



Royal Mail Wholesale

148 Old Street
London
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Dear Customer,

Reform of Access Contracts

In July 2012, we began a discussion with you on the need to reform the current Access agreements. We published a discussion document on the 8th October seeking your views on a wide range of proposals relating to pricing, the services, contract governance and operational processes. We received views from many of our Access contract holders and some industry bodies with over 25 written responses and obtained helpful feedback in the meetings that we held with customers during October and November.

The feedback we received shows clear support for incentives to help sustain mail volumes and the importance of developing Access in a manner that will help support the financial sustainability of the Universal Service. However, many customers also made it clear that we are proceeding too quickly on some of our pricing proposals and they needed more time to adjust to a different pricing regime. Customers with purely regional models expressed concern over how some of the price proposals would affect them.

We have considered our proposals in light of all customer comments and this has significantly influenced our decisions on the proposals that we shared with you. This letter contains a summary of the proposals that we are taking forward to include in the future terms of the new contracts from April 2013. These terms are available in the form of a new Access letters contract and a separate parcels contract which have been published today on our website at www.royalmailwholesale.com/index.php/services/agreements/new-contracts-from-april-2013

Pricing

We believe that there is merit in the introduction of a price structure that allows customers greater price stability in return for committing volume. However, customer feedback revealed that while many customers are attracted to this concept, more time is needed before the industry would be in a position to implement proposals of that sort due to the complexity of the arrangements. Therefore, we will continue to work with the industry during 2013 with a view to introducing some form of volume commitment pricing (or other incentives connected to volume) into the new contracts. We will announce further proposals in due course.

Consequently, we are not intending to make major changes to the current Access pricing plans currently available. Under the new terms, you will continue to have the option to choose between two National price plans:

National Price Plan One (SSCs) - a national distribution based on the existing Royal Mail distribution of mail between the 88 SSCs (standard selection codes) and a requirement for a minimum volume of mail to Urban postcodes at each SSC akin to Royal Mail's profile¹. Customers will be required to make all reasonable endeavours to meet the profile; if reasonable endeavours are not made, surcharges will apply; or

National Price Plan Two (Zones) - a national distribution based on the existing Royal Mail distribution of mail between each of the price zones². We will assess adherence to the profile by

¹ This replaces the original NGPP contracts which are based on Postcode Areas and have not been reviewed since 2004

² This is equivalent to the revised NGPP terms (ZGPP) offered from April 2011.

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sampling. The requirement to meet this profile is absolute and surcharges will apply if the permissible profile is not adhered to.

We will continue to offer a Zonal Price Plan which retains the same structure of four price zones. We still intend to reconsider the degree of zonal disaggregation in the zonal contracts. We remain concerned that the price structure of four zones is insufficient to capture the degree of cost variability.

We will maintain price equivalence between the different price plans. However, we believe that the value of the commitment given by these different pricing plans to Royal Mail may well differ and we will review whether it is appropriate for these pricing plans to be set at the same level in the future.

We recognise that the new terms have real commercial value for Royal Mail and therefore we will price the new contracts 2.44% less than the current agreements to provide customers with an appropriate incentive to switch. Full details of the prices and our pricing proposals from April 2013 can be found on the Royal Mail Wholesale website, www.royalmailwholesale.com.

Services

We wish to offer parcels services on bespoke contracts to better reflect our costs according to volume, volumetrics, weight, fall to earth and sortation. Bespoke prices are more commonplace in the bulk parcels market. Until we have finalised the costs for the bespoke prices, we will continue to offer parcel services for items up to 2kg in a separate parcels contract.

We have decided to cease offering 2 – 5Kg parcels services from the end of July 2013. The parcels market for these heavier items is very competitive and we have received very little volume in the time that it has been available.

