STAGECOACH GROUP - RESPONSE TO CMA CONSULTATION ON BLOCK EXEMPTION

Questions for consultation from CMA:

1. Stagecoach would agree that the Block Exemption for ticketing schemes should be renewed. MTCs provide valuable options for customers by allowing access to a number of operators' services with one ticket, thus providing a significant economic benefit to users, and allowing such users access particularly to wider employment opportunities. It is hard to see how such schemes would be legal, without a Block Exemption. Absent the Block Exemption, it is clear that many local authorities would seek to replace the benefits of a commercial competitive bus operating environment with a franchised regime thereby creating a local authority monopoly over bus service provision leading to upward pressure on fares for consumers.

2. Yes.

3. It is likely that, without a Block Exemption, MTC schemes, which form the most significant schemes with the greatest passenger benefit, would be withdrawn and new schemes would be discouraged. This would markedly reduce consumer choice.

4. A decision not to renew the Block Exemption would damage the bus market as a whole and lead to a reduction in bus use in major cities by those customers who have need to travel on more than one public transport mode or the services of more than one operator with adverse impacts upon the local environment and air quality. The adverse consequences will be felt by the consumer who would have to pay more, in some cases significantly more, for their travel. Some of these would potentially find that travel to work would be prohibitively expensive leading to increased unemployment. A decision not to renew the Block Exemption would remove the ability to expand multi-operator Smart ticketing schemes which are popular with customers and are a key objective of local and national government.

5. The current Block Exemption is somewhat unclear on two main issues – pricing and revenue sharing. It neither allows total freedom in these areas nor is prescriptive. As a consequence, there can be some nervousness around these areas and hence reluctance to enter into / expand schemes.

6. We are not aware of any specific developments prevented by the Block Exemption though we would refer to our response in 5.

7. The main problems with the current Block Exemption are in price setting and revenue distribution. As the Guidance prohibits setting a price "by reference" to the price of individual operators' own equivalent tickets, this takes away a simple way in which prices can be set rationally and objectively. Our argument here is that:

    a. MTCs provide additional consumer benefit compared to a single-operator ticket

    b. This can be provided either by allowing customers to board any bus on a particular route providing additional convenience and time-saving or, where individual

operators have largely non-overlapping services, by providing links to places where two or more services are required eg. to employment and leisure centres, at less cost than purchasing individual operators' own tickets separately.

c. This additional utility should be reflected in the pricing i.e. a MTC should be at a modest premium above an equivalent single-operator ticket providing travel within the same zone.

d. By disallowing such a relationship, no rational operator would enter into an MTC priced below the level of its own network ticket.

e. Allowing prices of MTCs to be based at a modest premium to the price of the most relevant single operator tickets covering an equivalent zone actually leads to a more competitively priced MTC providing greater choice for the consumer, at lower cost than at present. A renewed Block Exemption should provide some Guidance as to the MTC premium over this average so as to avoid issues of "over-pricing". There is a general consensus amongst operators, local authorities and the DfT that a premium of up to 10% would be reasonable in most circumstances. Such Guidance would help with the development of MTC schemes.

f. The Consultation refers to the Competition Commission bus market investigation report which proposed an alternative pricing mechanism based on:
    - average operators' single fare
    - times trips made
    - times "discount factor"

g. Further clarification was provided that this discount factor should be based on operators' own discount factors for their own products. In order to calculate such a discount factor, each operator would have to supply data showing their own discount levels for equivalent tickets (presumably, through the independent administrator). As, generally, an all-operator MTC would attract a higher number of trips per ticket than a single-operator equivalent (due to a higher proportion of 2-leg journeys made where customers need to use two operators' services for their journey), applying an average single-operator discount factor is likely to lead to higher prices for MTCs than applying a modest premium to single operators' ticket prices.

h. Prices of goods and services in other markets generally take into account prices of "competing" and "substitute" products. It would, therefore, seem somewhat perverse to prohibit this in pricing MTCs.

i. We believe that, allowing for prices to be set based on single-operator prices as above, would allow for the maximum number of MTC schemes within local markets, particularly major urban areas, where there are a number of competing operators. Such a pricing mechanism would encourage participation from all operators as it

would not undermine their income whilst leading to individual operators competing with their own tickets.

j. A difficulty with any of these approaches to pricing is the assumption that there are similar equivalent single-operator tickets on which to base prices for the MTC. In most cases, at least the larger operators are likely to have their own day and weekly tickets and these can be used for base day and week MTCs. Any longer-period tickets can then be set at multiples of these tickets even where there is no equivalent single-operator ticket.

