



12 March 2008

Caroline Longman  
Postcomm  
Hercules House  
6 Hercules Road  
LONDON  
SE1 7DB

Mark Waples  
Royal Mail Letters Centre  
35-50 Rathbone Place  
LONDON  
W1T 1HQ  
[mark.waples@royalmail.com](mailto:mark.waples@royalmail.com)

**Royal Mail's 2008 Tariff – Application for a Direction under C21 (29)  
Reconciliation payment for Term Contracts**

Dear Caroline,

On 17<sup>th</sup> December 2007 I wrote to notify you of Royal Mail's 2008 tariff as required by Condition 7. Separately we fulfilled our obligation under Condition 21 (28) on 20th December 2007 when Mike Prince wrote to Peter Swatridge attaching the required auditor's reports.

Annex A of the Condition 7 letter contained the schedule (terms and conditions) relating to Term Contracts. Royal Mail now wishes to make a beneficial change to one of the clauses contained within that schedule. I therefore apply, to Postcomm, under C21 (29), for a Direction to enable clause 9 to be altered to read;

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9. A reconciliation payment is calculated according to the following steps:

$$RP = [(A - B) \times C]$$

where:

**RP** is the Reconciliation Payment;

**A** is the aggregate Contract Volume over the Contract Period less [ ] per cent<sup>1</sup>;

**B** is the actual volume received by Royal Mail for delivery under the Services up to and including the date this Agreement is terminated; and

**C** is the average discount per item paid on the actual volume **B**.

The Customer will not be required to pay a Reconciliation Payment if the figure calculated by deducting B from A is negative.

**If the reconciliation payment calculation exceeds the total discount received by the customer under the term contract then the reconciliation payment shall be set equal to the discount paid out.**

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A full revised schedule is provided in Annex B.

<sup>1</sup> Insert as appropriate: 1 Year contract: 10% and 2 Years: 12.5%.

Cont...

Royal Mail wishes for this clause to take effect with the introduction of Term Contracts on the 7<sup>th</sup> April 2008 for the following products.

- MS120 - first and second class only
- MS700 all classes
- MS1400 all classes

Royal Mail can confirm that the launch of Term Contracts on Mailsort 120 3, as previously notified, will be postponed until 12<sup>th</sup> June 2008 when they will be introduced with the schedule set out in Annex B.

For ease of reference Annex A contains the original schedule wording.

Royal Mail has taken this opportunity to clarify how many weeks a year a customer must have a pre-scheduled collection (see Annex B, note 1).

Yours sincerely,

A handwritten signature in black ink that reads "M Waples". The signature is written in a cursive style with a large, stylized 'M'.

Mark Waples  
Regulation & Commercial Policy Manager

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## Annex A: ORIGINAL SCHEDULE – not now taking effect

### Term Contracts – Terms & Conditions

The following table details the term contract discount applicable to contracted mail volumes for customers on OBA only. The discount is applied after all other applicable discounts have been applied to the relevant standard tariff. A separate contractual volume commitment must be made for each product and class of service.

Product and class of service*	Contract duration	
	1 Year	2 Year
MS120-1, MS120-2, MS120-3, MS700-1, MS700-2, MS700-3, MS1400-1, MS1400-2, MS1400-3		
Discount (per year)	1.40%	2.00%

\*minimum annual volume of 1 million mail items applies per product and class of service contracted

#### Notes:

1. Term contract discounts are available to all mail customers that meet the minimum contract volume threshold for a qualifying service and have a minimum of one pre-scheduled collection of the qualifying mail service per week.
2. Actual posted volumes will be measured against contracted volumes on a **quarterly** basis. Discounts for a quarter will be credited to a single customer nominated account.
3. Term contract discounts are applied to the relevant mail price inclusive of all other relevant discounts.
4. If a customer exceeds their contracted mail volume the term contract discount continues to apply to mail volumes above the contracted level subject to the tolerance levels in paragraph 6. below.
5. If a customer under-achieves against their contracted mail volume the charges set out below in paragraph 6. apply.
6. Tolerance levels for achievement against contracted volumes (measured quarterly):

Year of Contract & Tolerance Levels		Relevant Price
Year 1	Year 2	
Above 110%	Above 115%	Term contract discount does not apply to volumes above the tolerance levels (assessed each quarter).
90%-110%	85%-115%	Term contract discount applies.
Below 90%	Below 85%	Term contract discount applies. If, however, over the duration of the contract the total mail volume achieved is below the contracted volume by more than the tolerance levels then a reconciliation payment may apply (see note 9 below).

