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| Consultation Response: | Public Transport Ticketing Schemes Block Exemption Reviews (CMA) |
| Responding Authority: | Centro / WMITA |
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Introduction

- 1 Centro / WMITA is the accountable owner of both a bus based multi-operator travel card scheme (nBus) and a multi-modal travel card scheme (nNetwork) which benefit from the exceptions allowed within the ticketing Block Exemption.
- 2 These schemes are increasingly popular in the West Midlands with consistent growth in sales, year on year, resulting in the current annual turnover of in-excess of £24m.
- 3 The simplicity and ease of interchange that these travel card schemes offer is being exploited further through the continued rollout of the 'Swift' smartcard programme and as such we welcome the opportunity to respond to the consultation.

Consultation

Q1: Do you agree with renewing the Block Exemption?

- 4 The renewal of the Block Exemption is vital for the continuation of multi-operator travel card schemes within the West Midlands. As stated in the introduction above, these schemes bring great benefit to customers making it simpler and easier to interchange between modes and within modes in a deregulated environment.
- 5 It should be recognised that integrated multi-operator and multi-modal travel card ticketing scheme support wider competition within the local bus market as the growing popularity of these product types provides vital income to smaller and medium sized operators who, due to the limited size of their route networks find it challenging to market and sell their own travel cards. Any risk to the continuation of multi-modal and multi-operator travel card schemes would result in the risk to the continued commerciality of local service operation for a number of smaller and medium operators within the West Midlands.
- 6 Also, through the further deployment of smart ticketing functionality, there will be the opportunity to push the boundaries of integrated ticketing further than ever before and as such the Block Exemption will remain a vital component for encouraging operators to work together in acceptance of new schemes and products.
- 7 Therefore, Centro/WMITA agrees that the Block Exemption should be renewed.

Q2: Do you consider the continuation of the Block Exemption to be necessary to deliver integrated ticketing?

8 Without the Block Exemption, multi-operator travelcard scheme owners and participants would have to self-assess compliance with section 9(1) of the Competition Act 1998 which, as the CMA acknowledges, given the risk averse nature of public transport operators, could result in reluctance to continue participation within schemes and as such the continuation of the Block Exemption is a vital component to support the ongoing benefits delivered through multimodal and multi-operator ticketing schemes.

Q3: Would consumer choice, in particular the variability and suitability of ticketing options, be significantly reduced without the block exemption?

9 As per the response to Q2 above, without the Block Exemption there is a risk that operators would withdraw their participation in multi-operator travelcard schemes. This would not only reduce consumer choice, as it would result in the withdrawal of integrated ticketing options, but it would also increase the cost and complexity of inter-operator and inter-modal journey transfer adding a barrier for customers to access public transport.

Q4: If the Block Exemption were not renewed how would that influence operations?

10 If the Block Exemption was not renewed and as a result, operators withdrew their participation in multi-operator and multimodal travel card schemes, it is likely that there would be two significant adverse consequences. Firstly, smaller and medium sized operators would lose significant revenues which would make it more challenging for them to compete against operators with larger network coverage; and secondly, public transport users would find it more difficult and costly to transfer between operators and modes and as such they may choose to either reduce the number of journeys they undertake; or transfer onto less sustainable modes of transport such as a private car.

11 From a Centro/WMTIA perspective, both of these consequences are likely to destabilise the local bus network which may result in additional costs associated with further provision of socially necessary services where current commercially operated services become no longer viable.

12 It should also be noted that any reduction in public transport usage would be directly opposed to Centro/WMTIA's principle function which is to promote and grow sustainable travel within the West Midlands.

Q5: Have there been any adverse consequences from the application of the Block Exemption?

13 Centro/WMTIA has not found; or been notified of any adverse consequences from the application of the Block Exemption.

Q6: Has the current Block Exemption prevented any developments in the last five years that could have benefitted customers?

14 Centro/WMITA has found it challenging to introduce multi-operator individual ticketing schemes (MITs). Further information is set out in paragraphs 25 – 29 below.

Q7 Do you encounter any difficulties in applying the Block Exemption rules?

15 The Office of Fair Trading has published guidelines that explain the application of the Block Exemption. Centro/WMITA applies these guidelines and to date has not encountered difficulties in applying the Block Exemption.

16 However, Centro/WMITA is uncertain as to whether multi-operator single journey carnet ticketing would fall outside of the exemption. See paragraph 31-32 for further information.

Q8 Would a longer duration for the Block Exemption be desirable?

17 Centro/WMITA would welcome the certainty of extending the Block Exemption for 10 years. However, in line with the points raised by the CMA in the consultation document, Centro/WMITA would recommend that there is an opportunity for review should there be significant technology or regulatory change during the 10 year period.

Q9 Do you agree with the assessment outline in Chapter 5 of the consultation?

