

**CONSULTATION ON CHANGES TO THE ACCESS  
NATIONAL GEOGRAPHIC POSTING PROFILE  
DEFINITION**

**Final Proposals from Royal Mail Wholesale**

**18<sup>th</sup> February 2011**

# FINAL PROPOSALS ON CHANGES TO THE ACCESS NATIONAL GEOGRAPHIC POSTING PROFILE DEFINITION

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# FINAL PROPOSALS ON CHANGES TO THE ACCESS NATIONAL GEOGRAPHIC POSTING PROFILE DEFINITION

## 1. Introduction

1.1 When we consulted with Customers on the need for a change to the structure of the Zonal Access contracts in August 2008<sup>1</sup> (which was subsequently agreed in May 2009), we committed to work with our customers on the consequential changes to National access agreements. In October 2009, we issued a consultation document to gain the views of our customers on proposed changes to the definition of the National Geographic Posting Profile (“NGPP”). These changes comprised two types:

a) what needs to be changed in the short term e.g. definition and reporting of the NGPP: and

b) a discussion on where we would like to end up in the longer term e.g. solutions using IT systems

1.2 In the consultation document, we asked our customers and other interested parties to respond by the 11<sup>th</sup> November 2009 to the ten questions posed. The total number of responses was fourteen, of which two came from trade associations. Not every respondent expressed views about every question.

1.3 From late November 2009 to mid February 2010, we met with all of our customers and the trade associations who had responded, in order to gain a better understanding of, and to explore, their views.

1.4 In our October consultation document we explained that our immediate aim is to ensure the successful transition to the new zonal structure in April 2010 for those on zonal access contracts, and the introduction of a definition of NGPP based on these zones. We then proposed a transition period to September 2011 to achieve a position whereby the NGPP and Zonal contract requirements would be so aligned that there was no material distinction between them by the end of that period.

1.5 We went on to explain that we believe that this would require two main types of change. Firstly, that mail items be declared (or sampled) by zone. Secondly, we made proposals on the tolerance relating to deviations from the NGPP and proposed continuation of the current surcharging arrangements.

1.6 Following consideration of responses to our consultation, we published a further “minded to” document in April 2010<sup>2</sup>, and asked our customers and other interested parties to respond by the 10<sup>th</sup> of May 2010

1.7 We received 7 written responses to these second proposals. Following careful consideration of these, as well as holding discussions with interested parties and reviewing the systems implications and requirements and the impact of our latest 2011-12 tariff, we are publishing our final proposals for the NGPP.

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<sup>1</sup> Consultation - Proposed Changes to RMW Access Contracts (Zonal and National) August 2008

<sup>2</sup> “Latest Proposals On Changes To The Access National Geographic Posting Profile Definition”, 8<sup>th</sup> April 2010

1.8 The proposals are made in the context of our having a desire to make the posting of mail through Royal Mail Wholesale less difficult for customers: we have continually sought to make Royal Mail Wholesale Services cost effective and efficient. The current economic climate and the overall sharp decline in the postal sector of the communications market make these objectives even more vital today.

## **2. Background to the Current NGPP Arrangements**

2.1 As we stated in the consultation documents, the NGPP has been a feature of National Access Agreements since their inception. All customers have acknowledged in their national contracts with us that the geographically uniform access charges are based on an assumption that a customer's postings reflect a typical national geographic mix of mail. The aim was to ensure that national postings do not have a disproportionate amount of mail for geographic areas with a high cost to serve while being charged at an average price.

2.2 In the early agreements, signed prior to October 2004, the contract containing the NGPP requirements was the only available option. In October 2004, we introduced Zonal contracts, whereby different prices were introduced reflecting the differing costs according to various delivery characteristics. Because the de-averaged Zonal prices, based on allocating five prices to some 10,000 Postcode sectors, take into account the varying Royal Mail delivery costs, no NGPP was required in the Zonal Agreement. A decision by Postcomm has subsequently revised the original five zones<sup>3</sup>, which became four (merging zones A and B, zones D and E and introducing a London zone, with zone C being retained) from 1<sup>st</sup> April 2010. This change will provide further simplicity and greater cost reflectivity whilst maintaining revenue neutrality when compared to the current pricing structure.

2.3 Schedule 4 of the Condition 9 National Access Agreement covers the NGPP. It requires customers to *"use all reasonable endeavours to ensure that the Actual National Geographic Posting Profile [of the mail posted by a National Royal Mail Wholesale customer] conforms to the Royal Mail Wholesale NGPP"* (which is defined in Annex A to Schedule 4).

Customers must also hand over mailing items each working day for 60 Postcode areas, including 31 that are mandatory.

Schedule 4 goes on to say that –

- a. each customer's actual NGPP will be monitored on a monthly basis, and Royal Mail Wholesale will establish the actual NGPP for each customer over the previous three months. The customer's actual NGPP for this period will be compared with the Royal Mail Wholesale NGPP.
- b. A Minor Misalignment occurs if a customer's actual NGPP for the period varies by between 7.5% and 15% from the percentage specified in Royal Mail Wholesale's NGPP.

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<sup>3</sup> Changes to Zonal Access Pricing by Royal Mail - Licence Modifications. A Decision by the Postal Services Commission. 14<sup>th</sup> May 2009

- c. A Substantial Misalignment occurs if a customer's actual NGPP for the period varies by more than 15% from the percentage specified in Royal Mail Wholesale's NGPP.
- d. Royal Mail Wholesale may levy surcharges where Minor or Substantial Misalignments occur in Postcode Areas accounting for more than 5% of the total Royal Mail Wholesale NGPP.
- e. Royal Mail Wholesale may also terminate, on 30 days' notice, any National Agreement where a Substantial Misalignment has occurred for more than four months within any twelve month period

### **3. Background to the Zonal Arrangements Applicable from April 2010**

3.1 Again as we stated in the consultation document, the NGPP consultation also needs to be considered in the context of changes to RMW's Zonal Agreements. In November 2008, we submitted to Postcomm an application to change the basis of RMW's zonal pricing structure, the objectives being to introduce an improved structure to make our Zonal contractual terms both simpler and more cost reflective.

3.2 Following RMW's submission to Postcomm, their subsequent consultation and decision<sup>4</sup>, we made changes to the structure of Zonal Pricing from 1st April 2010. The number of zones changed from 5 to 4<sup>5</sup>. Zones will continue to be defined at the Postcode sector level. We will make any changes to the Zonal allocation of Postcodes once a year, a process which is audited by an external auditor and which will be effected by a mandatory change to the Access database every April. These arrangements have subsequently been communicated formally to our customers. The following table summarises the changes that are applicable from April 2010:-

<b>Zone (Prior to April 2010)</b>	<b>Zone (From April 2010)</b>	<b>Definition</b>
A+B ("Urban")	A (Urban)	(BD > 10% and DPD >500) or DPD >1000
C ("Suburban")	B (Suburban)	DPD <1000 >100
D+E ("Rural")	C (Rural)	DPD <100
London (new from April 2010)	D (London)	"within the M25"

Notes: DPD = delivery point density  
BD = business density

<sup>4</sup> ibid

<sup>5</sup> The new 4 zones will consist of Urban (A), Suburban (B), Rural (C) and London within the M25 (D) New zone A will consist of existing zones A and B, new zone B will consist of existing zone C, and new zone C will consist of existing zones D and E, all with the exception of London within the M25, which will become the new zone D

3.3 In addition to changes to the structure of the zones, Postcomm's Decision document<sup>6</sup> highlights the need to harmonise the NGPP with zonal pricing. Section 2.67 states "... Royal Mail Wholesale has proposed that compliance with the NGPP will be monitored with reference to the proportion of mail that is sent to each of the four zones (to which Postcode sectors will be allocated)."

3.4 Postcomm has stated it supports the commitment in our application to replace the current requirements with revised procedures for establishing when a failure to comply with the NGPP occurs based on the mailing proportions for each of the new zones.

3.5 As part of the above decision, Postcomm said that it expected RMW to consult with its customers on the NGPP. Section 3.4 states "*Postcomm believes that Royal Mail Wholesale will be able to consult on the NGPP provisions simultaneously, such that any changes can be made at the same time as the zonal access changes in April 2010. Postcomm strongly urges Royal Mail Wholesale to carry out and conclude its consultation on the NGPP changes so as to allow changes to National access contracts at the same time as the zonal access pricing structure changes.*"

3.6 At the same time, Postcomm also agreed with our suggestion that we would change the NGPP definition to make it directly related to the zonal pricing structure, such that it is monitored with reference to Postcode sectors rather than Postcode areas<sup>7</sup>. Although the existing zonal structure was designed to be compatible with the NGPP requirements, it has been observed by Postcomm that the NGPP obligation is based on Postcode Areas, while the zonal structure is based on Postcode sectors, which means that a theoretical arbitrage gap exists between zonal and NGPP pricing structures.

3.7 Postcomm considers that RMW must ensure that NGPP surcharges are applied in a transparent and non-discriminatory manner and is keen for RMW to put in place and maintain procedures accurately to measure and uniformly to enforce compliance with the NGPP. In relation to this Postcomm notes, and is concerned that, the current use of an "all reasonable endeavours" clause as a measure for compliance is unclear and does not sufficiently provide certainty to operators in the current national access agreement.

3.8 Our proposed changes to the definition of the NGPP will therefore effectively require us to monitor the fall to earth of all items in each National posting at Postcode sector level.

