



30 December 2011

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Attn: Chris Rowsell

Copied for information to:
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CP4 NOTIFICATION:
Launch of account payment channel for
Royal Mail's 1st & 2nd Class single piece products

Dear Sirs,

I am writing to formally notify you, under CP4 of Royal Mail's Regulatory Conditions, that we will make our 1st & 2nd class mail products available as 'single piece offerings sold on account' from 2nd April 2012 with our 2012 Tariff.

The new 1st & 2nd class mail offerings will provide a service of conveying postal packets¹, with no value added services or premium attributes, at a price which is not subject to any discounts related to volume of mail per mailing or presentation of mail. As such Royal Mail believes that this service falls within the meaning of what Postcomm has defined² as a single piece mail and as such within the scope of the Universal Service as also defined by Postcomm³ and, more recently proposed by Ofcom⁴.

The new single piece 1st & 2nd class offerings will be available to all new or existing⁵ account customers in addition to the currently available 1st and 2nd class offerings sold on account⁶ (which will be known in the future as bulk 1st & 2nd class offerings in order to distinguish it from the single piece offering). All customers will be able to choose which one best suits them via their Online Business Account (OBA). There will be no need for customer migration or any other change in working practices and customers will be able to continue to use the same stocks of PPI envelopes.

¹ The term "postal packet" is defined by section 25 of the Postal Services Act 2000 to include both letters and packets: "postal packet means a letter, parcel, packet, or other article transmissible by post",
<http://www.legislation.gov.uk/ukpga/2000/26/contents>

² The building blocks for a sustainable postal service - Removing bulk products from the universal service and clarifying the status of other universal service products - a decision document - August 2011

³ *ibid*

⁴ Review of Regulatory Conditions - Postal Regulation; Published on 13th December 2011.

⁵ If using Online Business Account (OBA)

⁶ Known as First and Second Class Postage Paid Impression (PPI) in Royal Mail's Regulatory Conditions

The launch of these offerings seeks to deal with the risk, as identified by Postcomm⁷, of potentially uneven handed regulatory treatment for different payment channels for what is essentially the same underlying service. Customers can currently purchase 1st and 2nd class services by stamp, meter, Online Postage⁹ & on account. However the last of these will become liable to VAT in April 2012 as it offers volume related discounts (VRDs) and therefore cannot be considered single piece. The others will remain exempt. Royal Mail believes that this new offering will appeal to customers who have a restricted ability to reclaim VAT and hopes that it will encourage them to continue to use mail and not migrate to alternative media.

For customers to access the new single piece service they must hold a payment account with Royal Mail and abide by the standard associated Terms & Conditions⁸. In all other respects, as can be seen in Annex A, the product features are identical or very similar to the existing Stamp, Online Postage⁹ and Meter channels.

The standards of service, or delivery aim, for the new offering will be next day for 1st class mail and within 3 working days for 2nd class mail¹⁰.

The prices for these new 1st and 2nd class mail single piece offerings is being developed as part of Royal Mail's 2012 Tariff. The indicative prices¹¹ for the 1st & 2nd class offerings are shown in Table A.

Table A – Indicative Single Piece prices when purchased on account for April 2012

	1 st Class Account	2 nd Class Account
Format & Weight	Price	Price
Letter		
0-100g	39p	28p
Large Letter		
0-100g	55p	44p
101-250g	79p	65p
251-500g	£1.10	90p
501-750g	£1.60	£1.30
Packet		
0-100g	£1.36	£1.14
101-250g	£1.69	£1.48
251-500g	£1.90	£1.59
501-750g	£2.36	£1.92
751-1000g	£2.86	£2.31

⁷ Source: The building blocks for a sustainable postal service – removing bulk products from the universal service and clarifying the status of other universal service products – a decision document August 2011

⁸ General Ts & Cs, Account Ts & Cs, PPI Licence terms and Royal Mail specific terms for standard tariff services which are currently available on royalmail.com and will be updated in line with this notification in due course

⁹ Including Smartstamp

¹⁰ Royal Mail will amend its current PPI End to End Quality of Service survey to ensure that it covers both Single Piece and Bulk PPI mail. Should, as expected, a proportion of PPI mail move from bulk to single piece then the annual Quality of Service estimates for Single Piece and Bulk PPI will be provided with the following 95% confidence limits; Single Piece \pm 0.76% and Bulk \pm 0.50%. Results for Single Piece mail sold on account will be provided separately to Ofcom alongside results for Single Piece Stamped & Meter mail to allow Ofcom to assess Royal Mail's performance. The operation of the PPI survey will be available for audit. Both traffic streams will be measured and reported in a manner that enables Royal Mail to meet the CEN requirement for USO measurement. Confidential details of the traffic analysis and proposals for Q of S measurement will be provided to Ofcom separately in the New Year.

