

DECISION

**VALUES OF POSTAL SERVICE QUALITY INDICATORS RECORDED BY CTT
– CORREIOS DE PORTUGAL, S.A., IN 2016**

ANACOM

2017

CONTENTS

1. Framework.....	3
2. Calculation formula for IQS in 2016	5
2.1. Decision of ANACOM of 02.03.2017	5
2.2. Calculation formula for IQS4 and IQS5 presented by CTT on 03.05.2017	6
2.3. Calculation formula for IQS4 and IQS5 presented by CTT on 29.09.17	14
3. IQS Values in 2016	14
4. Application of the compensation mechanism.....	17
5. Determination.....	18

1. Framework

By determination of 30.12.2014¹, the *Autoridade Nacional de Comunicações* (ANACOM) set, under the provisions of paragraph 1 of article 13 of the Postal Law², the quality of service parameters and performance targets associated with provision of the universal postal service, which CTT – Correios de Portugal, S.A. (CTT), as universal postal service concessionaire, must meet in the 2015-2017 three-year period³. In addition, by determination of 13.03.2015⁴, the performance targets associated with transit time for registered mail - indicator applicable as from and including 2016 - were also defined⁵.

Based on this framework, CTT reports to ANACOM, on a quarterly basis, information on the values of Quality of Service Indicators (QSI) observed in each quarter, to enable their monitoring throughout the year.

According to paragraph 3 of article 13 of the Postal Law and paragraph 3 of article 3 of the «Quality of service parameters and performance targets associated with provision of the universal postal service», CTT must measure the quality of service levels through the use of an external entity that is independent from CTT.

ANACOM, by decision of 17.12.2015, ordered CTT to correct, until 30.09.2016 (deadline which was necessary at the time because CTT had not yet initiated the procedure to select an external entity), the repeated non-compliance with the obligation to carry out an independent measure of the quality of service levels through the use of an independent external entity, on pain of a periodic penalty payment (after having initiated administrative offence proceedings against non-compliance in 2013, 2014 and 2015, which culminated in the voluntary payment of the applicable fines by CTT) being applied.

In this context, on 30.09.2016, CTT informed ANACOM that, as of 01.10.2016, the measurement would be carried out by an independent external entity, PricewaterhouseCoopers /AG - Assessoria de Gestão, Lda. (PwC).

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

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

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

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

⁵ The «Quality of service parameters and performance targets associated with provision of the universal postal service» are available at <https://www.anacom.pt/render.jsp?categoryId=381195>.

Therefore, in 2016, the measurement of the QSI values was, in the first nine months of the year, carried out by CTT, and in the last three months by PwC.

Given that during 2016 the two systems for measuring levels of quality of service were in effect, ANACOM, by determination of 02.03.2017⁶, defined the formula for calculation of the annual value of IQS in 2016.

CTT, by letter dated 15.03.2017, supplemented by letter dated 31.03.2017, reported the values of IQS 1, 2, 3, 6, 7, 8, 9, 10 and 11 observed in 2016, calculated according to that which was determined by ANACOM.

By letter dated 03.05.2017, CTT reported the values of IQS 4 and 5, calculated according to that which was determined by ANACOM, having submitted for consideration to ANACOM an alternative methodology for the calculation of the values of these IQS 4 and 5 in 2016.

By determination of 15.09.2017, the Board of Directors of ANACOM approved the draft decision on the values of postal service quality indicators recorded by CTT in 2016, and decided to hear CTT on this matter, under articles 121 et seq. of the Code of Administrative Procedures, over a period of 10 working days.

CTT's comments were analysed in the "Report of the prior hearing on the draft decision on the values of the universal postal service quality indicators recorded by CTT in 2016", which is an integral part of this decision.

Upon non-compliance with the set performance targets, in the year following the non-compliance a compensation mechanism shall apply, only and exclusively for that year, corresponding to the deduction of up to 1 percentage point from the maximum variation of prices of the basket composed of the correspondence, editorial mail and parcel services that comprise the universal service, which will benefit all the users of those services⁷.

Non-compliance situations shall be verified by ANACOM, having heard CTT⁸.

⁶ Available at <https://www.anacom.pt/render.jsp?contentId=1406720>.

