

Consultation response form

Please complete this form in full and return via email to richard.orpin@ofcom.org.uk or by post to:

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Consultation title	Recovering postal regulation and consumer advocacy costs
Full name	Michael MacClancy
Contact phone number	[X]
Representing (delete as appropriate)	Organisation
Organisation name	DX (Group) plc
Email address	[X]
We will keep your contact number and email address confidential. Are there any additional details you want to keep confidential? (delete as appropriate)	Nothing
For confidential responses, can Ofcom publish a reference to the contents of your response?	Yes/No

Your response

DX appreciates the opportunity to contribute to this consultation. It also appreciates Ofcom's provision of information relating to its charging principles and its cost breakdown, both of which are pertinent to the consultation. However, we feel that Ofcom has not demonstrated the need for the proposed changes, has not sufficiently justified its opinion that bulk mail and access services are within the scope of the universal postal service and has not proposed a charging basis that is in accord with its own charging principles.

Need for proposed changes

Currently Ofcom recovers all of its administrative charges via Royal Mail. However, it is ultimately the end user of Royal Mail's services who pays these charges, through the price paid directly to Royal Mail or indirectly through access operators. For accounting purposes the charges are presumably an overhead cost incurred by Royal Mail that is somehow allocated across its products and, thereby, into its prices and collected from its users. These include users of its single piece, parcel, bulk mail and access services. Changing the charging basis so that access operators will be liable for the

charges should merely have the effect of reducing the charge on Royal Mail. It should be a zero sum game with the user paying a proportion of the charge via the access operator instead of Royal Mail. There therefore does not appear to be any benefit arising from the change.

In fact, the proposed charging basis will only add to complexity and cost because, in order to ensure that the outcome really is zero sum, Ofcom will have to intervene to ensure that Royal Mail reduces its prices so that it does not continue to recover the administrative charge it now collects but will be collected by the access operators. The price reductions would have to be targeted on the access prices and not on other Royal Mail services.

Scope of the universal service

The scope of the universal service is a wide-ranging and complex topic which cannot be dealt with in just two paragraphs (3.25 and 3.26) of a consultation dealing with a separate topic. We therefore believe that Ofcom has not paid sufficient attention to this important factor. In any case, we disagree with Ofcom's reasoning that because so-called bulk mail services are available for very low volumes (suggesting substitutability with universal services) all bulk mail services should be within the scope of the universal service. It's very clear that CBC, OCR and Mailmark services are very different from single piece universal services.

Charging principles

Paragraph 2.14 sets out Ofcom's general criteria for its charging principles. DX believes that Ofcom's proposals fail to be in accord with these principles, particularly those of *fairness and equity, cost-reflectivity and relevance*.

In paragraph 3.12 Ofcom explains that 84% of its costs relate to *Universal postal service / Royal Mail* and that this includes *inter alia* monitoring of Royal Mail, regulatory financial reporting, postal cost modelling, quality of service and investigations into Royal Mail's compliance with accounting and quality of service conditions. DX believes that most, if not all, of these costs would be incurred even if there was no competition, access or delivery. This is because these activities are necessary for the regulation of a market dominant supplier and the provider of the universal service. It is wholly inappropriate to expect other stakeholders to pay for this regulation. It isn't their fault that Royal Mail is dominant or that it is the universal service provider. It is wholly appropriate for Royal Mail to pay the costs arising from these activities on its own.

Paragraph 3.12 further explains that 15% of Ofcom's costs relate to the *Wider letters market*. This includes reviews of mail integrity, postal common operational procedures, complaints and redress in postal service and the review of Royal Mail's access pricing. Some of these activities are irrelevant to access operators and it is wrong to expect them to contribute to their costs. Even in the case of the review of access pricing, this is only necessary because Royal Mail is a dominant operator with monopoly power and is required for anti-trust reasons. Why should access operators have to pay to avoid being exploited by a monopolist? In any case, as discussed above, access operators and their customers are already paying through the price they pay Royal Mail, a proportion of which contributes to the charge paid by Royal Mail to Ofcom.

DX suspects that if operators only had to contribute to relevant costs then the contributions from operators other than Royal Mail would be so small as to be insignificant.

DX sincerely hopes that Ofcom will consider these points carefully and will agree with DX that the proposed changes are unnecessary, unfair, irrelevant and not cost-reflective and will therefore decide not to proceed with them.

<p>Question 1: Do you agree that revenues from single piece end-to-end letter delivery services should be taken into account for the purposes of setting administrative charges? Please give your reasons.</p>	<p>Confidential? – N</p> <p>In so far as single piece end-to-end letter delivery services are “relevant letters postal services” as defined in the proposed CP1 we agree that their revenues should be taken into account for the purposes of setting administrative charges.</p>
<p>Question 2: Do you agree that revenues from bulk mail and access services should be taken into account for the purposes of setting administrative charges? Please give your reasons.</p>	<p>Confidential? – N</p> <p>We disagree that revenues from bulk mail and access services should be taken into account for the purposes of setting administrative charges. We do not agree that these services are within the scope of the universal service. Furthermore, we believe that, were they to be taken in account using the apportionment method proposed by Ofcom, there would be an unfair burden placed on operators other than Royal Mail. Also, and perhaps most significantly, we believe that Ofcom’s proposal will increase the administrative complexity of the charging process without making any improvements. We discuss these points in greater detail in a separate submission.</p>
<p>Question 3: Do you agree that turnover from access revenues should be calculated on a net basis (i.e. after the deduction of access charges to Royal Mail)? Please give your reasons.</p>	<p>Confidential? – N</p> <p>Notwithstanding our disagreement that access revenues should be taken into account when setting administrative charges, the alternative gross basis suggested by Ofcom would clearly lead to double counting and is self-evidently wrong. The net basis would appear to be the only fair basis.</p>
<p>Question 4: Do you agree that turnover from parcel services should not be taken into account for the purpose of setting administrative charges? Please provide your reasons.</p>	<p>Confidential? – N</p> <p>Ofcom admits that it incurs very little cost in the parcels sector and it would therefore be administratively inefficient to attempt to recover charges from parcel service providers other than Royal Mail, which provides them as part of the universal postal service.</p>

Question 5: Do you agree that the minimum revenue threshold for payment of administrative charges should be lowered to £5m? Please explain why.	Confidential? – N We disagree that the minimum revenue threshold should be lowered to £5m. The £10m threshold has functioned well for many years and, if anything, should be raised in line with inflation.
Question 6: Do you agree with the proposed changes to CP1 that are set out in Annex 6? Please provide your reasons.	Confidential? – Y/N

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