proposals Document in March 2006.
- 3.16 Since publication of the Licence Modifications, Royal Mail has sought to have condition 19(5) interpreted and applied in a different manner that would allow the minimum level of headroom to be reduced below the levels set in Postcomm's Final Proposals and Licence Modifications Proposals Documents.
- 3.17 The policy intention as discussed in Postcomm's Final Proposals Document (Chapter 4) and the Licence Modifications Proposals (Chapter 5) was to regulate the minimum level of headroom between access products and analogous retail product prices at current levels providing a clear guide to operators on the minimum level of headroom that is available to them.
- 3.18 Postcomm has amended Condition 19(5) to ensure that it unambiguously reflects the policy intent.

Condition 19(14)

- 3.19 This Condition outlines the volume adjuster mechanism. The change in this Condition is to replace 'Royal Mail' with 'the Licensee', to make the modifications consistent with the rest of the licence.

Annex 1 – Licence Modifications

POSTCOMM

(THE POSTAL SERVICES COMMISSION)

POSTAL SERVICES ACT 2000

SECTION 14

MODIFICATIONS TO THE CONDITIONS OF THE LICENCE HELD BY

ROYAL MAIL GROUP PLC

Whereas –

- (1) Royal Mail Group plc, registered in England and Wales as company number 4138203 and having its registered office at 148 Old Street London EC1V 9HQ (“the Licensee”), is the holder of a licence (“the Licence”) granted on 23 March 2001 under section 11 of the Postal Services Act 2000 (“the Act”) by the Postal Services Commission (“the Commission”);
- (2) The Licence authorises the Licensee to convey letters from one place to another in the United Kingdom and was modified on 1 April 2003 and 2 November 2005;
- (3) On 31 March 2006 the Commission published a notice under section 14(2) of the Act stating that it proposed to make modification to the conditions of the Licence, the effects of the modifications and the reasons for them and the period within which representations might be made in relation to the proposed modifications;
- (4) The period for the making of representations ended on Tuesday 2 May 2006 and since then the Commission has considered the representations which were made in accordance with the notice and not withdrawn;
- (5) The Commission has made changes to the proposed modifications to address issues arising from the representations made in accordance with the notice and arising otherwise in the course of the period for making modifications;
- (6) These changes to the proposed modifications are explained in the decision document which will accompany this instrument;

- (7) The Licensee has consented to the making of the modifications of the Licence hereinafter appearing.

The Commission, in the exercise of its functions under section 14 of the Act and in the discharge of its duties under sections 3 and 5 of the Act, hereby modifies the Licence as follows –

1 Condition 1

- 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, as promulgated from time to time by the International Accounting Standards Board (or by any successor to that body);”

- 1.2 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;”

- 1.3 Delete Paragraph 3.

2 Condition 2

- 2.1 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, 25, 26, 27 and 28 in the definition of Controlled Services 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 designate⁴ as exceptional –
 - (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 writing⁵, 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 2006 pursuant to what was then paragraph 3 of Condition 1 in Schedule 2 to this Licence shall apply for the

⁴ The current Direction was issued on 31 January 2006.

⁵ Approval issued 31 January 2003.

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.

3 Condition 4

3.1 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 by reference 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, whether by individual scheduled service or as a grouping of scheduled services where relevant, 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 which the performance of the Licensee falls when measured in relation to 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 expressed in minutes past an hour 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", and
- (i) the “specified collection time” of an access point is that period of time within which the Licensee endeavours to make a collection every working day in accordance with the Licensee’s classification of access points as at 1 December 2005 as either “commercial area”, “town/city area”, “rest of UK”, “deep rural”, “business box” or “Post Office branch”.

2. The Licensee shall at all times –

- (a) maintain an up to date 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 Directive⁶, and
 - (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 (including Business Collections from 1 April 2007 or such earlier or later date as Postcomm after consultation with the

⁶ 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 intra-Community cross-border mail	
Time limit	Objective
D + 3	85% of items
D + 5	97% of items

Council may determine) 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,

- (c) the Licensee shall notify Postcomm and the Council of the latest delivery times for the UK and the specified collection times and shall notify Postcomm and the Council of any changes to its latest delivery times and its specified collection 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 and of every re-classification of access points that will result in an access point's specified collection time starting earlier, within one month of such a change, and
 - (e) the Licensee shall publish its latest delivery times and its specified collection times and shall ensure any changes to the latest delivery times and specified collection 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

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.”