⁷ It follows from paragraph 1 of article 7, in conjunction with the "Quality of service parameters and performance targets associated with provision of the universal postal service" set by Anacom by decision of 30.12.2014, and with paragraphs 1 and 2 of its Appendix 2. Paragraph 3.4 of that Appendix establishes that, in situations duly substantiated by CTT, associated to operational difficulties in implementing price reductions, that CTT may request ANACOM to apply, as an alternative, a financial compensation reverting to users, the specific compensation modalities of which are to be applied within the scope of services integrating the universal service. The financial value of this compensation must at least be equivalent to the reduction of revenues that would result from the application of the compensation referred to in paragraph 1 of that Appendix.

⁸ Paragraph 2 of article 7 of the «Quality of service parameters and performance targets associated with provision of the universal postal service».

2. Calculation formula for IQS in 2016

2.1. Decision of ANACOM of 02.03.2017

By decision of 02.03.2017, ANACOM determined that *«the annual value for 2016 of each IQS concerning national mail (IQS 1, 2, 3, 4, 5, 6, 9 and 11) and waiting time (IQS 10) must correspond to the weighted average of the value for the first three quarters of 2016 (period during which the CTT system was in force) and the value of the last quarter of 2016 (period during which the independent system is in force), the first being weighted by the 9/12 factor and the second by the 3/12 factor, i.e., the first being weighted by the period of time since the beginning of the year and up to the day preceding the date when the independent system started, and the second being weighted by the period of time, up to the end of the year, during which the independent system was in force».*

Said decision also indicated that *«In case the independent system does in fact present serious constrains in its initial operation, that hinder the reliability of results obtained under that system for the period concerned [4th quarter of 2016], ANACOM is willing to analyse the specific situation, after a timely and duly substantiated communication is submitted by CTT».*

As regards IQS 7 and IQS 8, which concern transit time for intra-community cross-border mail, given that there have been no changes in the respective measurement system, the current measurement system was maintained.⁹

CTT, by letter dated 15.03.2017, supplemented by letter dated 31.03.2017, reported the QSI values for 2016, mentioning that, according to the decision of ANACOM of 02.03.2017, the annual value of each IQS (1, 2, 3, 6, 9, 10 and 11) corresponds to the weighted average of the value for the first three quarters of 2016 and the value for the last quarter of 2016, the first being weighted by the 9/12 factor and the second by the 3/12 factor, i.e. weighting each value by the period of time to which they correspond.

However, it did not report the annual values of each IQS 4 and 5 calculated according to the decision of 02.03.2017. As regards IQS 4 and 5, it is CTT's opinion that its calculation must take into account all annual items (obtained in the first three quarters of 2016 by the

⁹ Defined in Appendix 1 of the «Quality of service parameters and performance targets associated with provision of the universal postal service» defined by ANACOM, in the decision of 30.12.2014.

measurement system of CTT and in the last quarter of 2016 by the independent measurement system) without applying a weighting to each of the different periods covered by different measurement systems, indicating the reasons that they believe justify that position and mentioning that «(...) *they submit this methodology to ANACOM for consideration, as provided for in its Decision of 02.03.2017*»¹⁰.

In said letter dated 31.03.2017, CTT also communicated that the information on the levels of quality achieved in 2016 is displayed in postal establishments and is published on CTT's website, with the information also made available, upon request, at CTT's customer services¹¹.

ANACOM, through fax dated 13.04.2017, with ref. ANACOM-S009067/2017:

- a) requested CTT to send the value of each of those two IQS, calculated according to said decision;
- b) informed CTT that, in case the independent system does present, or presented, any serious constraints in its initial operation, which hinder the reliability of results obtained under that system in the 4th quarter of 2016, CTT could, if it so wished, communicate that situation to ANACOM and also send the values of IQS 4 and 5 calculated according to the decision of 02.03.2017, whose respective justification must include all the relevant concrete data, necessarily including quantitative data concerning the calculation of the IQS values¹².

2.2. Calculation formula for IQS4 and IQS5 presented by CTT on 03.05.2017

Subsequently, by letter dated 03.05.2017, CTT reported the values of IQS4 and IQS5, calculated according to the decision of 02.03.2017. Additionally, CTT submitted for consideration to ANACOM the said alternative methodology for the calculation of the values of IQS 4 and 5, according to which these IQS are calculated based on the annual data, obtained in the first three quarters of 2016 by the measurement system of CTT and in the

¹⁰ The methodology that CTT proposes essentially corresponds to the quotient between the sum of the number of mail items lost or with a transit time of more than 15 working days obtained under the measurement system of CTT (from January to September) and under the independent measurement system (from October to December) and the sum of the valid sample of each of the two mentioned systems, over the same periods of time.

