

# POSTAL SERVICES ACT 2000

## Sections 11 and 38

### Licence granted to Royal Mail Group plc

#### Schedule 2 Part 2 Condition 21

#### Direction for the purpose of the determination of maximum prices for access services

Whereas:

- (1) Royal Mail Group plc (“Royal Mail”) is the holder of a licence (“the Licence”) granted on 23 March 2001 by the Postal Services Commission (“Postcomm”) under section 11 of the Postal Services Act 2000 (“the Act”);
- (2) The Licence was amended on 1 April 2003, 2 November 2005 and 25 May 2006;
- (3) Condition 21 in Part 2 of Schedule 2 to the Licence (“Condition 21”) makes provision for the prices which may be charged by Royal Mail for Regulated Services and for Access Services;
- (4) Paragraph 5(b) in Condition 21 sets a limit for the prices which may be charged at each Price Point for each Access Service priced on a uniform national basis by reference to a differential applied to the price at the same Price Point for the end to end service corresponding to that Access Service;
- (5) This differential is referred to in Paragraph 5(b) in Condition 21 as  $D_{sy}$  and it is calculated for each Price Point for each Access Service using the formula –

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

- (6) On 21 August 2006 the basis on which Royal Mail's prices are set changed from being solely related to weight to being related to a combination of weight and size;
- (7) The new basis on which Royal Mail's prices are set is known as Pricing in Proportion and as a result of its introduction the Price Points for Access Services and for their corresponding end to end services will change and the differentials used for the determination of maximum prices for Access Services at some Price Points need to be adjusted;
- (8) Condition 21 allows for the changes consequent on the introduction of Pricing in Proportion by providing that from the introduction of Pricing in Proportion  $ppp_{st=0}$  and  $arp_{yt=0}$  in the formula set out in paragraph (5) 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;
- (9) On 10 August 2006 Royal Mail advised Postcomm that it had discussed with all users of its Access Services the prices which it proposed to apply at each Price Point for each of its Access Services following the introduction of Pricing in Proportion and that these prices were the prices contained in four spreadsheets in an Excel Workbook supplied to Postcomm on 5 May 2006 with the filename "0506 (t=0) DSA Headroom.xls";

**Now, therefore, pursuant to and for the purposes of paragraph 5(b)(i)(bb) in Condition 21 in Part 2 of Schedule 2 to the Licence, Postcomm hereby directs as follows.**

1. This Direction shall be interpreted in the same manner as the Licence.
2. For the purpose of this Direction "the Excel Workbook" means the collection of four spreadsheets contained in the Microsoft Excel file named "0506

(t=0) DSA Headroom.xls”, which was supplied to Postcomm by Royal Mail on 5 May 2006 and of which a copy is recorded on a flash memory stick lodged on the register maintained for the purpose of section 38 of the Act and is available on Postcomm’s website.

3. With effect from 21 August 2006 the terms  $arp_{yt=0}$  and  $ppp_{st=0}$  in the formula

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

in paragraph 5(b) in Condition 21 shall have the values at each Price Point found in accordance with the following paragraphs of this Direction.

4. The value for  $arp_{yt=0}$ , the Access Reference Price at each Price Point for each Access Service for the end to end service  $y$  in Formula Year  $t=0$ , shall be found by reference to the columns headed “Size Based” in the groups of columns headed “MAILSORT 1400 2 PRICES 05/06 (Direct)”, “MAILSORT 1400 2 PRICES 05/06 (Residue)” and “WALKSORT 2 PRICES 05/06” in the first three spreadsheets in the Excel Workbook and by reference to the column headed “SB” in the group of columns headed “05/06 E2E Prices” in the fourth spreadsheet in the Excel Workbook
5. The value for  $ppp_{st=0}$ , the price at each Price Point for each Access Service  $s$  in Formula Year  $t=0$ , shall be found by reference to the columns headed “Size Based” in the groups of columns headed “DSA 1400 PRICES 05/06”, “DSA 120 PRICES 05/06” and “DSA WS PRICES 05/06” in the first three spreadsheets in the Excel Workbook and by reference to the column headed “SB” in the group of columns headed “05/06 DSA Prices” in the fourth spreadsheet in the Excel Workbook.

The common seal of Postcomm  
hereunto affixed is authenticated by –

Authorised for that purpose by  
Postcomm

Date: 18 October 2006