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 generic 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 generic product or service as if the generic 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 Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account) and 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) with the exception of Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account) and the international mail standard, 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 Special Delivery (Next Day) (other than when sold to users having an account with the Licensee buying the service using their account) and of the percentage of delivery routes completed each day and the percentage of collection points served each day (with the exception of the percentage of Business Collection points served each day prior to 1 April 2007 or such earlier or later date as Postcomm after consultation with the Council may determine), 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, from 1 April 2007, its performance in the provision of Controlled Services 39 to 45 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, or groupings of scheduled services where relevant, and the corresponding generic products, as set out in the table in note 1 to the Annex and standardised measures (with the exception of the percentage of Business Collection points served each day prior to 1 April

2007 or such earlier or later date as Postcomm after consultation with the Council may determine) 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 generic products and services as set out in the table in note 1 to the Annex and standardised measures (with the exception of the percentage of Business Collection points served each day prior to 1 April 2007 or such earlier or later date as Postcomm after consultation with the Council may determine) 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,
- (d) submit for publication a written annual report on its performance in respect of each of the scheduled services, or groupings of scheduled services where relevant, and the corresponding generic products, as set out in the table in note 1 to the Annex and standardised measures (with the exception of the percentage of Business Collection points served each day prior to 1 April 2007 or such earlier or later date as Postcomm after consultation with the Council may determine) relative to each of the corresponding scheduled standards (containing adjusted results in addition to unadjusted results where appropriate) to Postcomm and the Council for each period of twelve months, ending on 31 March and not later than three months from that date, and
- (e) include in any report submitted under this paragraph –
 - (i) details of its performance in respect of Controlled Services 39 to 45 in terms of the percentage of letters delivered by the end of the first working day after the day of collection or receipt by the Licensee, and

- (ii) details of its performance, by reference to the relevant scheduled standard, in Postcode Areas HS, KW and ZE as if standardised measure 9 applies.

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 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 to Postcomm and to the Council setting out for the

United Kingdom as a whole and, except as Postcomm may agree otherwise in writing –

- (a) categorised by relevant grouping of scheduled services 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,
- (b) for other claims, for each of the postcode areas, not later than three months from the end of the year to which they relate,
 - (i) the number of complaints received incorporating the number of 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 incorporating the number of 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, in so far as those actions are not set out in reports submitted pursuant to Condition 8 on the operation of the Licensee's mail protection procedures.

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 schedule of 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 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 not be 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

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	<93.0 but >92.0	92.0 to >88.0	88.0 or less
2	Grouping 2 Retail second class	98.5	<98.5 but >97.5	97.5 to >93.5	93.5 or less
3	Grouping 3 Bulk first class	91.0	<91.0 but >90.0	90.0 to >86.0	86.0 or less
4	Grouping 4 Bulk second class	97.5	<97.5 but >96.5	96.5 to >92.5	92.5 or less
5	Grouping 5 Bulk third class	97.5	<97.5 but >96.5	96.5 to >92.5	92.5 or less
6	Standard Parcels	90.0	<90.0 but >89.0	89.0 to >85.0	85.0 or less
7	European International Delivery	85.0	<85.0 but >84.0	84.0 to >80.0	80.0 or less
8	Special Delivery (Next Day)	99.0	Compensation in accordance with contractual specification		94 or less
Standardised measures					
9	Postcode area target % (delivered)	91.5	<91.5 but >90.5	90.5 to >86.5	86.5 or less
10	% of collection points served each day	99.90	<99.90 but >99.80	99.80 to >99.40	99.40 or less
11	% of delivery routes completed each day	99.90	<99.90 but >99.80	99.80 to >99.40	99.40 or less
12	% of items delivered correctly	99.50	<99.50 but >99.40	99.40 to >99.00	99.00 or less

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	Generic products	Controlled services
Retail first class	Stamped and metered 1c	1 ⁷ , 2
Retail second class	Stamped and metered 2c	3 ⁸ , 4
Standard parcel	Standard parcel	5
European International Outbound	Public tariff outbound international services within the scope of the Unipost External Monitoring System survey undertaken by International Postal Corporation on end-to-end quality of service measures for European cross border international priority mail	6
Special Delivery (Next Day)	Special Delivery (Next Day) other than when sold to users having an account with the Licensee buying the service using their account	14
Bulk 1	PPI 1c	12, 15, 16, 31, 33
	Mailsort 1	19, 20, 23, 25, 26, 35
	Presstream 1	29
	Response services 1	10 ⁹
Bulk 2	PPI 2c	13, 17, 18, 32, 34
	Mailsort 2	21, 22, 24, 27, 28, 36
	Response Services 2	11 ¹⁰
	Presstream 2	30
Bulk 3	Mailsort 3	37, 38

The Controlled Services referred to above consist of products and services as may be more fully defined by reference to a table of definitions approved by Postcomm for the purpose of this Annex with the agreement of the Licensee.

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 and international services or third class services respectively, in each case after the day of collection or receipt by the Licensee.

⁷ Stamped mail and Smart stamp only.