¹¹ Pursuant to article 6 of the «Quality of service parameters and performance targets associated with provision of the universal postal service» set in the decision of 30.12.2014.

¹² Cf. "Report of the prior hearing on the draft decision on the calculation of the annual value of the service quality indicators in 2016" (page 3), which is an integral part of the decision of 02.03.2017.

last quarter of 2016 by the independent measurement system, without applying a weighting to each of the different periods covered by different measurement systems.

In summary, CTT considers that this methodology allows the reliability problems inherent to the first phase of the independent measurement system to be mitigated and significantly reduces the statistical error margins of those IQS.

The following are, point by point, the grounds presented by CTT and the analysis of this Authority corresponding to each aspect raised.

CTT justification		Analysis																				
<p>The estimated values of IQS 4 and IQS 5 for the 4th quarter of 2016, obtained by the independent measurement system, present extremely high statistical error margins relative to the target-values of the respective IQS, reflecting a low level of reliability of the mentioned estimates.</p> <p>CTT present a table that compares the estimates for the IQS 4 and IQS 5, and respective error margin, obtained with the independent system and the CTT system, in the 4th quarter of 2016.</p> <table border="1"> <thead> <tr> <th rowspan="2">IQS</th> <th colspan="2">4th Q 2016– PwC</th> <th colspan="2">4th Q 2016– CTT</th> </tr> <tr> <th>Result</th> <th>Error margin (95% confidence interval)</th> <th>Result</th> <th>Error margin (95% confidence interval)</th> </tr> </thead> <tbody> <tr> <td>IQS 4</td> <td>7.4‰</td> <td>2.8‰</td> <td>0.7‰</td> <td>0.5‰</td> </tr> <tr> <td>IQS 5</td> <td>4.4‰</td> <td>2.1‰</td> <td>0.9‰</td> <td>0.5‰</td> </tr> </tbody> </table> <p>CTT mentions that the methodology it has proposed not only allows the reliability problems inherent to the first phase of the independent system (described below) to be mitigated, but also significantly reduces the statistical error margins.</p> <p>The table below compares the values obtained with the calculation methodology it has proposed with the calculation formula determined by ANACOM.</p>		IQS	4th Q 2016– PwC		4th Q 2016– CTT		Result	Error margin (95% confidence interval)	Result	Error margin (95% confidence interval)	IQS 4	7.4‰	2.8‰	0.7‰	0.5‰	IQS 5	4.4‰	2.1‰	0.9‰	0.5‰	<p>According to the decision of ANACOM of 30.12.2014, in the calculation of IQS 4 and IQS 5 the technical specification developed by the European Committee for Standardisation (CEN) TS 14773:2004¹³, relative to the measurement of loss or substantial delay in single piece mail, must be applied.</p> <p>This technical specification establishes, in point 5.2.2, that the estimated value for loss or substantial delay must be explicitly reported provided that, for a 95% confidence interval, the absolute value of its margin of error (ε) is equal to or less than 40% of the estimated value.</p> <p>When the estimated value for loss or substantial delay cannot be estimated with that level of precision, i.e. when the absolute value of the margin of error exceeds 40% of the estimated value for loss or substantial delay, <u>due to the estimated value being too low or due to the sample size being too small</u> (our emphasis), then it is necessary to indicate that the estimated value does not exceed the upper limit of its confidence interval (for a 95% confidence level).</p> <p>CTT mentions that the error margins obtained by the PwC system, in the 4th quarter of 2016, are extremely high relative to the respective targets.</p> <p>The comparison should be made with the achieved value and not with the target value.</p> <p>Comparing the results of the 4th quarter of 2016, calculated by the PwC system and by the CTT system (2nd and 3rd columns of the tables below), it is observed that the error margins obtained with the PwC system, exceeding in absolute value those obtained with the CTT system, show, both in the case of ISQ4 and ISQ5, a deviation, relative to the achieved value, lower than that obtained with the CTT system. In the case of ISQ4, the deviation obtained is actually lower than the 40% limit mentioned in the technical specification, which does not occur with the ISQ 4 and ISQ5 under the CTT system.</p>	
IQS	4th Q 2016– PwC		4th Q 2016– CTT																			
	Result	Error margin (95% confidence interval)	Result	Error margin (95% confidence interval)																		
IQS 4	7.4‰	2.8‰	0.7‰	0.5‰																		
IQS 5	4.4‰	2.1‰	0.9‰	0.5‰																		

¹³ CEN/TS 14773, of September 2004 – “Postal Services – Quality of service – Measurement of loss and substantial delay in priority and first class single piece mail using a survey of test letters”.