#### **4. Our Responses to the Input from Our Customers**

##### 4.1 Introduction

In October 2009, we invited our customers to respond over a six week period to a consultation document in which we posed ten questions. We then published our

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<sup>6</sup> Ibid footnote 2

<sup>7</sup> Section 2.67 of Postcomm's Decision document states "... Royal Mail Wholesale has proposed that compliance with the NGPP will be monitored with reference to the proportion of mail that is sent to each of the four zones (to which Postcode sectors will be allocated)."

second minded to” proposals on the 8<sup>th</sup> of April, and asked for responses by the 10<sup>th</sup> of May. Views from both of these consultations have informed these final proposals.

For ease of reference, and to give the necessary context to the responses from our customers and how we wish to proceed, the full narrative for each original question as contained in the original consultation document published in October 2009 has been reproduced in italicised text. This is followed by the key points from customers’ responses; our commentary; and our proposed way to proceed.

## 4.2 The Definition of NGPP

### 4.2.1 Original Consultation Narrative:

*“5.1.1 The current NGPP requirements for customers posting on a National contract are described above at Section 2<sup>8</sup>. One current difference in the measurement of National contracts compared to Zonal contracts is that the former requires adherence to a profile based on Postcode areas, whilst the latter is based on Postcode sectors. To remove this anomaly we propose to base the National Agreement’s adherence to NGPP on Postcode sectors. And in order to avoid the complication of an NGPP based on some 10,000 Postcode sectors, we propose that the NGPP for National Agreements is expressed as adherence to the percentages of mail going to the four Zones (which themselves are comprised of Postcode sectors). Therefore, we propose to define the customer’s NGPP by four percentages representing the expected profile of mail for each Zone. The following proportions were contained in Royal Mail’s consultation of August 2008<sup>9</sup>”.*

<b>Zone (Prior to April 2010)</b>	<b>Zone (From April 2010)</b>	<b>Definition</b>	<b>% of all Mail<sup>10</sup></b>	<b>Indicative 120 OCR Price (08/09)</b>
A+B (Non-London) (“Urban”)	A (Urban)	(BD > 10% and DPD >500) or DPD >1000	36.0%	12.28p
C (Non-London) (“Suburban”)	B (Suburban)	DPD <1000 >100	30.0%	13.68p
D+E (“Rural”)	C (Rural)	DPD <100	18.3%	15.36p
London	D (London)	“M25”	15.7%	15.92p

Notes: DPD = delivery point density  
BD = business density

### 4.2.2 Original consultation question 1

***“Do you have any comments on the NGPP definition proposals described above?”***

### 4.2.3 Summary of Key Points in Customer Responses

<sup>8</sup> See original RMW consultation paper of August 2008 “Changes To The Access National Geographic Posting Profile Definition”

<sup>9</sup> ibid footnote 2

<sup>10</sup> 2008 Data

The great majority of respondents were content with the definitions (ten of the fourteen respondents to the October 2009 consultation). Of those not content, responses reflected their general concerns about the proposals, together with concerns which appear to be more to do with issues taken up through questions posed later in the Consultation document. For example, several respondents were strongly opposed because of the implications for changes to legacy IT systems, rather than the change to the NGPP definition per se; others made a link between this proposal for RMW and what they were concerned it might lead to in relation to Royal Mail Letters' 'retail' pricing structures; another believed that the Postcode sector basis of the NGPP is unnecessarily complicated.

#### 4.2.4 Royal Mail Wholesale Commentary

In order to comply with the Postcomm decision in its Licence Modification<sup>11</sup>, we are obliged to implement the zonal definitions in paragraph 5.1.1 of our October 2009 consultation document as reproduced above. We believe that the approach that we proposed in the October 2009 Consultation document is the best way to achieve this requirement.

There are no links between our proposals and what Royal Mail Letters' 'retail' pricing structures might be in the future; RML's pricing structures are a matter for them. Only one customer responded with an alternative proposal and that does not provide the degree of granularity required to fulfil the Postcomm objective of removing the theoretical arbitrage gap that currently exists between Zonal and NGPP pricing structures (it is based on a Postcode area level approach).

#### 4.2.5 Final RMW Proposed Way to Proceed on the NGPP Definition

We propose that the original proposal on which we consulted remains as the way forward viz. we propose to base the National Agreement's adherence to NGPP on Postcode sectors. And in order to avoid the complication of an NGPP based on more than 10,000 Postcode sectors, we propose that the NGPP for National Agreements is expressed as adherence to the percentages of mail going to the four Zones (which themselves are comprised of Postcode sectors). Therefore, we propose to define the customer's NGPP by four percentages representing the expected profile of mail for each Zone.

Since the Consultation was originally issued, the first two annual updates of the four 'GZone' percentages have been conducted and formally signed off by the external auditor as required by Postcomm's Licence Modification. These figures are shown in the tables reproduced below. The figures for 2010/11 were originally communicated to our customers on the 8<sup>th</sup> of January 2010.

2010/11	
New 'GZone'	Percentage of Mail Volume
A. Urban	35.2
B. Suburban	30.1
C. Rural	19.2
D. London	15.5

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<sup>11</sup> Ibid footnote 2



The following latest figures have been used in the rest of this document

2011/12	
New 'GZone'	Percentage of Mail Volume
A. Urban	34.6
B. Suburban	30.3
C. Rural	19.5
D. London	15.6

### **4.3 Obligations on Mandatory Postcodes and Number of Postcode Areas per Day**

#### **4.3.1 Original Consultation Narrative:**

*“5.1.4 In order to simplify the NGPP requirements, we propose to abandon the obligations relating to mandatory Postcodes and the minimum number of Postcodes areas per day and do not propose to replace them with equivalent stipulation for Postcode sectors.”*

#### **4.3.2 Original Consultation Question 2**

*“Do you have any objections to the dropping of mandatory and minimum numbers of Postcode areas? If you do, please explain.”*

#### **4.3.3 Summary of Key Points in Customer Responses**

None of the respondents to the October 2009 consultation had any objections to this proposal: ten stated as much and the remaining four were silent.

#### **4.3.4 RMW Commentary**

It is not surprising that no objections were raised to the removal of contractual stipulations that would not be required if our other proposals are implemented.

#### **4.3.5 Final RMW Proposed Way to Proceed on Mandatory Postcodes and Number of Postcode Areas per Day**

We propose to proceed as described in the original Consultation document viz. to abandon the obligations relating to mandatory Postcodes and the minimum number of Postcodes areas per day and not to replace them with an equivalent stipulation for the proportion of mail for each GZone as defined by Postcode sectors.

### **4.4 Measurement and Monitoring of the Customer’s Actual NGPP**

#### **4.4. 1 Original consultation narrative:**

*“5.2.1 Since the NGPP will in future be defined by Zone (by allocating each Postcode sector to a Zone), the fall to earth of customers posting through a National*

Agreement needs to be monitored at a Postcode sector level. We have identified two viable options for monitoring fall to earth at Postcode sector level:

### **5.2.2 Option 1 – Provision of Zonal Manifests**

Electronic manifests are, of course, already a standard feature of doing business via Access. This proposal would require the use by NGPP contract holders of the currently available Zonal version of the Access Database. Where customers sort data prior to printing and producing mail, use of PAF accurate address files together with appropriate use of the Access Database would mean that the required Zonal information is available. National contract holders would upload a zonal manifest for each posting (as is already required for Zonal postings). We propose that adherence to the NGPP would be measured over the Reference Period, as is the case now (see paragraph 5.4 below), and not for each individual posting

Following our underlying principle of making the NGPP requirements simpler and less onerous, we propose to drop the current requirement to print a zonal indicator on each mail item, although we would encourage our customers to do so. The result of this proposal would be that neither the National nor Zonal version of the contract would require a [mandatory] zonal indicator on the mailpiece where a manifest is provided from the zonal version of the Access Database.

We believe that this provision of a Zonal manifest would give complete visibility to both the customer and RMW regarding the percentage of items posted by Zone.

However, we recognise that for some of our customers who post on a National contract, the required systems changes may take some time to implement. For customers in this category, we therefore propose to allow a period of up to 18 months from April 2010 before requiring the zonal manifest stipulation to be introduced (i.e. until the end of September 2011). Where any customer envisages that they would have a problem meeting this timeframe, we will discuss with them their concerns but we currently think that providing what is effectively two years' notice should be adequate.

### **5.2.3 Option 2 - RMW Sampling**

We recognise that some customers may not be able to supply accurate fall to earth data at Postcode sector level (for example, because of operational processes or systems constraints). Clearly, both we and our customers would want to be able to demonstrate that the required Postcode sector based accuracy for the National NGPP is being met. So, where customers do not supply the required fall to earth data for each posting, we propose to undertake statistically valid sampling of their mail. To do so, we propose to use a combination of the capability within our operational sorting machines and manual sampling.

We propose to amend the National Agreement so that the results of the sampling process form part of the daily Client Report sign off – with the same opportunity as now to discuss the Report contents with our customers each day. As explained in paragraph 5.4 below, we propose that the sampling results would apply over the Reference Period of 3 months and not by individual posting

The manual sampling element of this option is resource-hungry and costly to carry out. Therefore, where customers choose not to supply fall to earth data through provision of a Zonal manifest in the way described in Option 1 above, from April 2011

*for Option 2 we propose to introduce a small, cost-reflective increment to our Access charges. Such a charge might be levied on a quarterly basis according to volumes posted or as a per item incremental amount.*

*For machineable mail only, we propose that this Option 2 will be available until September 2011. After this time it is anticipated that all customers posting machineable mail would have made any systems changes required in order to supply the required data under Option 1. Again where any customer envisages having a problem meeting this timeframe, we will discuss with them their concerns although we currently think that providing two years' notice should be adequate.*

*As with Option 1, we do not propose to require a zonal indicator on each item, although we would encourage customers to do so."*

#### **4.4.2 Original Consultation Question 3**

***"Do you agree that the proposed approaches set out above for measuring NGPP are viable and that the timeframe for Option 2 is reasonable?"***

#### **4.4.3 Summary of Key Points in Customer Responses**

##### **a) Viability of the Proposed Monitoring Approach**

Responses as to the viability of the proposals for measuring NGPP were dependent on the type of mail items and the various means of sortation. These can be broken down into 3 categories:

##### **1. Pre-sorted machineable mail.**

In this category, all but two customers acknowledged that by using a Zonal database it is practicable to provide an electronic zonal manifest. The two who took a contrary view did so based on the view that some creators of mail do not sort address data prior to mail production. They believe that establishing zonal data would be very difficult for such customers, or require very expensive systems enhancements.