⁸ Stamped mail and Smart stamp only.

⁹ Excluding Freepost name and Packetpost Returns,

¹⁰ Excluding Freepost name and Packetpost Returns.

3. The service numbered 6 (Standard Parcels) is a second class service.
4. The standard for Standardised Measure 9 is the percentage of mail conveyed by the scheduled services in Grouping 1 delivered the first working after collection or receipt to be achieved or exceeded in each Postcode Area (excepting HS, KW and ZE) throughout the periods of 12 months ending at the end of March in each year, excluding the Christmas 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, excluding the Christmas period.

4 Condition 7

4.1 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. Except as Postcomm after consultation may by direction determine and subject to paragraph 5, 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. Except as Postcomm after consultation may by direction determine and subject to paragraph 5, 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. In relation to prices and terms applicable to contracts for the conveyance of postal packets entered into by the Licensee following a competitive tendering process conducted by a user which is open to other postal operators and to which such operators can reasonably be expected to be capable of responding, paragraphs 2 and 3 shall not apply but the Licensee shall –
- (a) within seven days of entering into any such contract, provide to Postcomm a copy of it, or, if a written contract has not then been concluded, a summary of its main terms including the detail referred to in paragraph (b) and the name of the customer, followed by a copy of the written contract within seven days of its conclusion, and in each case a statement of the differences from the Licensee's standard terms for the most closely comparable Controlled Service or Controlled Services and,
 - (b) submit to Postcomm and to the Council before the expiry of fourteen days after the expiry of every calendar month a statement setting out, in relation to all such contracts entered into by the Licensee in that month, the main terms of those contracts including –
 - (i) duration of contract,
 - (ii) prices charged (or the mechanism for the determination of prices),
 - (iii) weight and format of postal items that will be conveyed,
 - (iv) volumes anticipated by the contract,
 - (v) sortation requirements,
 - (vi) points at which mail may be injected into the Licensee's postal facilities,
 - (vii) times as which mail may be injected into the Licensee's postal facilities,
 - (viii) target delivery times for delivery by the Licensee and the percentage of letters to be delivered within such targets, and
 - (ix) the distribution of volumes of letters between postcode districts envisaged in the contract,

and, unless Postcomm by direction in writing provides otherwise, shall publish each such statement in a manner that will give reasonable publicity to it within seven days of its submission to Postcomm and to the Council.

6. 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.

5 Condition 9

- 5.1 Amend Part 1 to read –

Part 1

1. This part of this Condition shall apply if Postcomm has not issued a determination in writing pursuant to paragraph 1 of Part 2 of this Condition.
2. If any person who is a postal operator or user applies for 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 person applying for access provides to the Licensee the information in connection with his application which meets the requirements of guidelines established in the manner set out in paragraph 6 then the Licensee shall, within the period of three months commencing with the full provision of that information, provide to that person, a statement of the main terms on which, subject to agreement on other terms and conditions, it would be prepared to offer to provide access to its postal facilities, which statement shall include terms as to –
 - (i) price,
 - (ii) weight and format of postal items that will be accepted by the Licensee,
 - (iii) minimum volumes to be provided by the person seeking access,
 - (iv) sortation requirements of the Licensee,
 - (v) presentation requirements,
 - (vi) addressing requirements,

- (vii) points at which mail may be injected into the Licensee's postal facilities,
- (viii) times as which mail may be injected into the Licensee's postal facilities,
- (ix) the distribution of volumes of letters between postcode districts to be assumed by the Licensee for the purpose of making an offer,
- (x) target delivery times for delivery by the Licensee and the percentage of letters to be delivered within such targets,
- (xi) arrangements for compensation in the event of failure to meet delivery time targets,
- (xii) requirements for interface with information systems, and
- (xiii) conditions relating to the security of the Licensee's premises and operations.

3. Terms agreed following negotiations pursuant to paragraph 2 shall –

- (a) provide that any access prices shall be based on a reasonable allocation of costs,
- (b) be such that the licensee does not unduly discriminate between persons having access to its postal facilities or show undue preference towards any such person, and

in this paragraph, the determination of costs shall have regard, as appropriate, to the Licensee's obligations under Conditions 2 and 10(5) of this Licence.

4. If negotiations conducted pursuant to paragraph 2 fail to lead to agreement between the Licensee and any person seeking access to the Licensee's postal facilities pursuant to that paragraph and if Postcomm on the application of such a person –

- (a) has given the Licensee not less than 28 days' notice in writing that it proposes to give a direction to allow that person to have access to the Licensee's postal facilities on such terms as may be specified in the notice, and
- (b) has given to the Licensee the opportunity in that period of not less than 28 days to make representations to it in relation to its proposal to make such a determination, and

- (c) after considering such representations requires the Licensee by a direction based upon the principles set out in paragraph 3 to allow that person to have access to the Licensee's postal facilities on such terms as may be specified in the direction,

then the Licensee shall allow such access on such terms.