IQS	Year 2016 – ANACOM decision 02.03.2017		Year 2016 - CTT	
	Result	Error margin (95% CI)	Result	Error margin (95% CI)
IQS 4	2.8‰	1.0‰	1.8‰	0.4‰
IQS 5	1.8‰	0.8‰	1.2‰	0.3‰

IQS 4	4Q 2016 PwC	4Q 2016 CTT	Year 2016 (ANACOM decision 02.03.2017)	Year 2016 (CTT Proposal)
Realized value (‰)	7.4	0.7	2.8	1.8
Error margin (‰)	2.8	0.5	0.74	0.43
Relation Error Mg / Realized value (≤ 0.4)	0.38	0.71	0.26	0.24
Sample size	3,663	10,838	38,147	38,147

IQS 5	4Q 2016 PwC	4Q 2016 CTT	Year 2016 (ANACOM decision 02.03.2017)	Year 2016 (CTT Proposal)
Realized value (‰)	4.4	0.9	1.8	1.2
Error margin (‰)	2.1	0.5	0.57	0.31
Relation Error Mg / Realized value (≤ 0.4)	0.48	0.56	0.32	0.26
Sample size	3,717	14,415	49,334	49,334

For the annual values of IQS, CTT mentions that the methodology it has proposed not only allows the reliability problems inherent to the first phase of the independent system to be mitigated, but also significantly reduces the statistical error margins.

By the same token, comparing the annual results of 2016, calculated by applying the formula defined by ANACOM on 02.03.2017, with the results obtained under the alternative formula proposed by CTT (two last columns of the tables above), it is observed that, as mentioned by CTT, the error margins obtained with the formula defined by ANACOM exceed in absolute value those obtained under the CTT system, for both IQS. In this case they present, for both IQS 4 and IQS 5, a deviation, relative to the realized value, that exceeds that obtained under the CTT system.

However, in the case of the IQS 4 and IQS 5, the deviation obtained is lower than the 40% limit mentioned in the technical specification, and therefore the

	<p>use (reporting) of the estimated value determined under the calculation formula defined by ANACOM would be maintained.</p> <p>In light of the above, higher error margins obtained under the calculation formula defined in 02.03.2017, and under the PwC system in the 4th quarter of 2016, do not warrant setting aside the methodology defined on 02.03.2017.</p>
<p>In the assessment of this situation, the serious limitations observed in the functioning of the independent measurement system in its start-up phase were considered, regarding which CTT notes the following:</p> <p>i) Constraints admitted by PwC¹⁴, namely in terms of the high panel turnover, with its consequent impact on the reliability of the information, since the new members of the panel need training and in the beginning are more prone to errors.</p> <p>In the 4th quarter of 2016, (SCI)¹⁵ (ECI)¹⁶ panelists participated in the independent measurement system, of which ((SCI) (ECI)%) left the system during that period.</p>	<p>The turnover rate of the panel is not a specific aspect of IQS 4 and 5, also affecting the other IQS (with the exception of IQS 10, which being relative to the measurement of waiting time, does not resort to panelists), and is not, in itself, a reason for being treated differently in the case of ISQ 4 and 5, relative to the others.</p>
<p>ii) No routine control of the non-return of information/test items by the panelists, due to the start-up phase of the new system, which exacerbated the difficulty in distinguishing between (i) the non-return of test items by the panel and (ii) the non-deliveries by CTT, both of which have a very different impact on the results of these indicators.</p>	<p>The relevant technical standards and specifications for the purposes of calculating IQS and namely the relevant technical specification for the purposes of calculating ISQ 4 and 5, establish that, when there are doubts about the performance of the panelists in regard to the stipulated procedures, or when there are doubts about the transit time involved in the sending of tests or about whether the latter were actually not delivered, these or part of them must be removed from the panel when the performance of the panelist over a</p>

¹⁴ CTT also reported to Anacom, in its letter dated 12.01.2017, within the scope of the submission of comments on the draft decision of ANACOM, concerning the calculation of the annual value of IQS in 2016.