k. This does not, however, deal with geographic areas as each single operator may have different areas in which their tickets are valid. For a MTC, there is a balance to be struck between drawing an area of validity too wide (so as to contain all the single operator areas) which could lead to a higher price, and too small an area (to encompass only the area of overlap of the operators) where, although the price may be lower, the ability to really make use of the network provided by the included operators is diminished. Whilst we do not have any solutions to this, nor do we think a prescriptive solution is desirable given the structures of the bus market in different areas, we think some guidance should be provided as part of a revised Block Exemption to highlight this issue. Local Transport authorities (LTA's) should be able to assist in setting out sensible and workable geographic boundaries for MTC schemes that would still enable a "premium-based" pricing mechanism to operate.

l. Pricing MTCs at a modest premium to single operator tickets would be a pro-competitive measure compared to the status quo leading to a growth in the number of MTCs and allowing new market entrants immediate access to market share through participation in MTC schemes negating any network benefits enjoyed by major incumbent operators. The modest nature of the premium will ensure the MTC, with its greater utility, is a viable competitive alternative to any single operator product.

m. On revenue distribution, where MTCs are priced and based on zones equivalent to own operator equivalent tickets and issued on SMART media, revenue can be allocated based on boardings recorded by the SMART media with each boarding recorded attracting a pro-rata share of the total revenue pot for the MTC concerned. This ensures a fair allocation to all operators regardless of their own fares structures and removes any incentive for operators to set their own fares higher than they would have been in the absence of the MTC. This retains the incentive for operators to compete for passengers since revenue allocation is directly related to the carriage of passengers.

8. On the duration of the Block Exemption, clearly, where significant changes are made in a revised version, there is an argument for a shorter duration to ensure that these changes are working to best advantage. This would have to be balanced against the certainty created by a longer duration. A longer duration runs the risk of becoming out-of-date for developments in technology and/or retail channels. Currently, changes in ticketing and payment

technology are the fastest moving aspects of the public transport industry and, given the pace of change, it would be wise to review the Block Exemption after 5 years.

9. This is largely answered in our response in 7 above. In response to your specific queries:

   a). We have very few examples of MIT schemes but we do believe that, in some circumstances, it would be fairer to pool the revenue from such schemes and share the revenue along the same lines as a MTC.

   b). This is unlikely to arise as most Smart ticket schemes, with capped prices, would utilise off-bus sales (eg. web-based, through agents) to sell products and load cards. We would agree with your analysis in 5.36-5.38 and, in such cases, there is no MTC purchased and operators would be entitled to the full value of their individual tickets.

   c). The main barriers to participation in smart schemes would be the costs, in new ticket equipment and back office, and the complexity of operating an ITSO-based scheme (eg. ISAM updates, Class 1 messaging). In a number of schemes, the LTA has assisted in offsetting some of these costs for smaller operators to encourage their participation. As the LTA will generally want their contracted services to participate in such ticketing schemes, there is a motivation to include a requirement for operators bidding for these contracts to be smart-enabled. In addition, the certainty of accurate revenue reimbursement through 100% SMART MTCs facilitates their more widespread use and the competitive pricing delivered by a modest premium over single operator travelcards for similar zones provides a strong incentive to smaller operators to participate given the simple access the MTC scheme will provide to market share.

10. Future developments will include the use on mobile phone technology and contactless credit/debit cards (with and without capping). These are generally just an expansion of methods of payment and should not require particular changes to the Block Exemption to accommodate. However, technology in this area is developing all the time, and indeed some aspects of what is available now could not have been predicted 5 years ago. What is certain is that technology will continue to develop in this area, and, where necessary, the Block Exemption and Guidance should recognise this reality.

11. The two main issues with MTCs, from an operator perspective, are pricing of the products (which is covered in 7 above) and revenue allocation. We agree with the views expressed in sections 5.9-5.14 and with not using revenue foregone except for small schemes. Whatever method is used to share the revenue, important considerations are the ease of providing the required data and its accuracy. Where these present problems, there will be a tendency for operators to price the MTC higher in order to mitigate the adverse consequences of the revenue-sharing data being inaccurate leading to a lower market share. We believe that, by focussing on smart-based schemes, such issues are virtually eliminated as a complete record of usage is provided very simply which is readily available for revenue sharing. By using boardings using a smart-enabled ticket, the issues of incentivising operators to charge higher

fares is eliminated, provision of data is simplified and every operator can easily see how his share is calculated. The ease and transparency of such a method will lead to lower prices for MTCs as operators will not need to price higher to mitigate inaccurate data nor to cover for costly data provision. More complicated methods may be appropriate in some schemes, eg. using passenger-miles or weighted passenger-miles but these should be “special cases”, rather than the norm. Simpler is better, both for operators and the customer. Stagecoach believes that the Guidance should propose the use of passenger boardings as the recommended method of revenue sharing for all smart-enabled schemes.

R A COSSINS

COMMERCIAL POLICY ADVISOR

STAGECOACH UK BUS

15 SEPTEMBER 2015