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7. Switching between products: customers may switch contracted volumes between products as part of a Switching Plan<sup>2</sup> agreed with an Account Manager. The **contracted volumes** on the losing and gaining product(s) will be adjusted accordingly - by the contracted volume transferred from the losing product(s) to the gaining product(s). The prices subsequently applicable on both the losing and gaining product after the date of the switch will be as per the original contract duration and as per the above discount table for the revised contract volumes on both the losing and gaining product.
8. Termination: customers can terminate a Contract by giving 3 months written notification. If a customer terminates the Contract before the end of the contract period a reconciliation payment may apply (see note 9 below).
9. A reconciliation payment is calculated according to the following steps:

$$RP = [(A - B) \times C] \times 11.5\%$$

where:

**RP** is the Reconciliation Payment;

**A** is the aggregate Contract Volume over the Contract Period less [ ] per cent<sup>3</sup>;

**B** is the actual volume received by Royal Mail for delivery under the Services up to and including the date this Agreement is terminated; and

**C** is the average price paid by the Customer for each mail item subject to this Agreement.

The Customer will not be required to pay a Reconciliation Payment if the figure calculated by deducting B from A is negative.

10. In calculating a reconciliation payment, tolerance levels as set out in paragraph 6. above have been allowed for.
11. Volume growth: customers who expect to grow their mail volumes over the period of a contract can, prior to the start of the contract, agree a quarterly contract volume specific to each year of the contract and the discount to be applied in each year will be applied to the contracted volume agreed (and tolerance levels will also apply to the agreed volumes).

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<sup>2</sup> Guidelines will be provided to Account Managers specifying the exact circumstances where a Switching Plan can be permitted. The guidelines will cover switching frequency and contract duration issues.

<sup>3</sup> Insert as appropriate: 1 Year contract: 10% and 2 Years: 12.5%.

Cont...

### *Term Contract Switching Plans - Guidelines*

- A customer may agree a plan to switch all or some contracted mail volumes from one product to another eligible product or products.
- The total contracted mail volume per quarter will be apportioned between the products involved as specified by the customer. The applicable discount going forward will then be the discount for the contract duration relevant to the product(s).
- Tolerance levels and actual mail volumes achieved will be measured quarterly against the new apportioned contracted mail volumes for each product.
- Contracted mail volumes may only be switched between products a maximum of once in any rolling twelve month period.
- The contract duration may not be extended.
- If RM ceases a product and launches a new replacement product, contracted mail volumes will be transferred from the ceased product to the new product and the rolling twelve month limitation on further switching of volumes will not apply in this specific instance.

### **Term Contract: Guidelines on Volume Growth Plan**

Customers who expect to grow their mail volumes over the period of a contract can, prior to the start of the contract, agree a quarterly contract volume specific to each year of the contract.

The discount to be applied in each quarter will be the discount relevant to the total contract duration.

#### **Notes:**

1. The Volume Growth Plan must be agreed and documented prior to the start of the contract.
2. The Volume Growth Plan may be cancelled by a customer by providing written notice at any point prior to the first quarter in which volume growth is due to take place under the Volume Growth Plan.
3. The original contract duration cannot be extended.
4. The Volume Growth Plan must specify the volume growth by quarter by specific service (e.g. MS1400-2 or MS700-3 etc)
5. To change the specific service the volume growth is listed against a customer should make use of a Switching Plan.

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**Annex B: REVISED SCHEDULE Term Contracts – Terms & Conditions – Taking effect on 7<sup>th</sup> April for Mailsort 120 1 & 2, Mailsort 700 1, 2 & 3 and Mailsort 1400 1, 2 & 3. Taking effect on 12<sup>th</sup> June 2008 for Mailsort 120 (3).**

The following table details the term contract discount applicable to contracted mail volumes for customers on OBA only. The discount is applied after all other applicable discounts have been applied to the relevant standard tariff. A separate contractual volume commitment must be made for each product and class of service.

Product and class of service*	Contract duration	
	1 Year	2 Year
MS120-1, MS120-2, MS120-3**, MS700-1, MS700-2, MS700-3, MS1400-1, MS1400-2, MS1400-3		
Discount (per year)	1.40%	2.00%

\*Minimum annual volume of 1 million mail items applies per product and class of service contracted.

\*\*Term contract discounts for MS120-3 available from 12 June 2008 onwards only.

Notes:

1. Term contract discounts are available to all mail customers that meet the minimum contract volume threshold for a qualifying service and have a minimum of one pre-scheduled collection of the qualifying mail service per week (meaning in at least 48 out of 52 weeks per year).
2. Actual posted volumes will be measured against contracted volumes on a **quarterly** basis. Discounts for a quarter will be credited to a single customer nominated account.
3. Term contract discounts are applied to the relevant mail price inclusive of all other relevant discounts.
4. If a customer exceeds their contracted mail volume the term contract discount continues to apply to mail volumes above the contracted level subject to the tolerance levels in paragraph 6. below.
5. If a customer under-achieves against their contracted mail volume the charges set out below in paragraph 6. apply.
6. Tolerance levels for achievement against contracted volumes (measured quarterly):

Year of Contract & Tolerance Levels		Relevant Price
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