¹⁵ Start of confidential information.

¹⁶ End of confidential information.

In the 1st quarter of 2017, another (SCI) (ECI) panelists who participated in the independent measurement system in 2016 left. In total, about (SCI) (ECI)% of the panelists who participated in the independent measurement system in 2016 no longer participated in the measurement on 31.03.2017, mainly due to various reasons of non-compliance with the rules of the panel.

According to CTT, this high turnover indicates that many panelists were not committed to the measurement system or were unable to meet the conditions to be panelists (namely availability of time and discipline).

Given that the distinction between a non-return by the panel and a non-delivery by CTT is a difficult situation under regular and stable operating conditions of the measurement system, such rates of turnover make it impossible to make this distinction with some reliability.

specific period of time is brought into question (see, for example, chapters 4.2.2, 5.3.3 and 5.4 of the technical specification 14773:2004).

Therefore, in principle, the situations of doubt must not be part of the valid final sample, so as not to affect IQS values.

Moreover, this situation affects both the IQS 4 and 5 and the other IQS, although CTT made no mention of the others.

The non-timely implementation of control routines may increase, or may have increased, situations of doubt and, therefore, the situations of sending of tests that were annulled, not counting towards the calculation of the IQS values. This may justify why, according to the information reported concerning the measurement undertaken by PwC AG in the 4th quarter of 2016, a significant part of the sending of tests initially foreseen (between (SCI) (ECI)% relative to the sample initially foreseen) are not included in the valid final sample, whether because they were annulled or because they were not sent.

Additionally, regarding the references of CTT to the non-timely implementation of validation routines and the turnover of the panel, it is also worth mentioning, as already referred to in the «Report of the prior hearing on the draft decision on the calculation of the annual value of the service quality indicators in 2016», that «(...) *the measurement by the external entity began, according to CTT, on 01.10.2016, because ANACOM, by determination of 17.12.2015, ordered CTT to correct said non-compliance until 30.09.2016, with the measurement to be carried out by the external entity selected for the purpose no later than 01.10.2016 (...). It should therefore be noted that when CTT mentioned in its comments the occurrence of constraints and difficulties in the initial functioning of the independent system, (...) CTT had been aware, since 26.04.2012, date of publication of the Postal Law, of the need to implement an independent system.*

It should also be mentioned, regarding the difficulties that, according to CTT, the entity in charge of the independent measurement has been observing in the operation of the independent measurement system, that throughout the various monthly points of situation communicated by CTT to ANACOM, under the mentioned determination of this Authority of 17.12.2015, on the status of the process conducive to the correction of the non-compliance with paragraph

	<p><i>3 of article 13 of the Postal Law, CTT never mentioned any difficulties or constraints in the implementation of the independent measurement system, namely with respect to the recruitment of the panel, implementation of the IT system and compliance (by the independent external entity) with the requirements of the specifications.</i></p> <p><i>Only in its letter dated 30.09.2016 did CTT mention there were difficulties in the recruitment of the mail sender and receiver panel. Likewise, only in that letter, as well as in the previous letter dated 17.08.2016, did CTT make reference to the (theoretical) possibility of occurrence of limitations concerning the initial functioning of a new measurement system, which in fact led ANACOM to make provisions for that situation in this draft decision».</i></p> <p>In other words, CTT should have prepared for and foreseen any difficulties or constraints with the measurement system operated by an independent entity since 26.04.2012, which it failed to do.</p>
<p>The lack of reliability in the estimates of IQS4 and IQS5 for the 4th quarter of 2016 obtained by the independent system, is also explained by the following situations, which indicate the existence of a high number of non-returns by the receiver panelist:</p> <ul style="list-style-type: none"> i) with the estimates of IQS 4 and IQS 5 for the 4th quarter of 2016 not having identified excessive delays (non-priority mail items with transit times of more than 15 days and priority mail items of more than 10 days), these indicators express "non-delivery" rates by CTT (and non-return rates by the receiver panel). <p>Extrapolating the values of IQS 4 and IQS 5 (from the PwC system) to real mail, CTT would have failed to deliver, in the 4th quarter of 2016, more than 900 thousand non-priority mail items and about 30 thousand priority mail items, a situation that CTT describes as unrealistic;</p> <ul style="list-style-type: none"> ii) if this situation was true, the number of complaints about national non-priority mail lost or with a higher-than-expected transit time 	<p>ANACOM does not dispose of data on the quantity of non-priority and priority mail items which, in real terms, are lost or suffer substantial delays on a quarterly basis. Nevertheless, according to the data reported on a quarterly basis by CTT to ANACOM, the value of priority mail losses or substantial delays could reach, in the 4th quarter of 2016, the value mentioned by CTT, with the extrapolation of the value of IQS5 to real mail. Regarding national non-priority mail, the value indicated by CTT includes bulk mail in quantities sent by large consignors. Without those items, since the measurement system considers single piece mail and not bulk mail, the value for loss or substantial delay would exceed 200 thousand items for that quarter.</p> <p>Regarding complaints, according to the information available, reported by CTT, the number of complaints replied to in 2016 concerning (national) non-priority correspondence lost or with a higher-than-expected transit time, within the scope of the universal service, fell by about 51% relative to 2015 (from about 1646 to 811). In the 4th quarter of 2016, relative to the same period of 2015, there was a 78% decrease (from 359 to 78).</p>