##### **2. Consolidation machine-generated mail**

Four of the five operator respondents who explicitly referred to consolidated mail said that there would be no problems getting the GZone information from consolidation machines. The fifth said that it would be very difficult and that it would require very expensive systems enhancements.

##### **3. Manually sorted mail**

All six respondents who expressed a view had concerns about this category: several were aware of 'look up' software (which establishes the Postcode and associated GZone for the address being looked up in real time), one was not.

##### **b) Timeframe**

All but one of the ten respondents who expressed a view said that the proposed timeframe of September 2011 for the removal of NGPP sampling of machine produced mail is not adequate. The exception believed that the proposed timescale is more than adequate and advocated differential pricing from April 2010 to incentivise the production of zonal manifests. The same respondent wanted, from

September 2011, all non-manifest non-London mail to be charged as GZone C. None of those who stated that September 2011 is insufficient time gave a date that they believed to be acceptable.

### **c) Charging**

Several respondents said that RMW should not charge for the sampling option, one citing the fact that we do sampling now and so should not charge for GZone measurement sampling, whilst we should discount prices for the provision of the data.

One customer stated that we should have a price differential only for non-machineable mail, as information on machineable items comes from our operational processes. Another wanted an exemption for manual mail. Three felt unable to assess their position on our cost proposals without a better understanding of what we meant by a “small cost reflective increment”. Another accepted the principle of charging but they also wanted to be clear about the charge.

### **4.4.4 RMW Commentary**

#### **a) Viability of the Proposed Monitoring Approach**

##### **1. Pre-sorted machineable mail.**

This category of mail accounts for some 70% of all RMW's mail volume. For a significant majority of this mail, our customers are telling us that they can provide the zonal information in the form of a manifest. The National contracts already enable the use by National contract holders of the available Zonal information already contained in the Access Database<sup>12</sup>. As explained above at 5.2.2 of our October consultation document, where customers sort data prior to printing and producing mail, use of PAF accurate address files together with appropriate use of the Access Database would mean that the required Zonal information is available to RMW. However, as discussed at paragraph 4.4.5 below, we will make available to our National contract customers alternative ways of providing accurate fall-to-earth information to allow for circumstances where they cannot or choose not to adopt the zonal manifest option. And we would do so on a permanent basis, with no end date envisaged.

##### **2. Consolidation machine generated**

Mail falling into this category is typically not produced by the party (normally a postal operator) sorting the mail. In this case, the mail is transported from the production site to the sorting machine location where it is sorted into the number of selections required by the Royal Mail Wholesale service used. As such, there is no direct link between the source of the data that produces the mailpiece and the sorting process. Nevertheless, the present generation of sorting machines can relate the address that they identify for sorting purposes to a Postcode sector and provide management information reports from that data. Discussions with customers and questions put to industry suppliers indicate that such a capability, if not already enabled on a sorting machine, is

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<sup>12</sup> See Section 9 of the User Guide under Documentation. The relevant data required for the National manifest will change to include the number of items for each Zone

inexpensive to add to it. This ranges from some £3,000-£10,000 per machine<sup>13</sup>, with the lowest figure relating to several machines and the highest to a single installation.

Where mail consolidators cannot or choose not to use such a system, again, as discussed at paragraph 4.4.5 below, we would make available to our National contract customers alternative ways of providing accurate fall-to-earth information, on a permanent basis and with no end date envisaged.

### 3. Manually sorted mail

As with pre-sorted machineable mail, and consolidation machine generated mail, where customers are unable or choose not to adopt a zonal manifest option, we will make available to our National contract customers alternative ways of providing accurate fall-to-earth information, on a permanent basis and with no end date envisaged, as discussed in paragraph 4.4.5 below.

#### Charging

As sorting technology advances, the capability of machines to provide useful management information increases. Indeed, Royal Mail's next generation of sorting machines will have features that will enable us to count for each customer the number of items machine sorted. The planned deployment of this capability is still some time away (currently 2012) and, in the interim period, in normal circumstances we remain reliant on information supplied by our customers or obtained from sampling, although we can and do check whole postings.

For those customers who cannot or choose not to provide the data through an already available means, we believe that it is reasonable to differentiate our prices to reflect the additional costs that we consequently incur to sample the mail. Not to do so would effectively mean that all of our customers, whether they have the capability to provide the necessary information or not, would contribute through price to the cost of data gathering. It is also apparent from some responses to this consultation question that some customers are not aware of whether they are adhering to the contractual requirement between us to hand over mail items that are at least 90% fully and accurately addressed and postcoded. As both machineable and manual traffic continue to increase, we have a concern as to what this implies about the quality of mail being handed over to us. We will monitor this carefully.

Nevertheless, the allowable element (of up to 10% depending on the service) of items within postings not carrying a Postcode will remain. We propose that where Postcode information is not provided, and items would therefore be declared as "Zone Z" on any NGPP zonal manifest, these items will be included in Zone C unless they are within one of the 3 digit SSCs defined within the London zone, in which case they will of course be counted as being in Zone D.

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<sup>13</sup> Source: various postal industry sorting machine suppliers. The range caters for varying numbers of machines to be modified: unit costs will be lower where the modification applies to multiple machines

#### **4.4.5 Final RMW Proposed Way to Proceed on Measurement and Monitoring of the Customer's Actual NGPP**

None of the customers who responded had an issue with the need for both parties to be able to demonstrate that the required Postcode sector-based accuracy for the NGPP is being met.

We will make available to our National contract customers the option of providing a Zonal manifest that gives complete visibility to both our customer and RMW regarding the percentage of items they post by Zone.

We recognise and accept that for some of our customers who post on a National contract, the systems changes required by our initial proposal may not be the way they wish to proceed and that for some, allowing a period of time for implementation of a zonal manifest solution is a not route they wish to follow. We are therefore proposing to drop the original proposal to allow a period of up to 18 months from April 2010 before requiring a zonal manifest stipulation to be introduced. For customers in this category - who cannot produce accurate fall to earth data at Postcode sector level because of operational processes or systems constraints - we will use a combination of the capability within our operational sorting machines and manual, statistically valid sampling. Initially, the emphasis will normally be on manual sampling until such time as our new generation of sorting machines is operational. We envisage no end date to this option.

As explained in our first Consultation Document, the manual sampling element is resource-hungry and costly to carry out: we would prefer the provision of a zonal manifest. And, as pointed out by one respondent, the provision of an accurate zonal indicator on each mail item is of benefit to us, as it reduces the time taken to perform some revenue protection checks.

In order to incentivise the provision of both the zonal manifest and the zonal indicator on each item, our proposal in April 2010 was to introduce a price incentive in the form of a 0.1p per item reduction in price for the provision of the zonal manifest in combination with the zonal indicator on each item. However, our latest information indicates that such a discount would overstate the benefit to Royal Mail and that a discount of 0.04p per item would be cost reflective in the context of the time saved for Revenue Protection (RP) activities where both a zonal manifest and zonal item indicator are present. Therefore our final position is that, subject to formal Licence modification approval from Postcomm, an item discount of 0.04p will be applied where both a zonal manifest and a zonal item indicator are provided. This discount will be reviewed periodically when our RP activities and processes are reviewed. Where changes are proposed, we will provide customers with at least three months' notice of any change to the discount. We will provide 12 months' notice of any proposal to withdraw the discount (for example, as a result of the introduction of Digital Barcodes).

We have spent some time considering how to ensure the integrity of fall to earth data obtained from the two sources - of Royal Mail sampling and data provision by customers through a zonal manifest and zonal item indicator. We have also discussed this with customers. We have concluded that for customers to qualify for the price incentive, it will be necessary for them to present items with a zonal manifest and zonal item indicator separately from items that do not have these attributes. This will ensure that we are not sampling items for which we have already

received fall to earth data through the zonal manifest. We understand that this is likely to be unpopular for customers who present a mixture of items with and without zonal data. With this in mind, we would welcome any suggestions from customers likely to be affected on how they would propose to maintain the integrity of data derived from Royal Mail's sampling.

We originally proposed to make the results of the sampling process part of the daily Client Report sign off. However, we have concluded that in practice this is not workable: the data will have no statistical validity at the daily level and the sampling activity would delay the sign off process and potentially impact on quality of service. Rather, we propose to provide statistically valid data to each customer for their sampled items bi-monthly as stated at paragraph 4.6.5.1.

We propose that the sampling option (Option 2 above) remains in place indefinitely, thereby giving all current NGPP customers the option to continue presenting mail in the same way as they have to date, and thereby to allow them to avoid potentially costly changes to their IT/IS infrastructure and/or operational processes. This option will effectively enable customers currently posting on a National contact to continue to do so without the need to effect any IT or operational changes.

