

Public Transport Ticketing Schemes Block Exemption Review

Stagecoach Group PLC – Response to Consultation

This response to the OFT's consultation on the public transport ticketing scheme block exemption is submitted on behalf of Stagecoach Group PLC.

The Group has extensive operations in the UK, United States and Canada employing around 30,000 people providing bus, coach, rail, and tram services.

In the UK, our fleet of around 7,000 buses connects communities in more than 100 towns and cities across Great Britain. Two million passengers travel on Stagecoach bus services every day, using networks stretching from south-west England to the Highlands of Scotland. We serve major cities, including Manchester, Liverpool, Newcastle, Sheffield, Hull, Oxford, Cambridge and Exeter, as well as key shire towns and rural areas.

We operate a range of local scheduled services and school bus operations. Most of our services are operated on a commercial basis in a deregulated environment. We also operate contracts on behalf of local authorities and other organisations. Our UK Bus division is a major employer, providing jobs for around 18,000 people at over 100 locations in our 18 regional companies.

We also operate express coach services linking major towns within our regional operating company areas. The Group runs the market-leading budget inter-city coach service, megabus.com, which carries over two million passengers a year on a network covering more than 50 locations. Scottish Citylink, our joint venture with ComfortDelGro, is the leading provider of inter-city express coach travel in Scotland.

Stagecoach Group is a major rail operator and has an involvement in running almost a quarter of the UK passenger rail network. The Group operates the East Midlands and South Western rail franchises, the latter incorporating the South West Trains and Island Line networks. South West Trains, the UK's biggest commuter franchise, runs nearly 1,700 trains a day in south-west England out of London Waterloo railway station.

We also operate Supertram, a 28km light rail network incorporating three routes in the city of Sheffield, and have a 10-year contract to operate and maintain the Manchester Metrolink tram network. In addition, Stagecoach Group has a 49% shareholding in Virgin Rail Group, which operates the West Coast inter-city rail franchise.

Question 1

In light of a further period of working with the PTTS Block Exemption since 2006, do you agree that the integrated ticketing schemes indicated above provide economic benefits? Are there any other economic benefits that such schemes provide? Please note if your answers vary according to the different types of ticket covered by the PTTS Block Exemption and explain how they vary.

Stagecoach agrees that the PTTS Block Exemption provides the economic benefits identified in the consultation document. A further benefit of MTC tickets is that they are simple to understand and therefore promote to customers given their network availability within an area, irrespective of operator. A particularly good example of this is the Plus Bus

MTC add-on to rail tickets, which is now available in 280 towns and cities throughout Great Britain.

Question 2

In light of a further period of working with the PTTS Block Exemption since 2006, do you agree that the ticketing schemes indicated above, if they satisfy the conditions in the PTTS Block Exemption, do not impose on the undertakings concerned restrictions unnecessary for the attainment of the benefits described above? In particular, do you agree that fixing the end price for MTCs meets the indispensability condition, or are there other practical alternatives that would lead to equivalent benefits? For example, would alternative revenue sharing agreements that did not involve fixing a common end price for MTCs achieve this end? If you can envisage other practical alternatives, please describe these in detail.

We agree. An operator's primary concerns when entering an MTC agreement is that he will be able to maintain his overall revenues and that he will receive his fair share of the revenue from the ticket(s) commensurate with the actual journeys made by ticket holders on his services. If the end price was not fixed, then retailers could discount without financial risk to themselves and the operator would receive less recompense from sales made by such retailers. Faced with the resultant reduced revenues, there is every likelihood that the operator would withdraw from the scheme and the passenger benefits would then be lost. Further, the simplicity of the marketing proposition of travel over an area network at one price would also be lost.

We cannot envisage any viable revenue sharing arrangements which would not involve fixing a common price for MTCs.

Question 3

Are there additional features of these ticketing schemes that should be regarded as indispensable and without which the schemes could not deliver the benefits described above? Please note if your answers vary according to the different types of ticket covered by the PTTS Block Exemption and explain how they vary.

We do not consider that there are any additional features that should be regarded as indispensable to the schemes beyond those applying in the current ticketing block exemption.

Question 4

In light of a further period of working with the PTTS Block Exemption since 2006, do you agree that a fair share of the economic benefits provided by the integrated ticketing schemes indicated above are passed on to consumers? If you have identified any additional economic benefits in your answer to question 1 above, do you consider that they are passed on to consumers? Please note if your answers vary according to the different types of ticket covered by the PTTS Block Exemption and explain how they vary.

