

LEGISLATIVE COUNCIL BRIEF

OPERATOR OF SHATIN TO CENTRAL LINK

INTRODUCTION

At the meeting of the Executive Council on 25 June 2002, the Council ADVISED and the Chief Executive ORDERED that the Shatin to Central Link (SCL) should be awarded to Kowloon-Canton Railway Corporation (KCRC).

BACKGROUND AND ARGUMENT

Bid Package

2. On 9 January 2001, the Chief Executive-in-Council ordered that KCRC and MTR Corporation Ltd (MTRCL) should be invited to submit bidding proposals for the SCL according to the main principles set out below –

- (a) To ensure a level playing field, we would select the SCL operator on the basis of proposals fully conforming to all the requirements, including corridor alignment, specified in a Project Brief (Conforming Proposals). Conforming Proposals should follow the Exhibition/Admiralty alignment;
- (b) We would assess the Conforming Proposals according to their technical and financial merits, giving each of these two aspects equal importance;
- (c) As specified in the Operating Agreement entered into with MTRCL pursuant to the privatization of the Mass Transit Railway Corporation, Government will not discriminate in respect of any Corporation in awarding new projects on the basis of Government's shareholding or other economic interests in that

Corporation. Therefore, Government's shareholding interest has not been included in the financial assessment; and

- (d) Only after the operator has been selected will any enhancement features in the Non-Conforming Proposal(s) submitted by the winning Corporation be evaluated.

Tenders / Bidding Proposals

3. Tenders were invited for the SCL on 15 January 2001 and closed on 20 July 2001. KCRC submitted two and MTRCL nine proposals. No proposal was received from any other party.

4. Out of the total 11 proposals submitted by the two Corporations, only one from each Corporation conforms fully to the requirements in the Project Brief and are thus considered Conforming Proposals. Both proposals follow the specified corridor alignment from Tai Wai to a Central West terminal station via South East Kowloon, interchanging with the KCR network at Tai Wai and Hung Hom and MTR's at Diamond Hill, Exhibition and Admiralty, and providing other intermediate stations as specified. For the purpose of deciding on the SCL operator, we have therefore only assessed these two Conforming Proposals (CP).

Conforming Proposals / Bids

 A 5. The layouts of the two CPs are at **Annex A**. KCRC's CP offers through-running with the Ma On Shan to Tai Wai Rail Link (MOSR) at Tai Wai Station, allowing the SCL to make use of the MOSR's facilities, and a better interchange with East Rail and West Rail (through the future Kowloon Southern Link) at Hung Hom. KCRC proposes to open the SCL in two phases, the section between Tai Wai and Diamond Hill in March 2008 and the rest in October 2008.

6. MTRCL's CP allows cross-platform interchanges at Diamond Hill and Exhibition Stations with the Kwun Tong Line and the future North Hong Kong Island Line respectively; and convenient split-level interchange at Admiralty Station with the Tsuen Wan Line and the Island Line. MTRCL proposes to open the SCL from Tai Wai to Admiralty in February 2008 with the extension to Central West in December 2011.

Assessment Panels

7. Technical and financial assessments of the Conforming Proposals were made independently by two separate panels. The Technical and Financial Assessment Panels were chaired by Transport Bureau and Finance Bureau (FB) respectively with directorate representatives from the relevant Government bureaux and departments. The Financial Assessment Panel was also assisted by FB's outside financial consultant. Panel members, the financial consultant and all others involved in the tendering and assessment process have to ensure that they have no potential conflict of interest, particularly involvement on MTRCL's shares or the like, and keep the assessments strictly confidential.

TENDER / BID ASSESSMENT

8. In broad terms, we assess and favour proposals with –
- (a) less disturbance to adjacent railways, environment, traffic and existing developments/facilities
 - (b) more convenient interchanges
 - (c) better station layout and accessibility
 - (d) better solutions to constraints and interfaces
 - (e) less land resumption
 - (f) conformity with existing and planned land use
 - (g) an early, phased completion
 - (h) a lower fare level
 - (i) a lower required rate of return, and
 - (j) less funding support required from Government

Both of the Conforming proposals are highly competitive. Their comparison is summarised below.