Due to Royal Mail IS constraints which we communicated on 11<sup>th</sup> February 2011, we will not be in a position to accept zonal manifests for National postings before September 2011. However, our sampling of mail for the purposes of deriving each customer's actual geographic posting profile commenced in October 2010. We plan to have the results by customer from the first 6 months sampling activity available in April 2011: this will allow both ourselves and our customers to review the information that we plan to use to monitor NGPP performance by customer from that point forward. The information will indicate the statistical validity of the 6 months data and the accuracy to be expected over the 12 month period ending 31<sup>st</sup> March 2012, at which point it will be used to assess adherence to NGPP. As we have previously said, bi-monthly updates of each customer's cumulative posting profile will be provided throughout 2011-12.

#### **4.5 The Approach to Tolerances: "All Reasonable Endeavours"**

##### **4.5.1 Original Consultation Narrative:**

*"5.3.1 The current National Agreement specifies the NGPP tolerances, which are outlined in paragraph 2.3 above. The requirement to meet NGPP is subject to the Customer making "all reasonable endeavours". Both Postcomm, in its Decision document of May 2009 and some of our customers in response to Postcomm's consultation, have expressed concerns about perceived issues to do with the "all reasonable endeavours" qualification and instead prefer that we state a clear tolerance to be associated with the maximum percentage of mail posted to zones C and D (Rural and London). However, at least one customer has stated that they are currently unable to operate on a zonal measurement basis as they do not have the systems in place to do so.*

*5.3.2 We are not seeking to attempt to force any customer operating satisfactorily under the existing National Agreement to give up the "all reasonable endeavours" qualification in an unrealistic timeframe. However, we are considering removing the*

*“all reasonable endeavours” clause 18 months from the introduction of the new arrangements (i.e. by the end of September 2011), by when we believe it is reasonable to expect customers to have made the necessary changes to their systems to enable them to monitor their fall to earth by Postcode sector. This would also enable customers readily, and based on accurate data, to decide whether to pay the appropriate surcharge (please see paragraph 5.4 below) or to switch to a zonal contract should their fall to earth over time not meet the NGPP requirements.”*

#### **4.5.2 Original Consultation Question 4**

***“Do you agree that the “all reasonable endeavours” clause should be replaced with specific tolerances? If the “all reasonable endeavours” clause is removed, will keeping it in place until September 2011 give customers sufficient time to address any systems issues? If not, please provide your proposal for an alternative approach.”***

#### **4.5.3 Summary of Key Points in Customer Responses**

The majority of the eleven original respondents to this question were content with the removal of this clause. However, several linked their acceptance of it to the availability of realistic tolerances or the availability of some suitable alternative.

One customer wanted immediate implementation as they see this clause as an anti-competitive tie-in because, they asserted, RMW's customers would fear a surcharge if they placed [a proportion] of their mail with an alternative operator for delivery. The same respondent advocated surcharging in circumstances where NGPP is not met (rather than converting the contract to a zonal one or terminating it).

One respondent said that such a replacement of the clause favoured the very largest carriers in that more volume provided a better opportunity to meet the NGPP. Another agreed that there needed to be a modification but thought it wrong to penalise those not complying even though they are not endeavouring not to send NGPP compliant mailings. The same customer was concerned about new entrants' start up phase [where achieving any NGPP definition is problematic].

#### **4.5.4 RMW Commentary**

We recognise that the “all reasonable endeavours” clause in itself is an imprecise measure of a customer's meeting the NGPP requirements that are more precisely specified in the existing contracts. Customers have an understandable concern that removal of this clause, in the absence of an alternative means of not having precisely to adhere to given proportions of mail by Zone or the existing tolerances around Postcode areas, would in all likelihood cause them to fail to adhere to their contract with us. However, none has argued that it is not reasonable for Royal Mail Wholesale to have in place charging mechanisms that reflect its costs of providing its services.

In terms of the customer response that larger carriers have a better opportunity to meet the NGPP, we do not believe this to be the case: the minimum posting volumes provide adequate opportunity over the Reference Period to meet the NGPP requirements: in the current Reference Period of three months, a customer would post, based on the contractual minimum daily posting volumes, a total of at least 1.3 million items to the four Zones; in the proposed reference period (see paragraph 4.8.5 below) this would be five million items.



Where a customer is not providing us with an NGPP over a reasonable period of time (as defined in the approach to Reference Periods 4.8.5), we are not persuaded by arguments that to attempt to do so is sufficient. We believe that it is the outcome and not the intent that matters: the outcome of non-adherence, whether intentional or not, is that Royal Mail incurs additional (or indeed reduced) costs dependent on the extent to which the NGPP is not met. This clearly applies even where customers seek to give RMW assurances that they will give us all of their mail.

The only proposed exception to this position is for new posters of Royal Mail Wholesale mail, where our current pragmatic practice of allowing a period of time from start up to reach the NGPP should continue to apply. In the past, we have allowed six months in such circumstances, without making it a specific contractual stipulation. We propose to formalise this arrangement and to allow new Royal Mail Wholesale customers six months before we begin to measure their NGPP in earnest i.e. we will not apply any potential surcharges or credits for any mail posted within this start-up timeframe. We believe that this is a fair and equitable timeframe that gives the appropriate opportunity to start-up customers without materially distorting the market (intentionally or unintentionally, for example by providing a National price for a GZone D profile).

#### **4.5.5 Final RMW Proposed Way Forward on the Approach to “All Reasonable Endeavours”**

We propose to remove the “all reasonable endeavours” clause and to state a clear tolerance to be associated with each GZone. However, our proposal on how tolerances are applied has changed since the original consultation - please see paragraph 4.6.5 below for our revised proposals on tolerances.

### **4.6 The Approach to Tolerances: Percentage Level**

#### **4.6.1 Original Consultation Narrative:**

*“5.3.3 The current National Agreement specifies that Royal Mail may levy a surcharge where the NGPP is not adhered to (see paragraph 3.3 above). Our August 2008 Consultation<sup>14</sup> document proposed that future arrangements should be similar to the current arrangements i.e. that the surcharge payable will be based on the difference between the National price and Zone D/E, with the option to move to a Zonal contract in the event of persistent failure. However, that consultation did not go into what the level of tolerance(s) associated with the failure to meet the NGPP should be, nor did it specify the period over which it should be measured.*

*5.3.4 The current tolerance levels (7.5% for “minor” and 15% for “substantial”) relate to the adherence to the profile for Postcode areas, of which there are 124. The future tolerance will apply to adherence to Postcode sectors mapped to the new Zones, of which there are only four. The ability to meet the percentages of mail going to the new Zones, given their small number, should be greater than meeting the current Postcode area requirements: there is more scope for compensating variations in*

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<sup>14</sup> “Proposed Changes to RMW Access Contracts (Zonal and National)”. 13<sup>th</sup> August 2008

*delivery zone by geography to offset each other in the case of adherence to the new Zones than for the current Postcode area profiles.*

*5.3.5 In practice the only Zones that pose a potential risk to Royal Mail, in terms of the disproportionately high volumes of items being delivered to them, are London and Rural: the Urban and Suburban Zones cannot result in Royal Mail being disadvantaged in terms of delivery cost versus price charged. Consequently, we propose to define a tolerance, and any surcharge, only on the over-sending of mail to the London and Rural Zones (which are the most expensive zones to deliver to).*

*We propose to change both the NGPP tolerance levels and the way in which they are applied. We recognise that on the one hand a three month Reference Period provides a reasonable time over which to assess adherence, but on the other hand that our customers cannot be expected precisely to meet any given percentage split over a short timeframe. Consequently, we propose that a 10% tolerance on the new zones is an even-handed figure on which to judge adherence.*

*In relation to percentages derived from Royal Mail's manual sampling, the statistical sampling accuracy level at 95% confidence limits would be factored in to the calculation. On a 3 monthly basis, we would expect this tolerance to be around +/- 1%.*

*We wish to consult on the proposed level of the tolerance and have identified two options as follows:*

*(a) A single tolerance level of +10%, with no separate percentages for 'minor' and 'major' misalignment, to apply to both the Rural and London Zones. So, adherence for the Rural Zone would be 18.3% +10%, giving a range of 18.3 -20.1% and for the London Zone would be 15.7% +10%, giving a range of 15.7 -17.3%*

*(b) A single tolerance level of +10% for the Rural and London zones combined. Therefore adherence would be 34 to 37.4%.*

*5.3.6 Please note that the above percentages relate to 2008-9 data and can be expected to change when they are reviewed each year for the purposes of tariff setting and so should be considered to be illustrative thereafter."*

#### **4.6.2. Original Consultation Question 5**

***"Which of the above two options do you prefer? Please explain your choice. Are there any other options you wish to be considered?"***

#### **4.6.3 Summary of Key Points in Customer Responses**

Of the nine customers who provided a response to this question, most preferred the combined London and Rural Zone option. However, several customers pointed out that the proposal worked only in one direction in relation to costs: there was no allowance within the options for customers handing over more mail to the cheaper GZones, only a surcharge for the more expensive GZones. One customer proposed a system based on the actual amount posted in each zone, with charges or credits being paid accordingly. They went on to say that this approach would do away with the need to move to a zonal contract if the NGPP were not being met. Another customer said that a system whereby every operator must meet an identical posting

profile, within a 3 month window, when we are all competing in various market spaces, is flawed.

The key points expressed about the option that combined London and Rural were to do with simplicity. On the other hand, it was pointed out that combining zones made the proposal approach less cost reflective.

Our April 2010 “minded to” consultation proposed a revised tolerance for zones C and D of 5% separately in relative terms. Four respondents to this consultation commented that they would like the tolerance to remain at the originally proposed 10%

One customer commented that the proposed method for calculating surcharges appeared to be complex.

#### **4.6.4 Royal Mail Wholesale Commentary**

Our original proposal did not address situations in which the provision of mail from the cheaper zones exceeds the NGPP whilst the expensive zones are under-represented. Nonetheless, our proposal was not designed to benefit Royal Mail disproportionately.