We believe that a fair share of the economic benefits of integrated ticketing schemes enabled by the PTTS Block Exemption is passed on to consumers. We believe that the benefit of simplicity, which we identified in answer to Question 1 results in more sales than would otherwise be the case. This in turn results in more passengers enjoying the benefit.

Question 5

In light of a further period of working with the PTTS Block Exemption since 2006, do you agree that the ticketing schemes indicated above, if they satisfy the conditions in the PTTS Block Exemption, are unlikely to allow the undertakings concerned to eliminate competition in respect of a substantial part of the services in question? Please note if your answer varies according to the different types of ticket covered by the PTTS Block Exemption and explain how it varies.

We do not believe that PTTS Block Exemption ticketing schemes allow the participants the opportunity to eliminate competition in respect of a substantial part of the services in question. The safeguards of not refusing entry to an operator without an objective transparent and non-discriminatory reason, prohibiting joint timetabling (except in the case of through tickets) and prohibiting price fixing (except in the case of MTCs) all serve to achieve this objective.

Question 6

In light of a further period of working with the PTTS Block Exemption since 2006, do you agree that there is a risk that without the PTTS Block Exemption operators would not choose to participate in the above ticketing schemes, and especially in the establishment of new schemes? If so, do you have any evidence to support this view? Please note if your answers vary according to the different types of ticket covered by the PTTS Block Exemption and explain how they vary.

We consider that without the PTTS Block Exemption the risk of operators not participating in ticketing schemes would be high. Operators would regard the time and expense of having to justify their proposals under section 9(1) would be a bar to scheme implementation, particularly in those cases where one or more operators believed that there would be little demand for the proposed ticketing scheme. Operators would be equally wary of launching such a scheme in the absence of the PTTS without seeking OFT informal clearance. They would fear penalties for breaching the requirements of the Competition and Enterprise Acts and they know of the penalties which have been levied in other industries for market sharing and price fixing.

As the PTTS Block exemption has existed in some form since 2001 the only evidence we can offer to support this view is the considerable involvement we had with OFT prior to that date when OFT examined in detail the terms and reimbursement arrangements of pre-existing ticketing schemes (e.g. System One in Manchester and Network Ticketing in Tyne and Wear).

Question 7

Since the PTTS Block Exemption was extended in 2006, have any alternatives to the ticketing schemes covered by the PTTS Block Exemption developed that you think would provide greater benefits to consumers (leaving aside the issue of so-called 'smart cards', which are discussed in chapter 5 below)? If so, please describe these schemes and explain why they would provide additional benefits.

Leaving aside smart cards we are not aware of any ticketing schemes that have developed since 2006 which cannot be accommodated within the PTTS Block Exemption.

Question 8

Do you agree with our assessment that it would be premature substantially to change the PTTS Block Exemption to accommodate new modalities of ticketing based on smart technologies while the way in which the commercial application of smart technologies operates is still relatively undeveloped and smart ticketing technologies are not widespread? If you disagree, please: (i) explain why you disagree; and (ii) describe the specific changes you consider should be made to the PTTS Block Exemption.

We agree with the OFT analysis. There is a strong political desire on the part of Government to replicate the “pay as you go” facility offered by London’s Oyster card throughout England. This presents a number of technical and commercial challenges, not least because the London facility is provided by one product owner, TfL, with a simple zonal pricing structure on the Underground and a uniform flat fare on buses, supported by high levels of public transport subsidy not available elsewhere.

At this stage in their development it is hard to envisage if and how these challenges will be overcome. There is therefore little value in second guessing any changes which may be required to the PTTS Block Exemption.

Provided OFT is prepared to give informal advice to smart card scheme promoters, as and when they need it, using the general provisions of section 9(1) as is suggested in the consultation, and make proposals to the Secretary of State for changes to the Block Exemption as a consequence, there is no need for any action now.

Question 9

Do you agree with our proposed recommendation to extend the duration of the PTTS Block Exemption for five more years, which takes into account the likely timescale for the developments in smart ticketing? If you disagree, what would in your view be the appropriate duration and why?

As indicated above, changes may be needed to the PTTS Block Exemption to cater for smart cards. However, the nature of the changes and the timescales for nationwide smart card implementation are unclear. Some multi operator smart card schemes are likely to be operational well within five years, but initially they are likely to be transferring existing products to smart media, which should not require changes to the Block Exemption.

It is therefore impossible to say when changes to the Block Exemption will be needed and we would agree that renewing it for five years is the most appropriate solution in all the circumstances.