5. The Licensee shall -

- (a) except as Postcomm may by direction in writing provide otherwise,
 - (i) as soon as reasonably practicable after entering into an agreement for the conveyance of postal packets pursuant to, or in the manner anticipated by, this Condition, notify Postcomm and publish, in a manner which will ensure reasonable publicity for them, the main terms of the agreement (including the information referred to in sub paragraphs (i) to (xii) in paragraph 2(b) of this Condition), and
 - (ii) not commence the conveyance of postal packets under any agreement to which paragraph (i) applies before the expiry of one month from the date on which the main terms of that agreement are published in accordance with paragraph (i), and
- (b) publish a report on or before each 31 March during the term of this Licence setting out for each period of twelve months ending on the preceding 1 January particulars of the access given to its postal facilities pursuant to this Condition including the number of agreements in being during the period for access to its postal facilities the revenue derived from those agreements and the number of postal packets carried under those agreements.

6. The guidelines referred to in paragraph 2(b) shall be produced by the Licensee and shall be effective for the purpose of that paragraph when approved by Postcomm provided that –

- (a) where no guidelines have been produced by the Licensee or have been approved by Postcomm, the guidelines shall be such guidelines as may have been published for the purpose by Postcomm, and
- (b) guidelines established under this paragraph may be amended by the Licensee at any time subject to the approval of Postcomm.

6 Condition 11

6.1 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.

7 Condition 19

7.1 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. Except in relation to Access Services and 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. The Licensee may apply to Postcomm at any time for approval to change the terms other than price on which any service subject to the obligation in paragraph 2 is offered and provided 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 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 have 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 Point in respect of each Access Service, s ,

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

where –

p_{st} is the price at any time in Formula Year t for any Price Point for any Access Service, s ,

arp_{yt} is the Access Reference Price at the same time for the same Price Point for a corresponding end-to-end service in Basket B, numbered y , and

D_{sy} is a price differential, calculated as at 30 March 2006, between the price at each Price Point for an Access Service, s , and the Access Reference Price at the same Price Point for its corresponding end-to end service, y , where –

for $s = 39, y = 27,$

for $s = 40, y = 28,$

for $s = 41, y = 28,$

for $s = 42, y = 21,$

for $s = 43, y = 22,$

for $s = 44, y = 24,$

for $s = 45, y = 36,$ and

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

D_{sy} shall be calculated for each Price Point for each Access Service using the formula –

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

where

(aa) until the introduction of Pricing in Proportion

$ppp_{st=0}$ is the price on 30 March in Formula Year $t = 0$ at a Price Point for an Access Service, s , and

$arp_{yt=0}$ is the Access Reference Price on that date for the same Price Point for the corresponding Controlled Service, y , and

(bb) from the introduction of Pricing in Proportion $ppp_{st=0}$ and $arp_{yt=0}$ shall have such values at each Price Point as may be set out in or calculated pursuant to such direction as may be made by Postcomm for the purpose of this paragraph,

provided that for 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 for 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 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 uniform national 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 $b = 38$.

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 services in the Basket in Formula Year t calculated in accordance with paragraph 13, and

G_t is a volume growth or decline factor for services in the Basket in 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

$$BR_t = \sum_{s=14}^{s=38} br_{st}$$

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 , using 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 4.0 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(c), 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 0.14 percentage points for Controlled Services in Basket A and 1.96 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 established in the manner set out in paragraph (b).

(b) rp_{prt} is

(i) found, for any Price Range, pr , up to 1Kg for Controlled Services 1 to 4, 10 to 13, 25 to 36, and 38 in Formula Year $t = 1$, by the application of the formula –

$$rp_{prt} = \left(\frac{er_b + er_a}{v_b + v_a} \right)$$

in which –

er_b and er_a are the revenues earned from the conveyance of postal packets at that Price Range in that Formula Year in the periods before and after the introduction of Pricing in Proportion respectively and in the case of er_b shall be calculated by the apportionment to the Price Range in a manner approved by the Auditor of revenues earned at different weight steps which were used for the determination of prices before the introduction of Pricing in Proportion, and

v_b and v_a are the volumes of postal packets conveyed at that Price Range in that Formula Year in the periods before and after the introduction of Pricing in Proportion respectively and are found by the application of the formulae –

$$v_b = \left(\frac{er_b}{rp_b} \right) \text{ and } v_a = \left(\frac{er_a}{rp_a} \right)$$

in which –

er_b and er_a are as defined above, and

rp_b and rp_a are representative prices for the Price Ranges before and after the introduction of Pricing in Proportion respectively, as set out in tables published by the Licensee and approved by Postcomm in writing for the purpose of this paragraph but subject to modification on the recommendation of the Auditors, and

