

**DECISION ON VALUES OF UNIVERSAL POSTAL SERVICE QUALITY
INDICATORS ACHIEVED BY CTT – CORREIOS DE PORTUGAL, S.A., IN 2017**

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1. Framework

By determination of 30.12.2014¹, Autoridade Nacional de Comunicações (ANACOM), under paragraph 1 of article 13 of the Postal Law², established the parameters of quality of service and performance targets for the universal postal service, which CTT – Correios de Portugal, S.A. (CTT), as concessionaire of the universal postal service³, is required to meet in the 2015-2017 period. In addition, by determination of 13.03.2015⁴, the performance targets for registered mail transit time - indicator applicable as from 2016 - were also defined⁵.

In compliance with this framework, CTT reports to ANACOM, on a quarterly basis, information on values of Indicators of Quality of Service (IQS) registered for each quarter, so that they may be monitored throughout the year.

According to paragraph 3 of article 13 of the Postal Law and to paragraph 3 of article 3 of the «Quality of service parameters and performance targets for the universal postal service», CTT is required to measure levels of quality of service, through an independent external body.

By letter dated 15.03.2018. CTT reported IQS values for 2017, informing that the measurement had been performed through an independent measurement system implemented by an external body, PricewaterhouseCoopers / AG - Assessoria de Gestão, Lda. (hereinafter PwC).

In case of non-compliance with the established performance targets, a compensation mechanism applies in the year following non-compliance, the respective effects being limited only and exclusively to that year, corresponding to the deduction of up to 1 percentage point to the maximum variation of prices of the basket composed of the

¹ Available at <https://www.anacom.pt/render.jsp?contentId=1344028&languageId=1>.

² Law No. 17/2012, of 26 April, as amended by Decree-Law No. 160/2013, of 19 November, and by Law No. 16/2014, of 4 April.

³ Cfr. paragraph 1 of article 57 of the Postal Law.

⁴ Available at <https://www.anacom.pt/render.jsp?contentId=1350247&languageId=1>.

⁵ «Quality of service parameters and performance targets for the universal postal service» available at <https://www.anacom.pt/render.jsp?categoryId=381195&languageId=1>.

correspondence, editorial mail and parcel services that integrate the universal service, to the benefit of all users of those services⁶.

Situations of non-compliance are checked by ANACOM, having heard CTT⁷.

By determination of 03.05.2018, the Management Board of Autoridade Nacional de Comunicações (ANACOM) approved the draft decision on values of indicators of quality of service achieved by CTT in 2017, and decided to hear CTT on this matter, under articles 121 and 122 of the Administrative Procedure Code, for a period of 15 working days.

Having the company been notified for the purpose on 07.05.2018, CTT assessed the matter by letter dated 28.05.2018, within the time limit set for that purpose.

As a result, the corresponding report was drawn up, being deemed to be an integral part of this decision and integrating a summary of positions taken on the draft decision submitted to the prior hearing of the stakeholder, as well as ANACOM's views thereon.

2. IQS values in 2017

IQS values reported by CTT for 2017 are shown in the table below.

⁶ This follows from paragraph 1 of article 7 of the "Quality of service parameters and performance targets for the universal postal service" established by Anacom by decision of 30.12.2014, read in conjunction with paragraphs 1 and 2 of Appendix 2 thereto. Paragraph 3.4 of that Appendix establishes that, in situations duly substantiated by CTT, associated to operational difficulties in implementing price reductions, CTT may request ANACOM to apply, as an alternative, a financial compensation that reverts to users. Specific compensation modalities apply within the scope of services that integrate the universal service, of a financial value which must be equivalent at least to the reduction of revenues that would result from the application of the compensation referred to in paragraph 1 of that Appendix.

⁷ Paragraph 2 of article 7 of the "Quality of service parameters and performance targets for the universal postal service".

