



18 August 2022

Royal Mail Wholesale

185 Farringdon Road
London
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ROYAL MAIL DECISION ON THE ALC COMPENSATION MEASURES CONSULTATION

Dear Customer,

In May 2022 we launched a consultation seeking customers' views on proposals relating to the D+2 Service Standard compensation measures set out in Schedule 2 of the Access Letters Contract (ALC).

I would like to thank the customers who responded for their valued feedback which we have considered very carefully.

What we proposed

In summary, our proposals were as follows:

- a. two options to increase the Compensation Target (as defined in the ALC) from 90% to 92%, following some customers' request to increase the current Compensation Target of 90%;
- b. changes to the compensation calculation methodology within the above two options, which adopts an approach which we believe better reflects any impact upon customers if Royal Mail fails to meet the increased service levels; and
- c. an amendment to the requirement for customers to provide evidence of loss before compensation is payable, so that customers will need to provide evidence that the level of loss of profit they have incurred is commensurate to the level of compensation payable to establish an entitlement to compensation.

You can view the full consultation document [here](#).

Summary of customer feedback in response to the consultation proposals

We received 4 responses in total, broken down as follows: individual responses from 3 ALC contract holders, and a further collective response supported by 11 ALC contract holders (2 of which were also part of the 3 ALC contract holders who submitted an individual response).

The responses can be categorised into 2 areas as follows:

1. Compensation Target and methodology:

Customers fed back that:

- the Compensation Target (currently 90%) should be aligned to the Service Standard (i.e. 95%). It is worth noting that one response acknowledged that our proposals to increase the Compensation Target to 92% was a move in the right direction, however, it did not feel that this was enough;
- the current methodology as set out in Schedule 2 of the ALC should be retained.

One respondent also fed back that the Compensation Target for the Mailmark Economy Service (currently 92.5%) should also be aligned to the Service Standard for that service (i.e. 97.5%).

2. Requirement to prove loss of profit commensurate to loss incurred:

One customer agreed with our rationale and proposals around amending the requirement for customers to provide evidence of loss of profit commensurate to the level of compensation payable to establish entitlement.

The other respondents fed back that the requirement to provide evidence of loss to be eligible for a compensation award should be removed altogether, as should the 3 other sub-clauses contained within paragraph 2.6, Schedule 2 of the ALC. These customers felt that if Royal Mail does not hit its quality targets under the ALC, a rebate should be paid for failure to provide the service level on postage charges associated with the mailing items to which Royal Mail has failed its target, regardless of whether the customer suffered any loss or is in breach of their contract, etc.

We also held 121s with respondents to understand their views in more detail where needed. Overarchingly, respondents felt that Royal Mail's proposals to amend the requirement to prove loss of profit commensurate with the compensation should not be implemented, and customers maintained their position that this requirement should be removed from the ALC altogether.

Our decision

In establishing our proposals under the consultation, we aimed to address some customers' request to increase the current contractual threshold for triggering the compensation payment, in return for which Royal Mail proposed to require customers to provide evidence of commensurate loss of profit. We view this as a fair and reasonable approach to take, ensuring that compensation awarded compensates for any adverse impact, for example where the service failure resulted in a contract being terminated, or our customers having had to pay compensation to their own customers.

Increasing the Compensation Target whilst retaining the current proof of loss clause (or removing the clause altogether as some customers suggest) would constitute a material shift in Royal Mail's financial risk exposure to our detriment and where this is not justified. For the reasons set out above, we deem the requirement to provide loss of profit a fair and reasonable mechanism within the compensation measures. We acted in good faith by proposing to increase the compensation target, including increasing the maximum compensation level from 4% to 5%. However, given customers' firm stance that the requirement to prove loss should be removed altogether alongside the demand to increase the compensation target, we believe that the dialogue around this matter has been exhausted.

This leaves Royal Mail in a position such that we have decided not to proceed with any of the proposals set out in the consultation, and instead retain the existing D+2 compensation measures and associated provisions, which of course were agreed by all relevant parties when the contract was established.

If you have any further queries regarding our response to the consultation please contact your Account Director.

Yours sincerely,



Tim Cable
Wholesale Products Director
Royal Mail Wholesale