(ii) for every other Price Range for those Controlled Services and for each Price Range for every other Controlled Service, 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 –

(aa) 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

(bb) 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,

and if the Licensee changes the price or prices at any Price Range for any Controlled Service within a Formula Year, then paragraphs (aa) and (bb) shall be applied so as to give a value of rp_{prt} for the Formula Year by weighting values of rp_{prt} immediately before and after the change pro-rata to the reasonable estimates of the Licensee (or in the case of paragraph (bb) of Postcomm) of the numbers of postal packets conveyed by the Licensee within the Formula Year in that Price Range before and after the change in price or prices.

(c) $bp_{pr(t=0)}$ is –

(i) for any Price Range, pr , up to 1Kg for Controlled Services 1 to 3, 10 to 12, 25 to 36, and 38, the price published for that Price Range for

that Controlled Service in the Licensee's statement entitled "Pricing in Proportion – Indicative Prices – Amended November 2005", a copy of which has been placed on the register maintained by Postcomm pursuant to section 38 of the Act and for the same Price Ranges for Controlled Services 4 and 13 the prices published in that statement for Controlled Service 3, and

- (ii) for every other Price Range for those Controlled Services and for each Price Range for every other Controlled Service, a price that is fairly representative of the prices at which postal packets were conveyed in that Price Range on 31 March in that Formula Year and shall be –
 - (aa) 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
 - (bb) 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
 - (cc) where no price is certified by the Auditors under paragraphs (aa) or (bb) above, 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.

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 –

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

and for Basket B using the formula –

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

(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 Controlled 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 $m = 1, 2, 3, 4$ and 5 and 10 for quality measures $m = 6, 7$ 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 the next working day after posting	34%	93.0
Second class stamped and metered transit time	2	% of items delivered by the third working day after posting	18%	98.5
Standard parcel transit time	3	% of items delivered by the third working day after posting	1%	90.0

European International Delivery	4	% of items delivered by the third working day after posting	7%	85.0
Postcode area delivered floor	5	% of PCAs excluding HS, KW and ZE in which at least 90.5% of retail first class stamped and metered items are delivered by the next working day after posting	10%	100.0
Collection completion	6	% of collection points served each day	10%	99.9
Delivery completion	7	% of delivery routes completed each day	10%	99.9
Correct delivery	8	% of items delivered correctly	10%	99.5

provided that –

in any evaluation of $(tm_{mt} - pm_{mt})$ for $m = 1, 2, 3, 4$ and 5 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 $m = 6, 7$ 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 –

$$PP_t = GAPP_{t-1} * \left(\frac{RA_{t-1}}{RT_{t-1}} \right)$$

and for Basket B –

$$PP_t = GAPP_{t-1} * \left(\frac{RB_{t-1}}{RT_{t-1}} \right)$$

where –

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

RA_{t-1} is the revenue earned from Controlled Services in Basket A in Formula Year $t - 1$,

RB_{t-1} is the revenue earned from Controlled Services in Basket B in Formula Year $t - 1$ and.

RT_{t-1} is the revenue earned from all Controlled Services 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 –

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 found by the application of the following conditions and formulae –

if $(IC + TGL_{t-1}) > 0$,

then $GPP_t = 0$

if $IC \leq (-TGL_{t-1}) \leq \left(\frac{FAL_{t-1}}{10}\right)$,

then $GPP_t = -(IC + TGL_{t-1}) / Y$

otherwise

$$GPP_t = \left(\left(\frac{FAL_{t-1}}{10} \right) - IC \right) / Y - \left(\left(\frac{FAL_{t-1}}{10} \right) + TGL_{t-1} \right) / Z$$

where –

FAL_{t-1} is the present value of the projected benefit obligation of the Funds on the last day of the financial year ending in March in Formula Year $t - 1$ as recommended by the Actuary appointed by the Licensee for the purpose of International Accounting Standard 19 and set out in the Licensee's published audited accounts,

IC is an inner corridor within which risks associated with the volatility of the liabilities of the Funds lie with the Licensee and is **£1.3 billion** or such lower sum which is not less than **£0.5 billion** as Postcomm after consultation may by direction in writing determine on the

application of the Licensee on the basis of action by the Trustees of the Funds funded by the Licensee substantially to reduce such risks,

TGL_t is the accumulated unrecognised actuarial gains or losses of the Funds 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 $t = 0$ the value of TGL_{t-1} shall be a gain of £0.7 billion being the difference between the deficit in the Funds assumed by Postcomm for the purpose of the determination of P_0 and X in paragraph 9 of the condition (£4.6 billion) and the deficit in the Funds shown in the Licensee's published audited accounts for the last day of the financial year ending in March 2005 (£3.9 billion),