Table 1. IQS values for 2017

INDICATORS OF QUALITY OF SERVICE		Defined values			Quality in 2017 (a)
		RI (%)	Minimum	Objective	
IQS1	Standard mail transit time for (D+3)	32.0	95.5%	96.3%	95.9%
IQS2	Priority mail transit time - Mainland (D+1)	6.0	93.5%	94.5%	91.4%
IQS3	Priority mail transit time - MAM (D+2)	3.0	84.0%	87.0%	87.9%
IQS4	Standard mail not delivered within 15 working days (for each one thousand letters)	3.0	2.3‰	1.4‰	0.7‰
IQS5	Priority mail not delivered within 10 working days (for each one thousand letters)	3.0	2.5‰	1.5‰	1.8‰
IQS6	Newspapers and periodicals transit time (D+3)	10.0	95.5%	96.3%	96.5%
IQS7	Intra-community cross-border mail transit time (D+3)	2.5	85.0%	88.0%	82.6%
IQS8	Intra-community cross-border mail transit time (D+5)	2.5	95.0%	97.0%	96.3%
IQS9	Standard parcel transit time for (D+3)	3.0	90.5%	92.0%	95.1%
IQS10	Waiting time at postal establishments (% of events up to 10 minutes)	5.0	75.0%	85.0%	85.8%
IQS11	Registered mail transit time (D+1)	30.0	89.0%	91.0%	92.6%
OI - OVERALL INDICATOR OF QUALITY OF SERVICE (b)		N/A	N/A	N/A	110

Source: (a) CTT and measurement system carried out by PwC.

(b) ANACOM, on the basis of information reported by CTT.

Notes: D+X, means delivery up to X working day(s) after the deposit of items at the mail reception point

IR - Relative importance.

N/A – Not applicable.

Values yet to be audited

According to the values shown in the table above, it is observed that:

a) IQS below exceeded the target values defined for the year:

- IQS3 (priority mail transit time - MAM);
- IQS4 (standard mail not delivered within 15 working days);
- IQS6 (newspapers and periodicals transit time);
- IQS9 (standard parcels transit time);
- IQS10 (waiting time at postal establishments);
- IQS11 (registered mail transit time);

b) IQS below fail to exceed the respective annual target values, although they exceed the respective annual minimum values:

- IQS1 (standard mail transit time);
- IQS5 (priority mail not delivered within 10 working days);
- IQS8 (Intra-community cross-border mail transit time D+5);

c) IQS below fail to achieve target as well as minimum values defined for the year:

- IQS2 (priority mail transit time - Mainland);
- IQS7 (Intra-community cross-border mail transit time D+3);

d) The overall indicator of quality of service (OI) achieved a value of 110⁸.

CTT informed that, not only the PwC measurement system was not yet fully stabilized, with the consequent impact on the calculation of IQS, but the behaviour of IQS in 2017 was mainly influenced by:

- a) «Operational changes introduced in the 2nd quarter in the mail transit model and in the videocodification operational model, whereby CTT put into operation a set of monitoring and operational activity control measures, intended to remove constraints with possible impact on the quality of service»;
- b) «Increase in the amount of employee plenary sessions at a national level and a two-day general strike in December, with the consequent negative impact on the performance of quality indicators»;
- c) «Constraints in the air transport of parcels in flows with the Autonomous Regions, as a result of the irregularity and not always sufficient flight loading capacity, as well as meteorological factors in some periods of the year»;

⁸ The objective is to be at least 100.

d) «As regards indicators on Intra-community cross-border mail, as these are end-to-end indicators, their unfavourable development depends on the performance of destination postal operators, who have, according to data from IPC [International Post Corporation], changed their operational models and reviewed their internal quality standards, as a result of the steady decline of postal traffic».

As far as IQS2 and IQS7 are concerned, given that the respective minimum value were not achieved, the compensation mechanism provided for in article 7 of the «Quality of service parameters and performance targets for the universal postal service», established in ANACOM's determination of 30.12.2014, must apply.

3. Application of the compensation mechanism

According to Appendix 2 of the «Quality of service parameters and performance targets for the universal postal service», established by ANACOM, where any IQS falls below minimum values, the deduction corresponds to the product between the relative importance (RI) of IQS and the foreseen maximum deduction (deduction of 1 percentage point to the maximum variation of prices of the basket composed of the correspondence, editorial mail and parcel services that comprise the universal service).

Given that the OI exceeds 100, the deduction associated to the OI (point 3.1 of Appendix 2) is not applied, the deduction associated to non-compliance with minimum IQS2 and IQS7 values applying only.

As such, the total deduction to be applied corresponds to the product of the sum of RI of IQS2 (6%) and IQS7 (2.5%) and the maximum deduction (1 p.p.), *i.e.*: $(6\% + 2.5\%) \times 0.01 = 0.085 \text{ p.p.}$ (or otherwise, in an equivalent manner: $6\% \times 0.01 + 2.5\% \times 0.01 = 0.085 \text{ p.p.}$).