A further important consideration that we have taken into account is that there is no way in which a Zonal contract customer is able to take advantage of, or be disadvantaged by, their actual fall to earth: under a Zonal contract, our customer's payment exactly reflects the costs associated with their geographic profile. We believe that this is an important point in relation to discrimination.

We recognise the concerns expressed about the inevitable variation that exists in the geographical characteristics of a customer's mail profile: even a well-established RMW customer with a mature customer base will experience, for example, both seasonal variations and on-going churn in its customers. However, RMW and customers who enter into a National contract both do so on the basis that the mail posted will meet the requirements of the contract, including the fall to earth profile. We believe that it is reasonable to expect customers to understand their geographical profile and then to choose the most appropriate contract (National or Zonal).

In respect of the comment about our expecting customers to provide identical posting profiles, we do not: we simply ask that each customer's profile is reasonably reflected in the price we charge them.

#### **4.6.5 Final RMW Proposed Way to Proceed on the Approach to Percentage Level of Tolerances**

4.6.5.1 As a consequence of our customers' input, we are amending both the approach to surcharging and the proposed tolerance levels.

Firstly, we are proposing to provide a tolerance percentage that better minimises the different prices that would be paid between the two types of contract - National and Zonal – for the same profile of mail, whilst taking into account the feedback from our customers. As we pointed out in our original consultation, the new Zones, given their small number, are less difficult to meet than the current Postcode area requirements.

This is because there is more scope for compensating variations in delivery zone by geography to offset each other in the case of adherence to the new Zones than for the current Postcode area profile.

Consequently, we intend to apply a tolerance that is lower than the original 10% proposal but greater than the subsequently proposed 5%. We also propose to keep the tolerance in place without a time restriction of any sort (the original consultation proposed limiting the tolerance period to March 2011). We intend to use a tolerance of 7.5% in relative terms expressed as a percentage of mail handed over for each GZone. We will keep under review the level of percentage tolerance: the first occasion will be in April 2011 when we will have a representative set of data based on the new GZones for the first time.

We are conscious that a retrospective annual payment might cause our customers 'cost shocks'. To avoid doing so, we propose to provide each customer with their own rolling actual NGPP profile on a bi-monthly basis. At this frequency of provision, the accuracy level of each of the six reported figures each year will be some 7-8%, although, of course, as the year progresses the cumulative figure will be increasingly accurate. This information will allow both parties to understand the on-going NGPP position vis-à-vis the Zones and to plan for, or take steps to, mitigate the annual outturn figure.

Secondly, we are proposing an approach to tolerances that better reflects the overall profile of a customer's mail. Rather than apply only surcharges as proposed in our original consultation (i.e. only in the context of zones C and D), we are proposing to account for mail handed over for all four zones in calculating the amount of any surcharge that may be applied. Compared to our original proposal, this will benefit National contract customers in certain circumstances where the geographical profile of their does not reflect the Royal Mail NGPP by potentially offsetting any surcharge against volumes of mail posted to other zones.

The surcharge methodology is based on equalising the prices between National and Zonal contracts in circumstances where the volume percentage of higher priced Zones plus a tolerance of 7.5% exceeds the NGPP baseline percentages<sup>15</sup>.

4.6.5.2 The way in which we are proposing to apply the tolerances is as follows:

Firstly we will take the baseline NGPP percentages and add the relative 7.5% tolerance for zones where the Weighed Average Percentage Variance<sup>16</sup> is greater than zero, i.e. for zone C it will be 19.5% plus a relative 7.5% making 20.92%<sup>17</sup>

In order to obtain a new baseline which accounts for the 7.5% increase in percentages of mail for zones, we need to apply a corresponding decrease in the percentage(s) of mail for zone(s) where the Weighed Average Percentage Variance<sup>18</sup>

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<sup>15</sup> See 4.2.5 above, "Percentage of Mail Volume by New "GZone"" For 2011/12 these percentages, inclusive of the 7.5% tolerance are 29.70%, 32.57%, 20.96%, and 16.77% for Zones A, B, C and D respectively

<sup>16</sup> Weighted Average Percentage Variance is the percentage surcharge or discount for each Zone, averaged and weighted by Royal Mail Wholesale revenue by format

<sup>17</sup> Ibid

<sup>18</sup> Ibid footnote 16

is less than zero: this ensures that the sum of all of the percentages in the new baseline equals 100%.

Where the Weighted Average Percentage Variance<sup>19</sup> for more than one Zone is less than zero, for example Zones A and B, then the corresponding reduction in zone A is calculated using the weighting of the ratio of Zone A to Zone B. Zone B is calculated in the same way, weighting by the ratio of Zone B to Zone A.

We will refer to these percentages as the “Baseline Including Tolerance (BIT)”. (For 2011/12 these percentages are 29.70%, 32.57%, 20.96% and 16.77% for zones A, B, C and D respectively.)

Second, we measure the amount each customer would have paid on their National contract if their volume percentages were at the BIT. The unit price used to calculate this amount is the actual total price paid by the customer, divided by the actual total posted volume by customer for the reference period. We refer to this price as the “Actual Average Unit Revenue (AAUR)”.

This AAUR is then compared to the amount that would have been paid on an equivalent Zonal contract using the customer’s actual volume percentages. The prices used to calculate this amount are derived by taking the AAUR and multiplying it by the relative Zonal percentages that are used to calculate the published Zonal prices). We refer to these prices as the “Implied Zonal Average Unit Revenues (IZAUR)”.

Finally, where the amount calculated for the Zonal contract using actual volumes exceeds the amount calculated for the National contract using BIT volumes, we will apply a surcharge equivalent to the difference between the two.

By applying this methodology, compared to our original proposal, we reflect into the calculation a financial benefit to customers presenting higher proportions of zones A and B. However, we do not propose to apply an overall credit for any posting profile: a customer on a National contract will not pay less than the National price.

An example is provided below, with the example actual customer profile highlighted in yellow.

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<sup>19</sup> Ibid footnote 16

**ACTUAL:**

Volume	10,000,000
Revenue	£ 1,724,000
Actual Average Unit Revenue (AAUR)	17.24p

**BASELINE NATIONAL CONTRACT:**

This shows the revenue that would have been charged under a National contract given the Baseline volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Volume %	34.60%	30.30%	19.50%	15.60%	100.00%
Volume	3,460,000	3,030,000	1,950,000	1,560,000	10,000,000
AAUR	17.24p	17.24p	17.24p	17.24p	17.24p
Revenue	£ 596,504	£ 522,372	£ 336,180	£ 268,944	£ 1,724,000

**BASELINE NATIONAL CONTRACT: +7.5% THRESHOLD**

This shows the threshold that a customer has before a surcharge would be applied.

	Zone A	Zone B	Zone C	Zone D	Total
Volume %	29.70%	32.57%	20.96%	16.77%	100.00%
Volume	2,969,500	3,257,250	2,096,250	1,677,000	10,000,000
AAUR	17.24p	17.24p	17.24p	17.24p	17.24p
Revenue	£ 511,942	£ 561,550	£ 361,394	£ 289,115	£ 1,724,000

\* The Implied Zonal AUR (IZAUR) for each zone is then derived from the customer's National contract AUR multiplied by the Zonal percentages.

	Zone A	Zone B	Zone C	Zone D	Total
IZAUR*	15.51p	17.33p	19.22p	18.94p	17.46p
Implied Zonal Revenue (incl. Threshold)	£ 460,715	£ 564,563	£ 402,926	£ 317,636	£ 1,745,840

**CUSTOMER'S ACTUAL NATIONAL CONTRACT:**

This shows the effect for the customer given their particular volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Example Volume %	27.00%	34.00%	22.00%	17.00%	100.00%
Volume	2,700,000	3,400,000	2,200,000	1,700,000	10,000,000
IZAUR	15.51p	17.33p	19.22p	18.94p	17.53p
Revenue	£ 418,903	£ 589,306	£ 422,868	£ 321,992	£ 1,753,068

Surcharge ?	YES
Surcharge	£ 7,228

Further examples are provided in appendix A.

Additionally, to help customers better understand both the methodology and what it might mean in specific circumstances for them, a spreadsheet is available for download from the RMW website. We will be pleased to discuss with any customer this methodology and its implications for them.

Whilst the surcharging calculation may appear complex, it is important to take into account factors such as each customer's actual average unit revenue, and their overall profile, to ensure that any surcharge, where applied, is fair and equitable.

We will begin to apply the agreed level of tolerance 12 months after the introduction of the new NGPP i.e. from April 2011, by when customers will have information relating to their actual fall to earth by Zone. Any surcharge would be applied in April 2012 based on the outturn for the 2011-12 year (April to March).

**4.6.6** Finally, in relation to the option to combine the London and Rural zones, as pointed out in the customer response, combining zones would make the proposal approach less cost reflective. We therefore do not propose to combine zones for tolerance purposes, although the proposed surcharging method will enable customers to combine their profile across all profiles for the calculation of any surcharge.

#### **4.7 The Approach to Tolerances: Duration**

#### **4.7.1 Original Consultation Question 6**

***“Do you agree that the new tolerance should apply 12 months after the introduction of the new NGPP? If not, please propose an alternative.”***

#### **4.7.2 Summary of Key Points in Customer Responses**

Only six customers responded to this question. There was an equal split for and against. Of those who disagreed, one wanted the surcharges and credits to apply immediately, from April 2010. The same customer also wanted RM to consider basing its charges on unique customer identifiers (UCIDs). Another asked that RMW analyse the Wholesale market in its entirety against the NGPP over a retrospective 12 month period and reflect the difference in the NGPP pricing. The customer believed all customers could then decide whether a Zonal or National contract were the better option. A second customer also advocated RMW gathering information for twelve months from April 2010 to inform their decision.