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 set out in the Licensee's published audited accounts but excluding –

- (i) in Formula Year $t = 1$, any amount in total in excess of £0.7 billion which is attributable to updated assumptions, as determined by the Actuary appointed by the Licensee for the purpose of Generally Accepted Accounting Principles relating to pensions and set out in the Licensee's published audited accounts at 26 March 2006, relating to longevity or other demographic factors for so long as those assumptions have not been verified in a valuation obtained for the purpose of section 224 of the Pensions Act 2004 which is to be completed on or before 31 December 2006, and
- (ii) in subsequent Formula Years any subsequent amounts which are attributable to further updated assumptions, as recommended by the Actuary appointed by the Licensee for the purpose of Generally Accepted Accounting Principles

relating to pensions and set out in the Licensee's published audited accounts in the previous financial year, relating to longevity or other demographic factors for so long as those assumptions have not been verified in a valuation obtained for the purpose of section 224 of the Pensions Act 2004,

Y is the number of years over which a first element of a shortfall in the Funds which may be recovered through PP_t and is 15, and

Z is the number of years over which a further element of a shortfall in the Funds which may be recovered through PP_t and is 10,

- (d) In any Formula Year, t , in relation to which an amount in respect of and not less than PP_t has not been paid into the Funds by the Licensee before the end of the financial year ending in March in that Formula Year or such later date as may be approved in writing by Postcomm, then PP_t shall be nil.

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 –

$$G_t = GG_t * \left(\frac{RA_{t-1}}{RGT_{t-1}} \right)$$

and for Basket B –

$$G_t = GG_t * \left(\frac{RB_{t-1}}{RGT_{t-1}} \right)$$

where–

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

RA_{t-1} is the revenue earned from Controlled Services in Basket A in Formula Year $t - 1$,

RB_{t-1} is the revenue earned from Controlled Services in Basket B in Formula Year $t - 1$, and

RGT_{t-1} is the total revenue earned by the Licensee in Formula Year $t - 1$ from the conveyance of postal packets delivered through the Licensee's delivery offices excluding postal packets delivered using Controlled Services 6 to 9 and excluding the Licensee's Door to Door service and Inward International Services.

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

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

then

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

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

then $GG_t = 0$

$$\text{and if } \left(\frac{IAV_{t-1} - IFV_{t-1}}{IFV_{t-1}} \right) * 100 > D$$

then

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

where –

IFV_t is an index of the forecast for the volume of postal packets delivered through the Licensee's delivery offices in Formula Year t excluding postal packets delivered using Controlled Services 6 to 9 and excluding the Licensee's Door to Door service and Inward International Services as set out in the table below,

Formula Year, t	Index Forecast for Volume of Postal packets, IFV_t
-1	100.00
0	101.14
1	100.21
2	103.40
3	103.14
4	103.26

IAV_t is an index calculated for each Formula Year, t , using the formula,

$$IAV_t = \left(\frac{AV_t}{AV_{(t=-1)}} \right) * 100,$$

where AV_t and $AV_{(t=-1)}$ are the numbers of postal packets delivered through the Licensee's delivery offices in Formula Years t and $t = -1$ respectively, excluding postal packets delivered using Controlled Services 6 to 9 and excluding the Licensee's Door to Door service and Inward International Services,

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 39 to 45 by the number of postal packets conveyed by those Controlled Services in that Formula Year,

R is cost to volume ratio and is 0.4, and

numbers of postal packets shall be calculated for the purpose of this paragraph on a revenue equated basis.

Tariff rebalancing and Price Range price variation for Controlled Services

15. The obligations in paragraph 16 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, 11 and 13

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

and, for all other Price Ranges for all other Controlled Services,

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

with both conditions being applicable separately both before and after the introduction of Pricing in Proportion and where –

p_t is the price for the conveyance within the Price Range for such service at any time in Formula Year t , and may have two values, one applicable before, and the other applicable after, the introduction of Pricing in Proportion,

$p_{t=0}$ is the price for the same conveyance on 31 March in Formula Year $t = 0$, provided that if there is a price for the same conveyance published in the Licensee's statement entitled "Pricing in Proportion – Indicative Prices – Amended November 2005", then, from the introduction of Pricing in Proportion, $p_{t=0}$ shall be that price,

P_0 is 4.0 percentage points, and

(b) in Formula Year $t = 2$ for all Price Ranges for all Controlled Services

$$\text{or } \sum_{t=1}^t \Delta p_t \% \leq (RPI_{t-1} + RPI_t + P_0 - X + 6 - c_t + pp_t + g_t)$$