By virtue of paragraph 3 of article 8 of the criteria to be met by pricing of postal services included in the universal service (pricing criteria), defined by determination of ANACOM of 21.11.2014, under paragraph 3 of article 14 of the Postal Law, the weighted average

variation of the prices of the basket of correspondence, parcel and editorial mail services must not exceed, in 2018, 4.5% in nominal average terms⁹.

The application of the mentioned deduction by 0.085 p.p. arising from non-compliance with the minimum IQS2 and IQS7 values, means that the weighted average variation of the prices of the basket of correspondence, parcel and editorial mail services may not exceed, in 2018, 4.5% - 0.085%, that is, 4.415%, in nominal average terms.

The weighted average variation of prices of that basket of services, implemented by CTT in 2018, was 4.46% (4.5% with an accuracy of one decimal)¹⁰, which means that, to comply with the maximum variation of prices permitted after application of the mentioned deduction for non-compliance with minimum IQS2 and IQS7 values, CTT is required to decrease prices in force in the course of 2018.

Bearing in mind that the compensation mechanism is intended to benefit all users of those services, the referred deduction must not only concern services that benefit users in general, but must also remain in force for a period of at least three months, as this is the minimum period of time deemed to be reasonable to allow the highest number of users to benefit from it.

4. Determination

Whereas:

- a) CTT is bound to provide services that integrate the universal service according to parameters of quality of service and performance targets established by ANACOM, by decisions of 30.12.2014 and 13.03.2015, under paragraph 1 of article 13 of the Postal Law;
- b) Based on available information on values achieved by CTT, in 2017 values for IQS2 and IQS7 failed to comply with the respective minimum values defined for the year;

⁹ Cfr. ANACOM determination of 23.03.2018, on the tariff proposal for 2018, within the scope of the universal postal service, notified by CTT.

¹⁰ According to the referred ANACOM determination of 23.03.2018.

- c) The non-compliance mentioned in the previous paragraph results in the application of a mechanism of user compensation;
- d) CTT is required to publish in an appropriate manner and to regularly supply to postal service users and providers accurate and up-to-date information on postal service prices that integrate the universal service offer;
- e) CTT was heard in the scope of the draft decision on values of indicators of quality of service achieved by CTT in 2017, whereby comments received, the respective analysis and grounds for the decision are set out in the “Prior hearing report on the draft decision concerning the values of indicators of quality of service achieved by CTT– Correios de Portugal, S.A. in 2017”, considered to be an integral part of this decision,

ANACOM's Management Board:

- in the exercise of assignments and powers conferred on ANACOM, respectively, by paragraphs 1 h) and i) of article 8 and paragraphs 1 g) and p) of article 9, all of its Statutes, approved by Decree-Law No. 39/2015, of 16 March;
- in the exercise of powers conferred on it by paragraph 1 b) of article 26 of ANACOM's Statutes; and
- pursuant to paragraph 1 of article 13 and of article 47, both of the Postal Law (Law No. 17/2012, of 26 of April, as it stands), to paragraphs 1 and 2 of base XII of the Bases for the universal postal service concession (approved by Decree-Law No. 448/99, of 4 November, as it stands) and to articles 1, 6 and 7 of the «Quality of service parameters and performance targets for the universal postal service», approved by decision of ANACOM of 30.12.2014, partially amended by decision of ANACOM of 13.03.2015,

hereby determines:

- 1) to order the application of the compensation mechanism provided for in article 7 of the «Quality of service parameters and performance targets for the universal postal service», established in ANACOM determination of 30.12.2014, on account of the failure by CTT to achieve, in 2017, the minimum values established for IQS2 and IQS7;

- 2) to order CTT, in compliance with the preceding paragraph, to apply the deduction by 0.085 percentage points to the weighted average variation of the prices of the basket of correspondence, parcel and editorial mail services, permitted for 2018, so that the referred deduction benefits all users of those services;
- 3) to order CTT to apply the deduction determined in the previous paragraph by 01.10.2018, such deduction being fully applied for at least three months;
- 4) to order CTT to notify ANACOM regarding the price deduction to be implemented in compliance with the two preceding paragraphs, at least ten working days ahead of the start date of its application, attaching information that demonstrates compliance with this determination, namely the maximum price variation permitted for 2018, as determined in paragraph 2 above;
- 5) to order CTT to disclose to users prices to be applied in compliance with this determination (when final), at least ten working days ahead of the date on which prices take effect.