#### **4.7.3 Royal Mail Wholesale Commentary**

At present, National contract customers are not necessarily aware of their posting profile and RMW does not provide such data routinely, although various risk-based checks are carried out. Whilst we understand that some might want us to apply the Zone-based geographic profile as soon as possible, we believe it is reasonable to monitor customers' profiles prior to doing so: this will minimise cost shocks, particularly if, as proposed at paragraph 4.6.5.1 above, we provide data bi-monthly.

The option to base tolerances on UCIDs is something that at present is not viable: such a sampling regime would be unfeasibly expensive to carry out at the requisite level of accuracy; it would impinge on efficient movement of mail through the sampling and revenue protection processes, so jeopardising speed of delivery aims; and it is arguable that the appropriate level of analysis for RMW is at its own paying customer level. Furthermore, we believe it is for our customers to determine which mail from which sending customer it wishes to contract for and pay RMW as its delivery supplier. Nonetheless, as and when sorting equipment is capable of capturing such UCID information, we are prepared to re-consider this idea.

In relation to the customer's point raised about analysing the Wholesale market in its entirety against the NGPP over a retrospective 12 month period and then to reflect the difference in the NGPP pricing, allowing customers to decide whether a Zonal or National contract were the better option: this is what will happen in practice, since the overall Royal Mail fall to earth by GZone is now measured annually (and is subject to external audit).

#### **4.7.4 Final RMW Proposed Way to Proceed on the Approach to the Duration of Tolerances**

We intend to begin charging on the basis of the proposed tolerances and using the methodology described above and in 4.4.5 from April 2011. In practice, this means the first charge will be from the end of the 12 month reference period commencing April 2011 (See 4.8.5 below – “Proposed Way to Proceed on the Approach to the Reference Period”). We believe that this will allow customers to assess their own position and to take any action they wish to affect their profile or type of contract ahead of any financial implications.

## **4.8 The Reference Period**

### **4.8.1 Original Consultation Narrative:**

*“5.4 The existing National Agreement allows for monitoring in each of Royal Mail’s Accounting Periods with assessments of adherence to NGPP taking place over three such periods in combination (the “Reference Period”). This arrangement allows sufficient time for the variations in individual postings to be taken into account. However, we have always considered this information in conjunction with discussions with our customers as to what has caused a particular fall to earth profile in any given period (for example Key National Postings may have an effect, and for new customers time is required to build up their sending customer base to a representative level).*

*The action available to RMW in the case of non-adherence to the NGPP is to apply surcharges and to move the customer to a Zonal contract (giving 30 days’ notice) if the non-adherence continues<sup>20</sup>.*

*Surcharges are calculated as the difference in the total price paid for mail posted over the Reference Period, and the total price that would have been paid under a zonal contract had the minimum NGPP percentages been achieved, expressed as an average unit price. This approach also takes into account any variations in format. It also ensures that there is no undue pricing discrimination between customers on National and Zonal contracts.*

*We propose to retain the current arrangements on the way we levy any surcharge and to retain the current Reference Period.”*

### **4.8.2 Original Consultation Question 7**

***“Do you agree that the current measurement period (Reference Period) and the means of calculating the surcharge should remain unchanged? If not, please provide your alternative proposal***

### **4.8.3 Summary of Key Points in Customer Responses**

Again, six customers responded to this question. Of the four who responded positively, three had caveats as follows:

- one customer wanted to avoid double counting of the individual months’ results by the use of discrete three month periods (i.e. not rolling periods);
- another wanted the method of calculation to allow for tolerances and sought confirmation that “three months” means three Royal Mail accounting periods comprising 13 weeks. Further, they sought parity with the existing basis of calculation, viz. that “multiplying the number of Mailing Items that would need to be added to or subtracted from the

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<sup>20</sup> “if Substantial Misalignments occur in Postcode Areas accounting for more than 5% of the total Royal Mail National Geographic Posting Profile volume in more than four Accounting Periods in any twelve Accounting Periods then Royal Mail shall be entitled to transfer the Customer to the Zonal Agreement or terminate this Agreement on 30 days’ notice” (Schedule 4 of the National Agreement)



Actual National Geographic Posting Profile for those Postcode Areas with a Minor Misalignment (in the case of paragraph 4) or Substantial Misalignment (in the case of paragraph 6) to bring those Postcode Areas for the last Accounting Period in the relevant Reference Period.”. That is, it is based on adjusting the mail posted by the number of items needed to bring the profile within the allowed tolerance.

- The third customer sought assurance that if they were to go outside of the tolerances for a National contract, they could resume it if and when they met them again.

Another customer suggested taking a statistical process control approach to the reference period tolerance, i.e. by RMW providing actual versus tolerance limit information by quarter, but felt unable to judge the proposal until more detail was provided about the sampling processes.

One customer expressed a concern as to whether RMW is advocating an implementation of a “stick-like’ retrospective charge”, which they thought might be considerable and financially damaging, especially to smaller postal operators at a time of a general economic downturn and a downturn in postal volumes. They requested clarity on how this proposed system of charging would work in practice. The same customer asked for RMW’s view of how the proposed charging regime will be introduced for new customers i.e. will there still be a period of time for new entrants to meet these new requirements and will that period of time be definitive?

One customer had a concern that their operational practices operate on monthly cycles and any reference period different from this could cause Zonal profile “distortions”.

#### **4.8.4 RMW Commentary**

No respondent thought that the existing Reference Period of three months should be changed, although one made the point that their processes operate monthly and they were seeking alignment to address their concern about distortions.

The Reference Period currently comprises 13 weeks (based on Royal Mail’s accounting periods, which in weeks run 4,4,5). Since our sampling activity will produce results that provide a 95% confidence level after 12 months activity, we propose to align the “reference period” to this timescale, and so do away with the three month Reference Periods.

New customers, as is the case now, will be given a reasonable period of time from the outset of posting on a National contract i.e. as opposed to the date at which the contract is signed. We believe that this period of time requires some certainty for existing and future customers and so intend to allow new Royal Mail Wholesale customers a period of six months before we apply the Reference Period regime for measuring adherence, although we will measure adherence from the outset of each contract and provide the outcome to new customers in the same way as to existing customers. As stated earlier at paragraph 4.5.4, we believe that this is a fair and equitable timeframe that gives the appropriate opportunity to start-up RMW customers without materially distorting the market (intentionally or unintentionally).

#### **4.8.5 Final RMW Proposed Way to Proceed on the Approach to the Reference Period**

Given the statistical validity of the proposed sampling, we propose that any financial adjustments will be measured and applied annually and for a discrete 12 month Royal Mail financial year running from April to the following March. This approach will eliminate any double counting of months or periods. We propose to provide customers with data on their actual geographic profile every other month to avoid cost shocks, as previously explained. This will effectively change a reference period to 12 months, with any adjustment actions being undertaken with the same frequency. At this bi-monthly frequency of provision the accuracy level of each of the six reported figures each year will be some 7-8 % discretely, although, of course, the cumulative figure will be increasingly accurate. This information will allow us and our customers to understand the on-going NGPP position vis-à-vis the Zones and to plan for or take steps to mitigate the annual outturn figure.

We will apply the surcharge annually. In order to avoid National contract customers receiving a cost shock at the end of any given 12 month period, we will provide data on a bi-monthly frequency, as stated above, to appraise each customer of their actual zonal profile. We will include the statistical accuracy within each report, which over the six reports provided each year will give an increasingly accurate view of the likely outcome at the end of the year. This will enable both parties to plan for the effects of the annual potential surcharges.

For new customers, we propose to specify a period of six months before beginning to apply the tolerances for the purposes of calculating surcharges i.e. the surcharge would be payable for the remainder of the financial year(s) following the six month start up period.

Where the end of the six month period falls part way through a Reference Period and that customer is not providing zonal manifests, RMW will increase its sampling to achieve statistically valid results for that customer for the relevant reference period. Consequently, no new customer would be given any undue advantage over an existing customer in terms of their need to adhere to the NGPP tolerances.

#### **4.9 NGPP Baseline Updates**

##### **4.9.1 Original Consultation Narrative**

*“5.5.1 As stated in paragraph 3.1 above, the current NGPP was specified in the first contract signed in February 2004 and has not undergone any change since then, although the National Agreement states that we may vary it by giving customers two months’ written notice. However, we believe that as part of our proposed changes, it is important to update the NGPP profile at the outset (and periodically thereafter) to use the proportions of mail going to the four new zones as specified in our Proposals document as shown at paragraph [19] above.*

*Going forward, we propose that variations to the baseline should be reflected in regular updates. To achieve this, we consider that the minimum review period should be no less than 12 months. However, we are aware that some customers may feel that an even longer period between adjustments to the NGPP baseline would be*

*desirable, in order to provide a greater level of stability and certainty. With this consideration in mind, we propose to update the NGPP every two years.”*

#### **4.9.2 Original Consultation Question 8**

***“Do you agree that updating the NGPP at two yearly intervals is appropriate? If not, what alternative period do you propose?”***

#### **4.9.3 Summary of Responses**

Four customers responded directly to this question and were evenly split in their views between an interval of two years and one year. Those that advocated updating each year did so on the basis that Royal Mail’s Licence Modification<sup>21</sup> requires annual updates to the proportions of mail comprising each Zone and thought that alignment to that process is desirable. Of those agreeing with the two year approach, one did so on the proviso that Postcode sectors did not change [their zone] significantly; the other respondent did not elaborate.

One customer said that the NGPP baseline should be derived from Royal Mail Wholesale traffic only.