would have increased significantly, which was not observed. On the contrary, in 2016 and in the 4th quarter of 2016, the number of complaints for those reasons fell significantly, relative to the same period of 2015.

In 2016, complaints about loss or substantial delays in the delivery of mail received at ANACOM against CTT registered a year-on-year increase of 11.5% (from 1013 to 1129). In the 4th quarter of 2016 there was one fewer complaint relative to the same period of 2015 (289 and 290 complaints, respectively).

It should be mentioned, however, that the scope of situations considered (by ANACOM and by CTT) is not the same, due to the use of a taxonomy that is different, in addition to the fact that the data of ANACOM refer to complaints received in the year and that of CTT refer to complaints replied to in the year.

Additionally, the evolution of the monthly values of IQS 4 and 5, from the entry into force of the measurement conducted by PwC, is analysed below.

	Oct16	Nov16	Dec16	Jan17	Feb17	Mar17	Apr17	May17	Jun17
IQS4	9.1	5.8	7.8	1.8	0.0	0.7	0.9	1.5	N.D.
IQS5	5.2	1.2	7.7	4.9	2.5	1.0	2.4	4.2	N.D.

Source: CTT, quoting data of PwC.
Notes: Unit: per thousand. N.D. – Not disclosed.

Regarding IQS4, as of January 2017, a certain stability of the monthly values is observed, varying between 0‰ and 2‰. The values of IQS 5 continued to register a significant variation in 2017, oscillating between 1‰ and 4.9‰.

Based on the analysis presented, it is considered appropriate to maintain the calculation formula of IQS 4 and 5 defined in the decision of ANACOM, of 02.03.2017.

In effect, CTT supports the methodology used in problems which, in general, are regarded as inherent to the use of an external entity (PwC) for measurement of the quality levels, whose preparatory procedure was not initiated by CTT in time to comply with paragraph 3 of article 13 of the Postal Law. In that sense, the problems registered by CTT, in spite of allegedly justifying the use of a specific and different methodology for IQS 4 and 5, could also be extended to the calculation of the other IQS which, in spite of everything, were calculated by the company in compliance with the decision of ANACOM of 02.03.2017.

The specificity with which IQS 4 and 5 are treated was not, therefore, demonstrated, as assessed by the data supplied by CTT to this Authority.

2.3. Calculation formula for IQS 4 and IQS 5 presented by CTT on 29.09.17

In its comments to the draft decision of 15.09.2017, CTT in the meanwhile requested that ANACOM accept the calculation methodology for IQS 4 and 5 for 2016 described in point 3c) of the Technical Opinion attached to its comments.

Based on the analysis and on the grounds presented in the "Report of the prior hearing on the draft decision on the values of the universal postal service quality indicators recorded by CTT in 2016", to which reference is made, it is considered appropriate to maintain the calculation formula of IQS 4 and 5 defined in the decision of ANACOM of 02.03.2017.

3. IQS Values in 2016

In light of the above, the IQS values reported by CTT for 2016 are shown in the table below.

