

22 June 2015

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Dear Sean,

RE: Saturday 26 December 2015

Royal Mail would like to make an application for a USO exception to deliveries and pillar box collections on Saturday 26th December 2015. This is in addition to observing the substitute Bank Holiday on 28 December. Full deliveries would recommence on Tuesday 29 December 2015.

When a Bank Holiday falls on a Saturday or Sunday, the holiday is normally postponed to the next following working weekday, and is known as a substitute Bank Holiday. For Christmas 2015, Boxing Day falls on Saturday 26th December and the substitute Bank Holiday will be Monday 28th December. These arrangements are observed UK wide under the Banking and Financial Dealings Act 1971. As such, Saturday 26 December is scheduled as 'normal' working day for Royal Mail.

The last time the 26 December fell on a Saturday was in 2009. On that occasion Postcomm granted Royal Mail an exception to the USO based on the historic sharp decline in mail volumes after Christmas and lower than predicted mail volumes on the Saturday.

We have considered the implications of providing a USO service on Saturday 26 December from a customer, commercial and employee perspective. We believe the considerations from 2009 still apply and that it would not disadvantage customers for Ofcom to designate it a non USO day.

Customer demand and impact

In order to provide USO deliveries on Saturday 26 December we would need a full national network and processing operation on Christmas Day. This would cost in the region of [REDACTED]. We believe this does not represent a sensible cost for the following reasons.

A Christmas Day operation would not generate additional traffic or revenue to the network in order to offset the [REDACTED] costs. No additional collections would be made on Christmas Day. As a result, the operation would be moving traffic already in the network, in order to make a delivery on 26 December.

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This costly operation would be in order to deliver relatively little mail. Deliveries on 26 December are forecast to include only relatively small amounts of first class mail posted on Christmas Eve, along with second class mail posted on Wednesday 23 December. As a result, total traffic for the day is forecast to be [REDACTED] items. This is significantly lower than the Saturday average from November 2014 of [REDACTED] items. This represents a 67% reduction in the demand we would normally expect. Due to the fixed nature of the USO, we are unable to flex our network to meet this lower demand. This means we would have to operate our full national logistics network.

In addition, our experiences have shown that consumer use of pillar boxes is very low on Christmas Day. However despite the low volume of mail posted, Royal Mail would still incur the costs of collecting from these boxes on 26 December. This is because the nature of the USO requires a largely fixed collection network. There is little scope to flex costs when demand is low.

Within overall traffic, parcel volumes show a yet steeper decline in demand. The majority of forecast parcel volumes will form collections from large mailers, representing predominantly non-USO mail. Total parcel volumes are forecast to be 86% below the Saturday average from November 2014 of [REDACTED] items. This would substantially increase our cost per item for delivery.

Royal Mail is acutely aware it operates in an increasingly competitive parcels market. We have undergone significant consultation with Commercial and Operational colleagues to understand any potential commercial impacts.

Our conclusion is that the effect on businesses as well as consumer will be minimal. Many businesses are closed on a Saturday. Saturday business collections represent a very small proportion of business collections. For consumers, most Post Office branches will also be closed and consumers do not expect mail deliveries on Boxing Day.

While the majority of products will have low demand, we recognise that some high volume Tracked and standard parcel customers will be operating over the holiday weekend. For these customers, we propose make collections over the weekend to achieve delivery on the first available working day, Tuesday 29 December.

Communication

In line with our usual Christmas planning process, we will ensure all customers are communicated of the dates the Universal Service will operate, including the final posting dates well in advance of Christmas. Business customers will be notified in advance of the dates.

We anticipate very little customer objection to the exemption. Postcomm previous consulted on similar exemptions in 2003 and 2009, and received no objections. We are not

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aware of any customer complaints from either exemption. We believe this demonstrates the minimal impact the change would have on customers.

Preliminary discussions have been held with the CWU about the proposal and they have been supportive of the application.

Summary

In previous years, historic volume figures have shown that mail volumes drop significantly in the period immediately after Christmas. This is especially the case when this date falls on a Saturday.

These considerations have been recognised through an established process by the previous regulator. Postcomm granted exemptions to the USO in 2003 and 2009, in part due to the sharp decline in volumes following Christmas. Our latest forecast and volume figures show that these two considerations still apply in 2015.

Given the low customer impact and in line with previous exemptions granted in 2003 and 2009, Royal Mail requests that Ofcom provides exemptions to the Universal Service Obligation for 26 December 2015.

In line with previous exemption directions by Ofcom, we request that the direction is applied in perpetuity. This will avoid the need for future applications for when a Boxing Day falls on a Saturday.

We are happy to provide more detailed information to any of the points raised in this letter.

Yours sincerely,

Sharon Atmore
Head of Regulatory Strategy