¹¹ Notification of prices is being made in line with Ofcom's recent guidance. See Footnote 61 – Review of Regulatory Conditions – Postal Regulation; Published on 13th December 2011. Once Postcomm's decision with regard to Royal Mail's price control is made known Royal Mail will review these indicative prices and adjust them in line with that decision.

	1 st Class Account	2 nd Class Account
Format & Weight	Price	Price
Packet		
1001-1250g	£3.98	Not applicable, please note that items heavier than 1000g cannot be sent Second Class
1251-1500g	£4.68	
1501-1750g	£5.37	
1751-2000g	£5.99	
2001-4000g	£7.83	
Each additional 2000g or part thereof	£2.67	

Source: Royal Mail December 2011

The new offerings will have the same compensation arrangements for loss, damage and delay as existing 1st and 2nd class mail purchased using stamps or through a meter. (See Annex A for detail).

A copy of this letter has been copied to Consumer Focus and will be published on Royal Mail's website within four working days.

Yours sincerely,



Simon Oates, Director of Regulatory Strategy

Annex A – Key features of Single Piece 1st and 2nd Class payment channels from April 2012:

Product	1 st and 2 nd Class (Single Piece)		
Channel	Stamp and Online	Meter	Account
Key features			
Current Price (1 st /2 nd class)	46p/36p	39p/28p	N/A
When price applies	At time of purchase ¹²	At time of posting	At time of posting
Current regulatory status	Universal service and partially price controlled	Universal service and partially price controlled	N/A
VAT status	Exempt	Exempt	Exempt
Geographic restrictions on posting locations	No	Yes, can only be posted in the area shown on the franking impression.	No
Collection every working day?	Yes. From pillar boxes, post offices, mail centres, business collections.	Yes. From pillar boxes (low volumes), post offices, mail centres, business collections.	Yes. From post offices, mail centres, delivery offices and business collections.
Standards of service (First/Second class)	D+1 and D+3 for 1 st & 2 nd class respectively	D+1 and D+3 for 1 st & 2 nd class respectively	D+1 and D+3 for 1 st & 2 nd class respectively
Compensation for loss and damage	100 X First class stamps or the value of the item	100 X First class stamp or the value of the item	100 X First class stamp or the value of the item
Compensation for delay	6 X First class stamps	6 X First class stamps	6 X First class stamps
Mail piece formats	Letter, Large Letter & Packets	Letter, Large Letter & Packets	Letter, Large Letter & Packets
Delivery Speeds	1 st & 2 nd Class	1 st & 2 nd Class	1 st & 2 nd Class
Indicia	Stamp or Postage Label	Meter impression	Printed Postage Impression (PPI)

¹² stamps with only “1st” or “2nd” can be kept and the original price paid may have changed

Product	1 st and 2 nd Class (Single Piece)		
Channel	Stamp and Online	Meter	Account
Key features			
Credit terms	N/A	N/A (unless provide for by meter supplier)	Standard Royal Mail Credit Terms will apply, i.e. weekly billing followed by payment within 30 days. Account holders will be subject to credit checks.
Operational specification	Standard Operating Procedures	Standard Operating Procedures	Standard Operating Procedures
Presentation*	No	Trays, bags or pouches. Items presented by class	Trays, bags or pouches. Items presented by class, format & rate of postage.
Minimum posting volume or order value	No	No	No
Ordering	N/A	N/A	Sales Orders only
Billing frequency	N/A	N/A	Weekly.
Associated Channel Access costs	N/A. Stamp zero, online minimum prepaid credit in account.	Fixed cost of approx. £500 p.a. for lease, updates, servicing etc.	Minimum annual spend £5k on standard tariff services

*Presentation requirements are mandatory as specified in the RM Scheme for Franking and the RM Standard Tariff Services specific terms; in addition the RM Scheme for Franking and our General Terms & Conditions state that we reserve the right to refuse/return any mail which does not comply with the specific terms for the service used

Source: Royal Mail December 2011