Table 1. IQS values for 2016

QUALITY OF SERVICE INDICATORS		Established values			Quality of service - 2016
		RI (%)	Min.	Target	
IQS1	Transit time for non-priority mail (D+3)	32.0	95.5%	96.3%	96.1%
IQS2	Transit time for priority mail – mainland (D+1)	6.0	93.5%	94.5%	93.8%
IQS3	Transit time for priority mail – CAM (D+2)	3.0	84.0%	87.0%	89.4%
IQS4	Non-priority mail not delivered within 15 working days (per one thousand letters)	3.0	2.3‰	1.4‰	2.8‰
IQS5	Priority mail not delivered within 10 working days (per one thousand letters)	3.0	2.5‰	1.5‰	1.8‰
IQS6	Transit time for newspapers and periodicals (D+3)	10.0	95.5%	96.3%	98.3%
IQS7	Transit time for intra-community cross-border mail (D+3)	2.5	85.0%	88.0%	86.0%
IQS8	Transit time for intra-community cross-border mail (D+5)	2.5	95.0%	97.0%	97.1%
IQS9	Transit time for non-priority parcels (D+3)	3.0	90.5%	92.0%	90.7%
IQS10	Transit time at postal establishments (% of waiting time up to 10 minutes)	5.0	75.0%	85.0%	86.5%
IQS11	Transit time for registered mail (D+1)	30.0	89.0%	91.0%	92.0%
IG – INDICATOR OF OVERALL QUALITY OF SERVICE		-	N/A	N/A	123

Source: CTT - calculation according to ANACOM decisions of 30.12.2014 and 02.03.2017.

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

IR - Relative importance

N/A – Not applicable.

Values not yet audited.

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

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

- IQS3 (transit time for priority mail - CAM);
- IQS6 (transit time for newspapers and periodicals)
- IQS8 (transit time for Intra-community cross-border mail (D+5));
- IQS10 (waiting time at postal establishments);
- IQS1 (transit time for registered mail).

b) the following IQS do not exceed the respective annual target values, although they have exceeded the respective annual minimum values:

- IQS1 (transit time for non-priority mail).
- IQS2 (transit time for priority mail on the Mainland);
- IQS5 (priority mail not delivered within 10 working days);

- IQS7 (transit time for Intra-community cross-border mail (D+3));
- IQS9 (transit time for non-priority parcels).

c) IQS4 did not reach the target value and the minimum value, defined for the year;

d) The Global Indicator of quality of service (GI) reached 123¹⁷.

CTT informed that the less favourable performance of IQS in 2016 was mainly influenced by:

- «changes made to the functioning of some operational units in the production and logistics centre of Lisbon, due to the implementation of technological upgrades, such as the introduction of the new machine of rest mail which initially entailed important adaptations with an impact on the entire operating cycle»;*
- «holding of various employee plenary sessions at a national level and holding of a general strike on 28 March, which had a negative impact on the performance of the quality indicators»;*
- regarding IQS9, «constraints in the air transport of packages in the flows with the Autonomous Regions, as a result of the irregularity and not always sufficient loading capacity on flights, as well as meteorological factors in some periods of the year»;*
- regarding IQS7, «[...] in addition to being dependent on the performance of destination postal operators, since it is an end-to-end indicator, its less favourable performance during the current year may also have been influenced by the reduction of the sample size observed in 2016 within the scope of the UNEX¹⁸ measurement system promoted by IPC¹⁹ and which seems to have also affected operators of other countries».*

Regarding IQS 4, since the minimum value was not reached, the compensation mechanism established in article 7 of the «Quality of service parameters and performance targets

¹⁷ The objective is to be equal to or higher than 100.

¹⁸ *Unipost External Monitoring System.*

¹⁹ *International Post Corporation.*

associated with provision of the universal postal service» set in the decision of ANACOM of 30.12.2014 may be applied.

4. Application of the compensation mechanism

According to Appendix 2 of the «Quality of service parameters and performance targets associated with provision of the universal postal service», set by ANACOM, for those cases in which any IQS is below the minimum values the deduction corresponds to the product between the relative importance (RI) of the IQS and the foreseen maximum deduction (deduction of 1 percentage point from the maximum variation of prices of the basket composed of the correspondence, editorial mail and parcel services that comprise the universal service).

Since the GI exceeds 100, the deduction associated to the GI (point 3.1 of Appendix 2) is not applied, only the respective deduction associated to non-compliance with the minimum value of IQS4 is applied.