Technical Assessment

9. In general, MTRCL's CP integrates better with the rail network at the interchange stations. However, such integration requires more delicate modifications of and interfaces with the network than KCRC's CP. Both Proposals strive to arrange the layout for stations and provide entrances in such a way so as to capture the maximum ridership. As regards the programme, there is also no material difference as both Proposals aim to provide the link from Tai Wai to Central in 2008.

10. Nevertheless, the two Proposals do have different comparative advantages. MTRCL's CP offers more comprehensive and robust technical solutions that take into account difficult ground conditions, existing sensitive structures and interfaces with other projects. MTRCL's CP involves more use of bored tunnel construction and therefore has slightly less disturbance to the environment during the construction stage. It also integrates slightly better with the various planned developments along the SCL route on Hong Kong Island.

11. On the other hand, by making use of the facilities and space at the existing Tai Wai and Hung Hom Stations, KCRC's CP can minimise traffic disruption during the construction of the SCL station and approaches there. KCRC's CP also requires less land resumption than MTRCL's CP.

12. On balance, the technical assessments of the two Conforming Proposals are extremely close and we consider them practically equal with regard to the overall technical performance.

Financial Assessment

13. KCRC's CP costs about \$26 billion and MTRCL's CP costs about \$23 billion (in 2000 prices). KCRC's capital cost is about 15% higher than MTRCL's, which is in line with RDS-2's prediction. This is mainly due to on the one hand KCRC's slightly longer route and stations, and slightly larger tunnel and on the other hand, MTRCL's redeployment of more existing rolling stock to the SCL. As for operation cost, KCRC's CP is higher. This is partly due to KCRC's higher patronage and partly due to MTRCL's assumption in staff cost saving, achieved through streamlining of the station control and train operations. Nevertheless, as explained in paragraph 17 below, in terms of cost to Government for building this railway project, the main issue is not the capital cost of the project but the amount of funding support requested, which takes into account both the cost and revenue factors.

14. Both corporations set the SCL fare level with reference to the respective existing fare structures and to increase generally in line with inflation. KCRC's CP proposed fares are generally lower than MTRCL's, particularly for longer distance trips. From Tai Wai to the Central, KCRC's proposed fare is 15% lower compared to that of MTRCL.

15. KCRC's CP projects higher marginal ridership and revenue than MTRCL's CP, which is generally in line with the forecast by RDS-2 transport model.

16. The MTRCL has drawn Government's attention to the Operating Agreement under which Government has agreed to ensure a level playing field for the award of future railway projects. Against this background, the Financial Assessment Panel is satisfied that both Corporations have made reasonable assumptions in estimating their respective weighted average cost of capital and also set the required returns at a comparable commercial level.

17. As the higher marginal revenue more than offsets KCRC's higher costs, KCRC's CP consists of a higher project rate of return on a standalone basis. KCRC has therefore not required any funding support from Government in spite of the slightly higher costs. On the other hand, MTRCL's CP requires Government to provide financial support through Government's granting property development rights of three sites at stations/depots. MTRCL also requires Government's committing to funding a list of railway-related infrastructure works and reprovisioning work.

18. As regards both Corporations' ability to finance their respective proposals through internal resources and debt, sensitivity tests for a range of possible adverse scenarios confirms the robustness of individual financing plans and the financial health of the individual Corporation.

19. In conclusion, the financial assessments confirm that both Conforming Proposals are based on reasonable cost estimates, ridership and revenue forecasts, and financing plans. As it performs better in respect of fare level and funding support, KCRC's CP has a better overall financial performance than MTRCL's CP.

Overall Assessment

20. Since the technical and financial merits carry equal weighting, KCRC's CP therefore wins in the SCL bidding.

WAY FORWARD

21. In accordance with the tender assessment, we will award the SCL to KCRC today and start evaluating any enhancement features contained in KCRC's Non-conforming Proposal. Other feasible improvements to the railway alignment will also be examined. We will further study the case for possible stations at Tsz Wan Shan and Hin Keng in the context of SCL and explore the linkage of the Whampoa area to the nearest rail network, as requested by residents in these areas. Interfaces with North Hong Kong Island Line and Kowloon Southern Link will also be firmed up. We expect to complete the assessment with a view to finalising an SCL scheme around the end of 2002 for the detailed planning and design to proceed.