(c) in subsequent Formula Years, for all Price Ranges for all Controlled Services

$$\sum_{t-1}^t \Delta p_t \% \leq (RPI_{t-1} + RPI_t - 2X + 6 - c_t + c_{t-2} + pp_t - pp_{t-2} + g_t - g_{t-2})$$

and in paragraphs (b) and (c) –

RPI_t and RPI_{t-1} are defined as in paragraph 9,

$\Delta p_t\%$ is the change in price for the conveyance in Formula Year t as compared with Formula 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 provided in paragraph (a) for the period after the introduction of Pricing in Proportion,

X is 0.14 percentage points for Controlled Services in Basket A and 1.96 percentage points for Controlled Services in Basket B, and

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

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

in which –

$C_{(t-1)}$ is calculated in accordance with paragraph 12 and for all other Controlled Services are zero.

pp_t , and pp_{t-2} for Controlled Services $s = 1$ to $s = 38$ inclusive are found using the formulae –

for Controlled Services in Basket A

$$pp_t = \left(\frac{PP_t}{\sum_{s=1}^{s=13} br_{s(t-1)}} \right) * 100$$

in which –

PP_t is PP_t calculated in accordance with paragraph 13(a) for Basket A, and

and for Controlled Services in Basket B

$$pp_t = \left(\frac{PP_t}{\sum_{s=14}^{s=38} br_{s(t-1)}} \right) * 100$$

in which –

PP_t is PP_t calculated in accordance with paragraph 13(a) for Basket B, and

g_t , and g_{t-2} for Controlled Services $s = 1$ to $s = 38$ inclusive are found using the formulae –

for Controlled Services in Basket A

$$g_t = \left(\frac{G_t}{\sum_{s=1}^{s=5} br_{s(t-1)} + \sum_{s=10}^{s=13} br_{s(t-1)}} \right) * 100$$

in which –

G_t is G_t calculated in accordance with paragraph 14(a) for Basket A, and

and for Controlled Services in Basket B

$$g_t = \left(\frac{G_t}{\sum_{s=14}^{s=38} br_{s(t-1)}} \right) * 100$$

where

G_t is G_t calculated in accordance with paragraph 14(a) for Basket B, and

in each of the five formulae immediately above, $br_{s(t-1)}$ is the revenue that would have been derived from a Controlled Service, s in Formula Year $t - 1$ if it had been calculated in accordance with paragraph 9.

Geographic price uniformity

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 (except Access Services priced on a zonal basis and provided under contracts entered into on or before 1 April 2006 and any Access Service subsequently provided under a contract having all the terms referred to in paragraphs (i) to (xii) of paragraph 2(b) of Condition 9 in common with such a contract) 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 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. Without prejudice to Pricing in Proportion which may be introduced on or after 21 August 2006 subject to compliance by the Licensee with such direction in respect of the provision of information to users of postal services as may be made in writing by Postcomm, 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 the tariff rebalancing provisions set out in paragraphs 15 and 16 so that, as far as possible in the circumstances, they may apply for the benefit of users of postal services as effectively after any change made pursuant to paragraph 21 as they applied before that change.

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 4.0 percentage points,

RPI_t is as defined in paragraph 9, and

X is 0.14 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, in respect of Controlled Services numbered 1 to 38, not later than 31 December and in respect of Controlled Services numbered 39 to 45 not later than 14 January, in each Formula Year after Formula Year $t = 0$,
- (a) submit to Postcomm and to the Council schedules showing all the prices for all the Price Ranges or other pricing criteria for each of those Controlled Services proposed to be charged or applied by the Licensee from the commencement of the following Formula Year, $t + 1$,
 - (b) publish the schedules 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 –

<i>ER</i> ,	<i>BR</i> ,	<i>PP</i>
<i>K</i> ,	<i>C</i> , and	<i>G</i>
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> , and	<i>rp_{yt}</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 has been made 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.

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 Reference Price	means the price at a Price Point for the conveyance of postal packets by a Controlled Service under the tariff applicable within that service which makes the greatest contribution to total revenue for the service in the Formula Year in which the price is being determined reduced by the maximum amount of all the discounts available at the time of determination irrespective of any qualification conditions for such discounts;
Access Services	means the Controlled Services numbered 39 to 45;
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 13;
Basket B	means the Controlled Services numbered 14 to 38;

