Summary of Main Points of Hearing with Centrebus Ltd (Centrebus)

Background to Centrebus

1. Centrebus has been established for a couple of years. The executive directors are ex-Arriva employees. It has three operating bases in Luton, Dunstable and St Albans. It operates 105 buses in total – about 30 in Hertfordshire – and has 227 employees. It has two wholly owned subsidiaries – Lutonian Buses Ltd and LQT Ltd. In Motion is an unincorporated trading name which appears on the side of the buses. Refresh Travel Solutions is an existing licence but the business interests are now all part of LQT Ltd. Centrebus operates a mix of commercial and tendered routes in Hertfordshire.

2. Centrebus purchased Sovereign's former St Albans business in January 2004. It did not have the necessary funding to aquire the complete Sovereign business. It was interested in St Albans because of the geographical synergy with Centrebus's Bedfordshire operations. It rents the depot in St Albans from the district council, and has consolidated a number of routes since the acquisition was made. The average age of Centrebus's Hertfordshire fleet is 5-6 years. Centrebus considers its expansion atypical in national terms.

3. Centrebus's St Albans operations are mainly in the district of St Albans, extending as far as Harpenden. A small number go to Hitchin and Hemel Hempstead. It also operates some services in Hatfield. It would like to expand operations in Hertfordshire given the right conditions, mainly by tendering for County Council contracts and tenders

Bus services in Hertfordshire

4. Centrebus is not included in the HCC transport steering group, although it does participate in the Intalink Partnership. It would be an advantage to be closer to the decision making. A key issue for Centrebus as a small business is to be able to promote its services in the market-place. Centrebus does not have any involvement in Hertfordshire in negotiating concessionary fare levels.

5. The concessionary fare scheme is administered on the basis of registered mileage rather than passenger numbers. It would be fairer to do it on the

number of concessions sold. Concessionary schemes account for a significant amount of Centrebus's income. In theory a negotiator could change the boundaries of the scheme to suit them. This would be significant for a company like Centrebus.

6. Centrebus offers a weekly ticket on buses in St Albans, as well as monthly or term tickets for students when they travel on more than one bus. This amounts to approximately 15-20% of it's revenue on the main services.

7. Arriva did a good job of displaying Intalink timetables. The new company has less industry knowledge and smaller companies' service information does not get given out. The Intalink partnership is important because it gives access to bus stops, and to some extent because of Intalink ticketing schemes such as Explorer and Bus Plus, which provide a limited revenue stream of about 1%.

8. HCC's contract specifications are of a high standard, which is positive from a public point of view, but from a competitive point of view puts pressure on smaller operators who have to procure a brand new rather than second hand vehicle to secure the tender. In some cases, this restricts tendering. It is vital for operators to have working capital. If not, the tender may be profitable, but cash-flow cannot stand it.

9. There are insufficient tenders in Hertfordshire for the HCC to have sufficient choice. From April 2000 – March 2003, of 105 tenders 31% were awarded to Arriva and 11% to Sovereign. For 13 of the Arriva tenders no other tender was made. If a trend for one tenderer develops it will give that organisation power over the market to put up prices.

10. This year, Centrebus has taken previously contract, tendered services out of the tendered market and operated them commercially. This can be done because in theory it is an established service, and you have more security on the business and revenue. There is a feeling that other operators will be less aggressive on these routes than through direct competition on commercial services. It has benchmark revenue generation figures per vehicle which it uses to identify whether it is going to be economic or not.

11. Inter-urban services tend to be low rather than high frequency in comparison to intra-urban services. Passengers on intra-urban services are interested in the frequency of the service. For that reason town services tend to have their own market. The majority of inter-urban services in Hertfordshire are low frequency – generally hourly.

Market definition

12. Hertfordshire does not have a tradition of using public transport. It is the highest car owning county in England. Centrebus is not sure whether bus usage in Hertfordshire as a whole is increasing.

13. The tender market should be considered as the whole of Hertfordshire. In the commercial market you sometimes need to expand beyond Hertfordshire in terms of how companies work.

Barriers to entry and expansion

14. To start a 1-3 bus operation is relatively easy. Any bigger and you need a lot of working capital. Recruiting drivers is a nationwide problem, but particularly difficult in Hertfordshire.

15. It would be very difficult to establish a new depot in Hertfordshire. Property is very expensive, and getting planning permission, difficult. The capital cost for building a depot would be a least a quarter of a million pounds, and you need service facilities with that, and lifts and plant equipment, as well as skilled drivers and staff.

Competition

16. Operators can compete with each other even when they don't actually operate the same route, for example in St Albans's, where Centrebus competes with Sovereign. Centrebus does not offer the 300, but the S3 service competes along stretches of the route that are served by both companies. There is competition within St Albans, and on a number of corridors.

17. Competition between operators can be on price, frequency, marketing, quality of service and vehicles, reliability, cleanliness and driver friendliness. The majority of customers will get on the first bus that comes, and then there will be loyalty. Whether they have a multi-ticket may affect their choice.

18. Centrebus's ethos is not to compete directly with incumbent operators. Expansion will come from developing new tendered or commercial markets. There may clearly be some direct competition on commercial services, but Centrebus's medium to long-term objective is to look at and develop new markets. Arriva see Centrebus as a threat to their market-place.

19. Sovereign have never really been dominant in Hertfordshire and have a different mind-set to Arriva. Arriva is operationally based to bid for any tender in Hertfordshire. From an operational commercial point of view, they have a pretty good service across the county. Not many locations in Hertfordshire would be too far from their depots, either within or outside Hertfordshire.

20. Arriva can be a very good bus operator. Centrebus is happy to compete against them, as long as they compete fairly. However, Centrebus is concerned about Arriva's practices in relation to particular routes in and outside Hertfordshire, and has complained to the Office of Fair Trading (OFT). Centrebus has, over the past two years, provided the OFT with regular updates, but as yet the OFT have taken no action. Centrebus believes Arriva has responded to Centrebus on some routes by putting in services which are not economic for Arriva, reacting with additional service levels, or managing its services such a way as to obstruct Centrebus buses. It has also reacted with marketing and promotional deals, which Centrebus considers more fairly competitive.

21. Centrebus considers that these types of decisions would have to be taken at local managing director level, and that there are issues about understanding what is right and what is wrong. A manager may not have a full understanding of competition law, which is supposed to protect against such practices, and which has changed significantly in recent years.

22. Centrebus feels that Arriva's reaction to competition is a deterrent to starting up a commercial route. It is a good deal for consumers if the independent

survives. Customers should have a choice. If Centrebus had been able to afford to purchase the whole of Sovereign's operations, the fact that it would then be competing with Arriva is something that it would have had to take into consideration.

23. Although the large operators could compete in each other's territories, they do not, except for skirmishes around the peripheries.

Result of the merger

24. The merger will greatly enhance Arriva's position in Hertfordshire. It could become a virtually monopoly operator in Stevenage. Centrebus believes that the existing independent operator in Stevenage is actually refocusing their attention rather than expanding, and the stronger Arriva is, the more difficult it will be for this company.

25. The risk of the acquisition is that it will tip the balance in Hertfordshire, so that Arriva becomes dominant in both Hertfordshire and South Bedfordshire. That dominance could be a threat to smaller businesses. This will affect any small operator currently operating in Hertfordshire, and any potential operator.

26. It does not matter to Centrebus whether Arriva expands to acquire Sovereign. What Centrebus is concerned about is the way that Arriva treats Centrebus, and the potential for it to abuse its dominant market position.