As a result, the total deduction to be applied corresponds to the product between the RI of IQS 4 (3%) and the maximum deduction (1 p.p.), i.e.: 0.03 p.p.

By application of paragraph 3 of article 8 of the criteria to be met by the price formation of postal services comprising the universal service (price formation 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 cannot exceed 2.4% in nominal average terms in 2017²⁰.

The application of the mentioned deduction of 0.03 p.p. arising from non-compliance with the minimum value of IQS4, means that the weighted average variation of the prices of the basket of correspondence, parcel and editorial mail services cannot exceed 2.4% - 0.03%, i.e. 2.37% in nominal average terms, in 2017.

²⁰ Cf. decision of ANACOM of 28.03.2017, on the tariff proposal within the scope of the universal postal service, communicated by CTT.

The weighted average variation of the prices of that basket of services, implemented by CTT in 2017, was 2.39% (2.4% with an accuracy of one decimal)²¹, which means that, to comply with the maximum variation of prices permitted after application of the mentioned deduction, CTT must implement a reduction of current prices²².

5. Determination

Whereas:

- a) CTT undertake to provide the services comprising the universal service according to the parameters of quality of service and the performance targets set by ANACOM, by decisions of 30.12.2014 and 13.03.2015, under paragraph 1 of article 13 of the Postal Law;
- b) the calculation of the annual values of 2016 of IQS is carried out according to the calculation formula defined by ANACOM, on 02.03.2017, and in its decision of 30.12.2014 with reference to IQS 7 and 8. The alternative calculation formula presented by CTT for IQS 4 and IQS 5 is not adopted;
- c) based on the available information on values achieved by CTT, in 2016 the value of IQS 4 did not comply with the minimum value defined for the year;
- d) the non-compliance mentioned in the previous paragraph requires the application of a compensation mechanism for users;
- e) CTT must publish and make available information on the values of IQS actually achieved in the previous calendar year, namely on the website and in postal establishments,

²¹ According to the respective decision of ANACOM of 28.03.2017.

²² For example, by implementing the reduction of prices on 01.11.2017, which remain in force until 31.12.2017, an average reduction of prices would be necessary, on 01.11.2017, of 0.12 p.p. for the reduction, in annual average terms, to be 0.03 p.p. (weighting the prices for the period during which they are in force). If the price reduction was implemented on 01.12.2017 (also remaining in force until 31.12.2017), an average reduction of prices of 0.24 p.p. would be necessary.

the Board of Directors of ANACOM:

- in the exercise of the responsibilities and powers conferred on ANACOM, respectively, by paragraphs 1 h) and i) of article 8 and paragraph 1 (g), (h) and (p) of article 9, all from its statutes, approved by Decree-Law No. 39/2015, of 16 March;
- in the exercise of the powers conferred on it by paragraph 1 b) of article 26 of the Statutes of ANACOM; and
- in view of the provisions in paragraph 1 of article 13 and in article 47, both of the Postal Law (Law No. 17/2012, of 26 of April, as currently worded), in 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 currently worded) and in articles 1, 6 and 7 of the «quality of service parameters and performance targets associated with provision of the universal postal service», approved by decision of ANACOM of 30.12.2014, partially amended by decision of ANACOM of 13.03.2015,

determines:

- 1) the application of the compensation mechanism provided in article 7 of the «Quality of service parameters and performance targets associated with provision of the universal postal service», set in the decision of ANACOM of 30.12.2014, for not having met the minimum value set for IQS4 in 2016;
- 2) in compliance with the previous paragraph, that CTT must apply the deduction of 0.03 percentage points to the weighted average variation of the prices of the basket of correspondence, parcel and editorial mail services, permitted for 2017. The deduction must benefit all the users of those services;
- 3) that CTT must initiate the application of the deduction determined in the previous paragraph within a maximum of 15 working days as of the date of notification of the final decision. The latter must be fully applied until 31.12.2017.
- 4) that CTT must notify ANACOM regarding the price deduction to be implemented in compliance with the two previous paragraphs, prior to the start date of its application, accompanied by information that demonstrates compliance with this determination, namely of the maximum price variation permitted for 2017, as determined in paragraph 2 above;
- 5) that CTT must correct the information disclosed on the values of IQS observed in 2016, at its specific website address, within 10 working days as of the date of notification of the final decision, and in the postal establishments within 20 working days as of the same date.