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ROYAL MAIL GROUP LIMITED

Response to Ofcom's consultation

"Safeguard cap for Second Class Large Letters and Packets. Proposed modification to the safeguard cap condition (DUSP Condition 3)"

Royal Mail welcomes Ofcom's consultation on a technical change to the detail of the formula for the calculation of the safeguard cap for second class large letters and packets. Royal Mail recognises that this consultation is focused on a detailed technical issue we identified in the arithmetic contained in DUSP condition 3. Royal Mail's response only addresses the narrow technical question raised in the consultation of whether the proposed changes to the formula for the 'safeguard cap for second class large letters and packets' are appropriate.

Under the current drafting of DUSP Condition 3 Royal Mail would have to use a forecast of CPI in calculating the 'safeguard cap for second class large letters and packets' in each year of the regulatory period. As set out by Ofcom this was not Ofcom's intention. This approach would be unnecessarily burdensome as it would require a forecast of CPI to be used. This would create uncertainty in the level of the cap in individual years and would require a correction mechanism in the formula which is not included in DUSP Condition 3 as currently drafted. Using a historic inflation figure (as proposed by Ofcom in the present consultation) is also consistent with the approach typically adopted by other regulators in price cap formulae. We agree with Ofcom that a historic CPI rather than a forecast CPI should be used in the formula.

As currently drafted, DUSP Condition 3, would require a different CPI figure to be used in the 'safeguard cap for second class large letters and packets' compared to the CPI figure used in the letter safeguard cap. This would lead to unnecessary complexity when calculating the relevant safeguard caps. We believe that the same CPI figure should be used in both safeguard caps in line with Ofcom's original intention and therefore support Ofcom's proposed formula changes to achieve this objective.

Conclusion

In conclusion, Royal Mail agrees with Ofcom's suggested changes to the current drafting of DUSP Condition 3. We believe that the proposed changes to DUSP Condition 3 will ensure that the Condition works as Ofcom originally intended.

Accordingly Royal Mail supports the proposed technical changes to the 'safeguard cap for second class large letters and packets'.