

POSTCOMM

(The Postal Services Commission)

Postal Services Act 2000

Sections 11 and 13

Licence granted to Royal Mail Group Ltd

Schedule 2 Condition 21

Paragraphs 17 – 19

**Determination indicating dissatisfaction with
application to introduce zonal pricing**

December 2007

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Whereas

- (1) Royal Mail Group Ltd registered in England and Wales as company number 4138203 and having its registered office at 148 Old Street London EC1V 9HQ (“Royal Mail”) is the holder of a licence (“the Licence”) granted under section 11 of the Postal Services Act 2000 (“the Act”) by the Postal Services Commission (“Postcomm”).
- (2) The Licence was amended on 1 April 2003, 2 November 2005 and 25 May 2006.
- (3) Condition 21 in Schedule 2 to the Licence (“Condition 21”) controls the prices which may be charged by Royal Mail for postal services which are Controlled Services for the purpose of that Condition.
- (4) Paragraphs 17 to 19 of Condition 21 provide as follows –

“Geographic price uniformity

17. Subject to paragraphs 18 and 19, in relation to each of the Controlled Services that are not required by Condition 2 to be provided as universal services (except Access Services priced on a zonal basis and provided under contracts entered into on or before 1 April 2006 and any Access Service subsequently provided under a contract having all the terms referred to in paragraphs (i) to (xii) of paragraph 2(b) of Condition 9 in common with such a contract) the tariffs under which the services are offered shall be geographically uniform.

18. *The Licensee may apply to Postcomm in writing at any time for approval to offer any of the Controlled Services on a tariff under which prices are not geographically uniform and where Postcomm has confirmed by notice in writing that it has been provided by [Royal Mail] with sufficient information of good quality to consider the application then paragraph 19 shall apply.*

19. *Where this paragraph applies, if Postcomm has not, after consultation with the Council and with such other persons as it sees fit, and after consideration of such further information (if any) as it may require to be furnished, within nine months of the date of giving notice under paragraph 18, by determination in writing indicated that it is not satisfied that the change sought by [Royal Mail] will –*

- (a) be revenue neutral,*
- (b) lead to prices for the service being more reflective of costs than they would be if the existing geographically uniform tariff was retained,*
- (c) be introduced in a manner that avoids unreasonable changes for users of the service, and*
- (d) not lead to a circumvention of paragraph 1, and*
- (e) not lead to a failure to provide services priced in a manner referred to in the Directive,*

then [Royal Mail] may change the tariff structure for the service to one in which prices are not geographically uniform in the manner proposed in its application.”

- (5) On 20th February 2007 Royal Mail submitted a modified application to Postcomm to introduce from April 2008 tariffs for Controlled Services under which prices would not be geographically uniform but would depend on the location of the addressee (“Zonal Pricing”).
- (6) On 2nd April 2007 Postcomm gave notice in accordance with paragraph 18 of Condition 21 confirming that it had been provided by Royal Mail with sufficient information of good quality to consider Royal Mail’s application.
- (7) On 17th July 2007 Royal Mail submitted a revised application to introduce Zonal Pricing with further modifications.
- (8) On 17th August 2007 Postcomm published a consultation document indicating that it was minded to decide that it is not satisfied that the changes proposed in Royal Mail’s application

will comply with paragraphs (c) and (e) in paragraph 19 of Condition 21.

- (9) Postcomm, after reconsidering Royal Mail's application with the benefit of the responses to, and information received following, its 17th August consultation document, has concluded that it is not satisfied that the changes proposed in Royal Mail's application will comply with paragraphs (c) and (e) in paragraph 19 of Condition 21.
- (10) Noting that a determination under paragraph 19 of Condition 21 must be issued by 2 January 2008, if it is to be effective, Postcomm has decided to issue this determination on the date shown below and to publish full reasons for its conclusion as soon as possible thereafter.

Now therefore, in accordance with its duties under the Act and pursuant to paragraph 19 in Condition 21, Postcomm hereby determines as follows.

1. In this Direction, except where the context requires otherwise, words and expressions used in this Determination shall be interpreted in the same manner as they are interpreted for the purpose of the Licence.
2. Postcomm is not satisfied that the change sought by Royal Mail in its application will –
 - be introduced in a manner that avoids unreasonable changes for users of the services referred to in the application, and
 - not lead to a failure to provide services priced in a manner referred to in the Directive.

The common seal of Postcomm
hereunto affixed is authenticated by –

Authorised for that purpose by
Postcomm

Date: 27 December 2007