calculated 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 and cognate terms shall be construed accordingly;																						
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–																						
	<table border="1"> <thead> <tr> <th>No. s</th> <th>Service</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>First Class mail not conveyed by other services listed below;</td> </tr> <tr> <td>2</td> <td>First Class Metered</td> </tr> <tr> <td>3</td> <td>Second Class mail not conveyed by other services listed below;</td> </tr> <tr> <td>4</td> <td>Second Class Metered</td> </tr> <tr> <td>5</td> <td>Standard Parcel;</td> </tr> <tr> <td>6</td> <td>Airmail Europe;</td> </tr> <tr> <td>7</td> <td>Airmail World Zone 1;</td> </tr> <tr> <td>8</td> <td>Airmail World Zone 2;</td> </tr> <tr> <td>9</td> <td>Surface Mail;</td> </tr> <tr> <td>10</td> <td>Response Services 1st Class;</td> </tr> </tbody> </table>	No. s	Service	1	First Class mail not conveyed by other services listed below;	2	First Class Metered	3	Second Class mail not conveyed by other services listed below;	4	Second 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;
	No. s	Service																					
	1	First Class mail not conveyed by other services listed below;																					
	2	First Class Metered																					
	3	Second Class mail not conveyed by other services listed below;																					
	4	Second 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	First Class Postage Paid Impression (PPI)
	13	Second Class Postage Paid Impression (PPI)
	14	Special Delivery (Next Day) other than when sold to users having an account with the Licensee buying the service using their account;
	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 1 st Class;
	24	Mailsort 700 2 nd Class;
	25	Mailsort 1400 1 st Class;
	26	Mailsort 1400 Residues 1 st Class;
	27	Mailsort 1400 2 nd Class;
	28	Mailsort 1400 Residues 2 nd Class;
	29	Presstream 1 st Class;
	30	Presstream 2 nd Class;

	31	Packetpost 1 st Class;
	32	Packetpost 2 nd Class;
	33	Packetsort 8 1 st Class (including Flatsort 8 1 st Class);
	34	Packetsort 8 2 nd Class (including Flatsort 8 2 nd Class);
	35	Walksort 1 st Class;
	36	Walksort 2 nd Class;
	37	Mailsort 700 3;
	38	Mailsort 1400 3 (including Flatsort 1400 3);
	39	Access 1400
	40	Access 120 Letter
	41	Access 120 Flat & Packet
	42	Access 120 OCR
	43	Access 120 CBC
	44	Access 700 CBC
	45	Access Walksort
	<p>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, and</p> <p>for the purposes of Condition 14 and of paragraphs 6 to 12 of this Condition, Controlled Service 26 shall be regarded as the same service as Controlled Service 25 and Controlled Service 28 shall be regarded as the same service as Controlled Service 27;</p>	

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
	-1	2005
	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 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 Point	means any weight expressed in whole grams by reference to which a price for the conveyance of postal packets for a service may be determined and where a tariff provides for prices to depend also on the format of a postal packet and the same weight gives rise to different prices under different formats that weight shall comprise a distinct Price Point under each format;	
Price Range	means a weight range or a format and weight combination by reference to which a price for a Controlled Service is determined being from 1 April 2006 a weight range or a format and weight combination set out in Table 1 of the tables published by the Licensee and approved by Postcomm for the purpose of paragraph 10(b)(i);	
Pricing in Proportion	the revised structure for the pricing of certain of the Licensee's Controlled Services to be introduced in August 2006 and described in the statement of the Licensee referred to in paragraph 10(c)(i);	
Regulated Services	the Regulated Services comprise – (a) all the Controlled Services, (b) all the unpriced services listed in paragraph 23,	

	<p>(c) the Miscellaneous Services, and</p> <p>(d) Business Collections;</p> <p><i>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;</i></p>
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;
- (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;
/	Indicates that the parameter occurring to the left of it in a formula should be divided by the parameter to the right of it;
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 <i>b</i> .
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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 –
 - (a) 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 in each category of expenditure referred to in paragraph 5, and
 - (b) showing, for each investment, expected internal rates of return, based on discounted cash flow analysis, on the expenditure and the expected payback period.
- 4 No later than 30 September in every year occurring after 2006 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 the Licensee'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 shown in respect 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 –
 - (a) any asset not mentioned in paragraphs (a) to (d) of paragraph 5 that would fall within the description of intangible assets or of tangible assets for the purpose of Schedule 4 to the Companies Act 1985, and
 - (b) any asset employed for the purpose of the postal business under the provisions of a finance lease.

8 Modifications to tidy up the Licence

- 8.1 Substitute "Royal Mail Group plc" for "Consignia plc" wherever the latter occurs.
- 8.2 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.

- 8.3 Move the existing Condition 21 entitled “Common Operational Procedures”, so that it appears after Condition 13 and re-number it as Condition 14.
- 8.4 Re-number all subsequent Conditions accordingly.
- 8.5 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 3(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 3(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.”

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

In witness whereof the Seal of the Commission hereunto affixed is authenticated by –

Sarah Chambers
Chief Executive
authorised by the Commission

Dated: 25 May 2006