FINANCIAL AND STAFFING IMPLICATIONS

22. According to KCRC's bid, no financial support is required for the implementation of the project. KCRC's bid is also not contingent upon any work to be funded by Government. However, to further enhance connectivity to the rail stations and extend the railway catchment to serve more people, Government may have to fund certain essential public infrastructure works (EPIW). We will firm up the EPIW in the course of further development of the scheme, and bid for the required resources in the usual manner.

23. We are committed to select the operator according to the bids' technical and financial merits, without being influenced by Government's shareholding or other economic interests in individual Corporations. The operator award is a normal business risk for which MTRCL has assessed and spelt out the effects in the Corporation's Privatization Prospectus.

24. Provisions for additional staff resources for the project have been earmarked.

ECONOMIC IMPLICATIONS

25. Under RDS-2000, the SCL is one of the most urgent projects and an integral component of the expanded rail network, which will be required to support the economic, social and population growth of the HKSAR in the coming years. In particular, it will support the urban renewal of the existing Kowloon City District, planned South East Kowloon (SEK) Development and

further developments in North East New Territories (including Ma On Shan) by providing direct and efficient rail service between Shatin and the Central Business District of Hong Kong Island via SEK. Approximately 12,000 job opportunities in the construction and related fields will be generated during the implementation of the SCL project.

26. The tendering exercise has been highly competitive and the keen competition has enabled Government to receive bids which are better than predicted in RDS-2.

ENVIRONMENTAL IMPLICATIONS

27. We have specified in the bid package the requirement for assessing environmental implications in the Proposals and that the environmental consideration is one of the bid assessment criteria. The Proposals have concluded that the SCL will not present insurmountable environmental problems although it will have some potential environmental impacts which need to be resolved in the detailed planning stage. Where practicable, the SCL is planned to be in tunnel and built by tunnel boring.

28. The SCL is a designated project under the Environmental Impact Assessment Ordinance (EIAO). An environmental permit is required for the construction and operation of the project. When the SCL is taken forward for detailed planning, design and implementation, the EIAO will be fully complied with in selecting the optimal alignment, identifying potential environmental impacts and devising mitigating measures.

29. The SCL will encourage commuters to switch to rail from road traffic. This will have a positive effect on the environment.

SUSTAINABILITY IMPLICATIONS

30. As Conforming Bids by both Corporations follow the same corridor alignment as specified in the Project Brief and have similar technical performance, their sustainability implications should not differ to such an extent as to affect the selection of operator. Nevertheless, a sustainability assessment will be conducted before we proceed with the design and detailed planning work.

PUBLIC CONSULTATION

31. Public consultation on RDS-2000 was carried out widely since its promulgation in May 2000. We have taken into account the views in drawing up the bid package including the assessment considerations. According to the established tendering practice, tenders which contain commercially sensitive information, and their assessments are confidential and cannot be disclosed.

32. There are calls from residents of Whampoa, Tsz Wan Shan and Hin Keng areas for the provision of rail services to these areas. In developing the SCL railway scheme, we will consider the feasibility and viability of providing additional SCL stations in or other linkages to these areas.

33. In taking forward the SCL, we will follow the EIAO and Railways Ordinance, under which the public will have the statutory right to express their views on the EIA report and the railway scheme. Apart from this statutory mechanism, we will also arrange for further consultation with the concerned statutory and consultative bodies, the local communities or other relevant parties where appropriate.

PUBLICITY

34. Apart from this Legislative Council Brief, we will issue a press release and arrange a press conference to announce the operator award later today.

SUBJECT OFFICER

35. The subject officer is Mr. WAN Man-lung, Principal Assistant Secretary for Transport (Tel. 2189 2187).

Transport Bureau
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