#### **4.9.4 Royal Mail Commentary**

We agree with the view that the frequency of updating the NGPP should match the time period specified in our Licence for the updating of Zones. The NGPP baseline should include, but not exclusively consist of Wholesale traffic. This will accurately reflect the geographic fall to earth of all Royal Mail traffic. The measurement has begun and the baseline will include Wholesale traffic when the NGPP baseline is calculated for 2012/13

#### **4.9.5 Final RMW Proposed Way to Proceed on the Approach to NGPP Baseline Updates**

The updating of the NGPP will take place at yearly intervals to coincide with the updating of GZone percentages.

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<sup>21</sup> Ibid footnote 2

## **4.10 Building of NGPP Monitoring into Customers' Systems**

### **4.10.1 Original Consultation Narrative**

*“6.1 We want to give all customers the choice of using a contract (zonal or national) that is best suited to their mailing profile without requiring any unreasonable actions to be taken in the short term. At the same time, we recognise that long-term, large scale sampling of our customers fall to earth is costly and inefficient for us and so is undesirable beyond the medium term. We therefore believe it is reasonable to ask all customers using a National contract to develop IT solutions to enable them to demonstrate their adherence to the National contract NGPP by January 2012 i.e. some two years and three months after this consultation document is published.”*

### **4.10.2 Original Consultation question 9**

***“Do you think that it is reasonable to require customers to measure and provide NGPP information by Zone via IT systems by the end of January 2012? If not, please provide your views on an alternative.”***

### **4.10.3 Summary of Responses**

Of the eight customers and two trade associations responding to this question, only three thought it reasonable. Those saying it is an unreasonable proposal did so on several bases:

- the proposed timeframe is too short
- their systems are unable to provide NGPP information by zone - either at all or because of their legacy nature or in the timeframe proposed
- Competing IT systems priorities mean that any business case proposing such a capability, even with a realistic financial incentive from RMW to do so, would never get to the 'front of the IT queue'
- one customer believed it to be tantamount to removing NGPP
- another was not aware of systems that would enable this approach for manual systems at a reasonable price

Of the three thinking the timeframe of January 2012 reasonable, one believes that the timeframe is too long and that customers should be encouraged to provide the information more quickly; another thinks it is the job of the operator to provide such information; the third did not expand on their “yes” reply.

### **4.10.4 RMW Commentary**

It is clear that the majority of respondents feel strongly about this proposal and that some are not able to meet the requirements of it, whilst others are not willing to do so.

### **4.10.5 Final RMW Proposed Way to Proceed on the Approach to Building of NGPP Monitoring into Customers' Systems**

RMW has no desire to make the posting of mail through Royal Mail Wholesale more difficult or costly for its customers: on the contrary, we have continually sought to

make Royal Mail Wholesale services cost effective and efficient. The current economic climate and the overall sharp decline in the postal sector of the communications market make these objectives even more vital. Consequently, and based on the responses of the majority of respondents, we do not propose to remove the option for individual customers of having their NGPP measured through statistically valid sampling.

#### **4.11 Phasing Out of NGPP Tolerances**

##### **4.11.1 Original Narrative**

*“6.2 RMW is committed to avoiding any undue pricing discrimination between customers using Zonal and National versions of contracts. In order to achieve this aim, we propose to get to a position where customers using a National contract meet as precisely as is practical the requirements of the RMW NGPP, as expressed as maximum percentages of mail for the Rural and London zones. This requires a reduction to the 10% minimum tolerance that we have proposed to adopt for the first 12 months from April 2010 (i.e. reductions would apply from April 2011).”*

*RMW is, however, mindful that some customers who ultimately will not be able to meet RMW NGPP requirements may also not have the information technology capabilities to switch to a zonal contract. Consequently, we are proposing that appropriate tolerances as outlined above remain in place until the end of March 2011. This will allow all customers using a National contract to assess their mailing profile fall to earth and to develop a plan to meet the requirements of either a National or Zonal contract by the end of this period.”*

##### **4.11.2 Original Consultation question 10**

***“Is the phasing out of NGPP tolerances by the end of March 2011 reasonable? If not please provide an alternative proposal.”***

##### **4.11.3 Summary of Responses**

Of the ten respondents, eight did not believe the phasing out of tolerances by March 2011 to be reasonable. Many cited the need to allow for flexibility to take into account geographical profiles that occur throughout a year; several said that if the “all reasonable endeavours” clause were removed, then a tolerance would be required; one linked the phasing out to their ability to introduce IT systems by the end of 2012 at the earliest.

The key points made by the two respondents in favour were that they considered any tolerance to be a potential price discount for National contract customers and so unduly discriminatory against Zonal contract customers.

##### **4.11.4 RMW Commentary**

We remain committed to avoiding any undue price discrimination and so take seriously the need to align the prices paid by National and Zonal customers. However, as stated at paragraph 4.6.4, we recognise the practical point that any customer’s profile can be expected to vary to a certain extent over time and we

intend to reflect that in our National contract going forward, whilst taking fully into account the need to avoid undue discrimination.

#### **4.11.5 RMW Proposed Way to Proceed on Phasing Out of NGPP Tolerances**

We will change our original proposal to remove tolerances by March 2011 and propose a 7.5% tolerance, or such tolerance as may be varied from time to time in place indefinitely. (Surcharges and credits will be applied as described in para 4.6.5.2 above).

## 5. Summary of Changes to Proposed Actions

Consultation Question	Proposal October 2009	Proposal Mar 2010	Final Proposal October 2010
1. Do you have any comments on the NGPP definition proposals?	Define NGPP by four percentages for each GZone, based on Postcode Sectors	No change	No change
2. Do you have any objections to the dropping of mandatory and minimum numbers of Postcode areas? If you do, please explain.	Abandon the obligations relating to mandatory Postcodes and the minimum number of Postcodes areas per day. Do not propose to replace them with equivalent stipulation for Postcode sectors.	No change	No change
3. Do you agree that the proposed approaches set out ...for measuring NGPP are viable and that the timeframe for Option 2 is reasonable?	Option 1: Zonal Manifests Mandatory for all mail from Sept. 2011. No zonal indicator on items  Option 2: RM Manual sampling available until September 2011, then per Option 1. Cost reflective charge where zonal data not provided from April 2011	Option 1: Provision of zonal manifest not mandatory at any time.  Zonal indicator on items optional (but see also Option 2 below)  Option 2: Sampling option available indefinitely. Cost reflective price reduction where zonal data and zonal indicator is provided	Option 1: Provision of zonal manifest and zonal indicator not mandatory at any time.  Option 2: Sampling option available indefinitely. Cost reflective price reduction of 0.04p per item where zonal data and zonal indicator is provided, dependant on the introduction of RMW's Wholesale Management System (WMS)
4. Do you agree that the "all reasonable endeavours" clause should be replaced with specific tolerances? If the "all reasonable endeavours" clause is removed, will keeping it in place until September 2011 to give	Retain 3 month reference period  Remove "all reasonable endeavours". Replace with tolerances	Change reference period to 12 months  Remove "all reasonable endeavours". Replace with tolerances	Change reference period to 12 months  Remove "all reasonable endeavours". Replace with tolerances

customers sufficient time to address any systems issues? If not, please provide your proposal for an alternative approach.			
5. Which of the above two (tolerance) options do you prefer? Please explain your choice. Are there any other options you wish to be considered?	Tolerance of +10%, applied either separately to Zones C and D, or as a single aggregated tolerance for both C and D	Tolerance of 5% applied for whole geographic profile i.e. to all GZones  Apply surcharges for all 'net' profiles outside tolerance	Tolerance of 7.5% applied for whole geographic profile i.e. to all GZones  Apply surcharges for all 'net' profiles outside tolerance
6. Do you agree that the new tolerance should apply 12 months after the introduction of the new NGPP? If not, please propose an alternative.	Level of tolerance to apply from April 2011	No Change – but surcharges not applied for the reference period ending April 2011(i.e. in practice, first surcharge is for the period April 2011 to March 2012).	No Change – but surcharges not applied for the reference period ending April 2011(i.e. in practice, any surcharge is first applied in April 2012 for the period April 2011 to March 2012)
7. Do you agree that the current measurement period (Reference Period) and the means of calculating the surcharge should remain unchanged? If not, please provide your alternative proposal	No change from current contract i.e. rolling 3 monthly accounting periods	Single, non-rolling 12 month reference period (i.e. in practice, first surcharge is for the period April 2011 to March 2012).  Bi-monthly reporting of sampling results	Single, non-rolling 12 month reference period (i.e. in practice, first surcharge is for the period April 2011 to March 2012).  Bi-monthly reporting of sampling results
8. Do you agree that updating the NGPP at two yearly intervals is appropriate? If not, what alternative period do you propose?	Every 2 years	Annually, to align with re-assessment of GZone process	Annually, to align with re-assessment of GZone process. NGPP baseline will in future years include Wholesale traffic



9. Do you think that it is reasonable to require customers to measure and provide NGPP information by Zone via IT systems by the end of January 2012? If not, please provide your views on an alternative.	Cease sampling and require mandatory zonal manifests from January 2012	Maintain NGPP sampling indefinitely, with price benefit for providing zonal manifests in combination with zonal indicator on each item.	Maintain NGPP sampling indefinitely, Zonal manifests cannot be accepted before September 2011 (see point 3 above). In the meantime NGPP monitoring will be by RM sampling.
10. Is the phasing out of NGPP tolerances by the end of March 2011 reasonable? If not please provide an alternative proposal.	Phase out tolerances by March 2011	Retain tolerances (at 5%)	Retain tolerances (at 7.5% or as amended from time to time)

## 8. Next Steps

These final proposals will be incorporated into National Agreements by the 23rd of February 2011 and customers will be asked to sign an amended Agreement by 23<sup>rd</sup> March. This will enable the relevant National contractual changes to come into effect to meet the requirements of the Licence Modification of May 2009<sup>22</sup> (as explained in section 3 of this document).