Contract Governance

The key changes to the current Access agreements affect the variations and termination clauses; these are as we discussed. The new terms allow for the following:

Eligibility: a minimum entry threshold of 6 million items a year, with termination on 90 days notice for failure to meet requirement, subject to 1 year grace period from commencement. If you require only a parcels contract, a separate threshold applies of a minimum £1.2m revenue spend per annum.

Termination: a new provision which allows us to terminate the letters contract on 12 months' notice (the new parcels contract can be terminated on 6 months' notice).

Variations: new variation provisions which allow us to vary the terms and conditions of the contract on 6 months notice (certain changes can be made with less notice, e.g. pricing, changes required by regulation, changes to specifications, and changes of postcode allocation to zones). The new pricing conditions allow us to make a tariff change up to twice a year if necessary.

Nothing in the letters contract detracts from a customer's right to raise an Access dispute with Ofcom or a complaint under the Competition Act. In the event that Ofcom accepts such a dispute or a complaint is accepted, we will suspend any contractual notices pending resolution.

Disputes: introduction of a low cost adjudication service to facilitate settling of low value commercial disputes without the need to go to mediation or formal arbitration or pursue a complaint via Ofcom.

Compensation: whereas our initial proposal was to remove compensation, we have decided to continue to offer compensation for failure to meet our Access service standard subject to a compensation target of 90% and evidence of material loss to you.

Agency terms: introduction of a minimum annual spend criteria of £5,500 per Agency Customer. We will terminate Agency Customers for low use. Additionally, we have defined eligibility of an Agency Customer as limited to VAT exempt/partial VAT exempt entities.

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Service Standard measure: introduction of a requirement that a customer participate in Access quality of service measurement (handover to delivery) if invited to do so by the independent market research company.

Operations

We are continually looking at ways in which we can streamline our operational processes to improve efficiencies. Some of the proposals under discussion are ideas that we have been developing with you over the past year and are ready to implement (and may be applied as variations to the current Access agreements), others will need further consideration. The operational changes for most customers are small, and are as follows:

Forecasting: We will require customers to forecast by “machineable” and “manual” items separately by format (we will not require further breakdown by service). We will exclude volumes that exceed the forecast tolerance from the quality of service measurement and may surcharge incidences of over-forecasting, including vehicles not turning up.

Missorts: Customers have told us there is value to them in having missorted items returned. We will continue to provide an option for customers to have their missorted items returned as well as forwarded. We have restated charges to better align to our costs. Items that incur missort charges will be refunded the Access charge at the average national rate of the previous April to December (+RPI).

Access Slots and Handover: We will continue to develop systems and processes for acceptance by vehicle with those who handover in Yorks. Subject to trial success, this will offer opportunities for additional and shared Access Slots. We will also look to introduce additional Access Slot provision at consolidated mail centres subject to our approval.

UCIDs: To add assurance to effective and efficient revenue protection, we have better defined the use of UCIDs. Customers will need our approval of their numbering methodology prior to posting under the new terms. Misuse of UCIDs will result in us not recognizing them for the purposes of revenue protection.

Next steps

Your first impression of the new contracts may be that they are unrecognisable. This is because we have taken the opportunity to rewrite all the existing terms in clear English and we have unified the existing different agreements into a single new contract, so some repositioning of terms has affected the composition of certain Schedules. The separate new parcels contract, which will have a separate User Guide, emulates the provisions of the new Access letters contract, as far as is applicable.

We have also reviewed the terminology used in the User Guide to make it consistent with that in the contract to maintain clarity of terms. To help you navigate your way round the new contract and compare it with your existing agreement, we have published an explanatory document which is called “An Introduction to the New Access Letters Contract”, available on the ‘new contracts’ page of our website.

Your Access account manager will be in contact with you shortly to answer any further questions you may have and to help you decide which price plan is right for you.

Access forms an important part of the mail industry and we believe the new contract will bring benefits to all market players, posting customers and recipients of mail. We would like to thank all our customers for their input into this essential process.

Yours sincerely,

Jenny Ledger
Director, Network Access