Multi-operator travel card pricing

18 In practice, where larger operators are able to provide a network of services and offer their own travel cards, and where the principle of a premium for multi-operator ticketing applies, it is likely that the market share of the multi-operator travel card will be secondary to that achieved by the operators own travel card. As such, if there was a link between the price of the multi-operator travel card and the single operator travel card; a larger operator would have to significantly increase the cost of its own travel card to generate a significant increase in the cost of the multi-operator travel card and in doing so would risk losing its loyal customers to either competing operators offering cheaper travel cards or to other modes (train, metro, car etc) should the increase be so significant. This risk therefore ensures that pricing remains competitive.

19 Where schemes, do not apply a link between the price of operators own travel cards and that of the multi-operator travel card, there is an incentive for the larger operators to negotiate significant premiums as the impact would be to protect the market share of their own travel cards and ensure the loyalty of their customer base.

20 In practice therefore, the incentive for an operator to limit its own travelcard prices are the same whether or not a link is applied to the price of a multi-operator travel card. However, the likelihood of achieving a sensible premium for multi-operator travel cards is higher if a link between the prices were to apply.

- 21 Finally, the recommendations for multi-operator pricing contained within the recent Competition Commission's review of competition within the local bus market and the subsequent DfT guidance encourage links between the price of single operator and multi-operator ticketing. For example, it is recommended that in setting a price for multi-operator travel cards, in the absence of other data, estimates for usage and appropriate discounts for multi-operator travel cards should be taken directly from usage data and the discounts applied to single operator travel cards.
- 22 Centro/WMITA worked closely with the Competition Commission and the DfT in their work to improve multi-operator ticketing and competition in the local bus market and continues to support its recommendations.
- 23 Therefore, Centro/WMITA recommends that the CMA reconsiders its view on the appropriateness of linking the determination of the price of a multi-operator travel card with that of the single operator travel cards.

MTC using revenue forgone for revenue sharing

- 24 Centro/WMITA agrees with the CMAs assessment in this section.
- Multi-operator individual tickets pricing & MIT revenue allocation (other than revenue lies where it falls)
- 25 As stated in the consultation documentation, the inability to agree a common price for a multi-operator individual ticket (MIT) and the inflexibility in revenue allocation methods provides a disincentive for operators to participate in these schemes, as the operator of the first journey may attract a disproportionate amount of the income under the "revenue lies where it falls method", particularly if they offer a reduced level of service later in the day meaning that the return journey, which has no income attached to it, is more likely to occur on a rival operator's service. This issue can be intensified further if the operator of the first journey applies an artificial¹ discount to attract more customers.
- 26 These barriers could be removed if alternative revenue allocation methods were applied and/or the operators were allowed to agree a common price. Firstly, an allocation method that provides reimbursement proportionate to the share of usage would remove any advantage for the operator of the first journey. This would also provide a disincentive to apply an artificial discount, should a common price remain prohibited, as the discount would reduce the overall yield to both operators equally. Smart ticketing easily provides the capability to robustly allocate revenue in such a manner and the Local Authority could support the process to ensure that the sharing of any commercial data is minimised.

¹ Artificial in the sense that the discount could be set on the assumption that the issuing operator would be unlikely to receive the return journey and as such it could be closer to a single fair than what it would apply if it were to assume the return journey would be undertaken on its services.

- 27 Secondly, the price of any MIT could be set using similar principles that apply to multi-operator travel card schemes with Local Authorities acting as broker to further encourage a competitive common price. If each operator participating in a MIT scheme offered their own single operator equivalent tickets then the methodology recommended by the Competition Commission and the DfT could be applied to produce competitive MIT prices with operators continuing to compete with each other on single operator tickets and fares.
- 28 To add a further test of competitiveness, the common price of an MIT could be assessed against the price of equivalent tickets offered by the participating operators on other services outside of the MIT route(s) but within the local geographical network.
- 29 Centro/WMITA believes that the wider rollout of MITs would encourage significant patronage growth on local route networks, particularly where a number of operators compete on the same route. However, without adopting changes to the Block Exemption as outlined above, the barriers will remain in place to discourage operators from working together.
- Q10 *Have there been any developments, in particular in ticketing technology and products, in the last 5 years or are any expected over the next five years that affect the Block Exemption and would require in your view, a change in its terms?*
- 30 Centro/WMITA agrees with the CMAs assessment that the Block Exemption is currently flexible enough to cover smart ticketing schemes. However, given the rate of change within this sector, it would be prudent to hold regular reviews.
- Q11 Are there in your view other recommendations that the CMA should consider?
- 31 Centro/WMITA would welcome clarity on whether a multi-operator single journey carnet ticket would fall under the exemption? The multi-operator single journey carnet would, for example, enable a user to purchase 10 journeys in advance that they could then use on any operator's service as and when they chose.
- 32 If the CMA currently considers that the exemption would not be appropriate for multi-operator single journey carnets, then Centro/WMITA would recommend that this view is reconsidered as part of this review process.

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