Paul Bates  
18<sup>th</sup> February 2011

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<sup>22</sup> Ibid footnote 2

### **NGPP Surcharging Methodology**

As described at paragraph 4.6.5.2 of this document the surcharge methodology is based on equalising the prices between National and Zonal contracts in circumstances where the volume percentage of Zones where the Weighed Average Percentage Variance is greater than zero<sup>23</sup>, exceeds the NGPP baseline percentages plus a tolerance of 7.5%<sup>24</sup>.

A combination of actual data, where supplied by customers<sup>25</sup>, and RMW sampling data is used in order to measure a customer's position relative to the NGPP baseline and whether or not a surcharge is to be applied:

Firstly, we take the Baseline NGPP volume percentages and apply a relative 7.5% tolerance to Zones where the Weighted Average Percentage Variance<sup>26</sup> is greater than zero. The tolerance for these Zones will be a relative 7.5% higher than the Baseline (e.g. the tolerance for Zone C will be  $19.5\% \times 1.075 = 20.96\%$ ). If the percentage of mail posted by customer does not exceed 20.96%<sup>27</sup> for Zone C and/or 16.66%<sup>28</sup> for Zone D and/or 32.57%<sup>29</sup> for Zone B for the reference period then no surcharge will be applied.

As the tolerance is relative rather than absolute, the tolerance for Zones where the Weighted Average Percentage Variance<sup>30</sup> is less than zero are calculated differently to that of Zones where the Weighted Average Percentage Variance<sup>31</sup> is greater than zero. This is so that when summed the Zonal values equal 100%. Where for example Weighted Average Percentage Variance<sup>32</sup> for both Zones A and B is lower than zero, then the tolerance for Zone A is calculated by taking the difference between the sum of the Baseline percentages for Zones C and D including the tolerance less the sum of the Baseline percentages for the same zones. This difference is then weighted by the ratio of Zone A to Zone B. Zone B is calculated the in the same way, weighting by the ratio of Zone B to Zone A. We refer to these percentages as the "Baseline Including Tolerance (BIT)".

Second, we measure the amount customers would have paid on their National contract if their volume percentages were at the BIT. The unit price used to calculate this amount is the actual price paid divided by the actual volume, for the period. We refer to this price as the "Actual Average Unit Revenue (AAUR)".

This is then compared to the amount that would have been paid on an equivalent Zonal contract using their actual volume percentages. The prices used to calculate this amount are derived by taking the AAUR and multiplying by the relative Zonal

<sup>23</sup> Weighted Average Percentage Variance is the percentage surcharge or discount for each Zone, averaged and weighted by Royal Mail Wholesale revenue by format

<sup>24</sup> Ibid footnote 14

<sup>25</sup> Not before September 2011

<sup>26</sup> Ibid footnote 20

<sup>27</sup> This is the percentage for 2011/12: later years will vary according to the annual GZone calculation, as required by Changes to Zonal Access Pricing by Royal Mail - Licence Modifications. A Decision by the Postal Services Commission. 14th May 2009

<sup>28</sup> Ibid

<sup>29</sup> Ibid

<sup>30</sup> Ibid footnote 20

<sup>31</sup> Ibid footnote 20

<sup>32</sup> Ibid footnote 20

percentages that are used to calculate the published Zonal prices. We refer to these prices as the “Implied Zonal Average Unit Revenues (IZAUR)”.

Finally, where the amount calculated for the Zonal contract using actual volumes exceeds the amount calculated for the National contract using BIT volumes, we will apply a surcharge equivalent to the difference between the two.

By applying this methodology a customer will be charged at the National price when its volume percentages are within tolerance; or at a price higher than the National price if the tolerance is breached. Note we do not propose to apply an overall credit for any posting profile

Three examples are given below:

### Example 1

#### ACTUAL:

Volume	10,000,000
Revenue	£ 1,724,000
Actual Average Unit Revenue (AAUR)	17.24p

#### BASELINE NATIONAL CONTRACT:

This shows the revenue that would have been charged under a National contract given the Baseline volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Volume %	34.60%	30.30%	19.50%	15.60%	100.00%
Volume	3,460,000	3,030,000	1,950,000	1,560,000	10,000,000
AAUR	17.24p	17.24p	17.24p	17.24p	17.24p
Revenue	£ 596,504	£ 522,372	£ 336,180	£ 268,944	£ 1,724,000

#### BASELINE NATIONAL CONTRACT: +7.5% THRESHOLD

This shows the threshold that a customer has before a surcharge would be applied.

	Zone A	Zone B	Zone C	Zone D	Total
Volume %	29.70%	32.57%	20.96%	16.77%	100.00%
Volume	2,969,500	3,257,250	2,096,250	1,677,000	10,000,000
AAUR	17.24p	17.24p	17.24p	17.24p	17.24p
Revenue	£ 511,942	£ 561,550	£ 361,394	£ 289,115	£ 1,724,000

\* The Implied Zonal AUR (IZAUR) for each zone is then derived from the customer's National contract AUR multiplied by the Zonal percentages.

IZAUR*	15.51p	17.33p	19.22p	18.94p	17.46p
Implied Zonal Revenue (incl. Threshold)	£ 460,715	£ 564,563	£ 402,926	£ 317,636	£ 1,745,840

#### CUSTOMER'S ACTUAL NATIONAL CONTRACT:

This shows the effect for the customer given their particular volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Example Volume %	32.00%	26.00%	21.00%	21.00%	100.00%
Volume	3,200,000	2,600,000	2,100,000	2,100,000	10,000,000
IZAUR	15.51p	17.33p	19.22p	18.94p	17.49p
Revenue	£ 496,477	£ 450,645	£ 403,646	£ 397,755	£ 1,748,524

Surcharge ?	YES
Surcharge	£ 2,684

## Example 2

### BASELINE NATIONAL CONTRACT:

This shows the revenue that would have been charged under a National contract given the Baseline volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Volume %	34.60%	30.30%	19.50%	15.60%	100.00%
Volume	3,460,000	3,030,000	1,950,000	1,560,000	10,000,000
AAUR	17.24p	17.24p	17.24p	17.24p	17.24p
Revenue	£ 596,504	£ 522,372	£ 336,180	£ 268,944	£ 1,724,000

### BASELINE NATIONAL CONTRACT: +7.5% THRESHOLD

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	Zone A	Zone B	Zone C	Zone D	Total
Volume %	29.70%	32.57%	20.96%	16.77%	100.00%
Volume	2,969,500	3,257,250	2,096,250	1,677,000	10,000,000
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Revenue	£ 511,942	£ 561,550	£ 361,394	£ 289,115	£ 1,724,000

\* The Implied Zonal AUR (IZAUR) for each zone is then derived from the customer's National contract AUR multiplied by the Zonal percentages.

IZAUR*	15.51p	17.33p	19.22p	18.94p	17.46p
Implied Zonal Revenue (incl. Threshold)	£ 460,715	£ 564,563	£ 402,926	£ 317,636	£ 1,745,840

### CUSTOMER'S ACTUAL NATIONAL CONTRACT:

This shows the effect for the customer given their particular volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Example Volume %	25.00%	36.00%	25.00%	14.00%	100.00%
Volume	2,500,000	3,600,000	2,500,000	1,400,000	10,000,000
IZAUR	15.51p	17.33p	19.22p	18.94p	17.58p
Revenue	£ 387,873	£ 623,971	£ 480,531	£ 265,170	£ 1,757,545

Surcharge ?	YES
Surcharge	£ 11,705

### Example 3

**BASELINE NATIONAL CONTRACT:**

This shows the revenue that would have been charged under a National contract given the Baseline volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Volume %	34.60%	30.30%	19.50%	15.60%	100.00%
Volume	3,460,000	3,030,000	1,950,000	1,560,000	10,000,000
AAUR	17.24p	17.24p	17.24p	17.24p	17.24p
Revenue	£ 596,504	£ 522,372	£ 336,180	£ 268,944	£ 1,724,000

**BASELINE NATIONAL CONTRACT: +7.5% THRESHOLD**

This shows the threshold that a customer has before a surcharge would be applied.

	Zone A	Zone B	Zone C	Zone D	Total
Volume %	29.70%	32.57%	20.96%	16.77%	100.00%
Volume	2,969,500	3,257,250	2,096,250	1,677,000	10,000,000
AAUR	17.24p	17.24p	17.24p	17.24p	17.24p
Revenue	£ 511,942	£ 561,550	£ 361,394	£ 289,115	£ 1,724,000

\* The Implied Zonal AUR (IZAUR) for each zone is then derived from the customer's National contract AUR multiplied by the Zonal percentages.

IZAUR*	15.51p	17.33p	19.22p	18.94p	17.46p
Implied Zonal Revenue (incl. Threshold)	£ 460,715	£ 564,563	£ 402,926	£ 317,636	£ 1,745,840

**CUSTOMER'S ACTUAL NATIONAL CONTRACT:**

This shows the effect for the customer given their particular volume percentages.

	Zone A	Zone B	Zone C	Zone D	Total
Example Volume %	35.00%	25.00%	15.00%	25.00%	100.00%
Volume	3,500,000	2,500,000	1,500,000	2,500,000	10,000,000
IZAUR	15.51p	17.33p	19.22p	18.94p	17.38p
Revenue	£ 543,022	£ 433,313	£ 288,319	£ 473,518	£ 1,738,172

Surcharge ?	NO
Surcharge	£ -