

Bills Committee on Rail Merger Bill
Administration's Response to the Follow-up to Bills Committee Meetings

Issue	Response
(A) Fare-related matters	
(1) The Administration to consider reducing the flexibility granted to MergeCo to adjust individual fares within the permitted range allowed under the proposed fare adjustment mechanism (FAM).	<ul style="list-style-type: none"> • We have explained in detail that it is impracticable to require the post-merger corporation (MergeCo) to adjust all individual fares by the same rate across the board. Compared with the existing fare autonomy of the two railway corporations, the substantial reduction in the scope of flexibility originally proposed for adjusting individual fares by not more than ± 10 percentage points from the overall fare adjustment rate already represents considerable constraint on MergeCo's flexibility. Moreover, there is already safeguard in the FAM to ensure that MergeCo will not obtain additional benefits by applying the flexibility. • In response to Members' comments, we have discussed with MTRCL and requested the corporation to consider further reducing the scope of flexibility. Our discussion with MTRCL on this issue has reached its final stage. We hope to be able to inform Members of the outcome within the next few days.
(2) To illustrate with an example how the permitted range of flexibility allowed under the FAM would apply to the fares of KCRC bus service within the North-west Transit Service Area.	<ul style="list-style-type: none"> • <u>Annex 1</u> sets out the relevant example.
(3) The Administration to follow up the motion passed at the meeting – "That this Committee strongly	<ul style="list-style-type: none"> • The Secretary for the Environment, Transport and Works has set out the Administration's position on the motion at the Bills Committee meeting held on 16 April 2007. • The current fare reduction proposal is made possible due to the synergy that could be brought

Issue	Response
<p>urges the Government to seek an agreement with the two railway corporations to reduce railway fares immediately, and to formally activate the fare adjustment mechanism, which allows for increase and reduction in railway fares, two years after the passage of the Bill."</p>	<p>about by the merger, resulting in an agreement between the Administration and MTRCL that MergeCo will reduce the railway fares immediately from the first day of the merger.</p> <ul style="list-style-type: none"> • The fare reduction proposal is an integral part of the FAM. Although the proposal appears to be a one-off offer, it can in fact bring about long-term benefits to the public, which amount to an <u>annual saving of \$600 million</u> for the public. In future, railway fares will be adjusted on the basis of the lowered fare levels. • The proposed FAM is objective and will have regard to changes in economic condition in determining the fare adjustment rate. The proposed mechanism restricts the discretion and rate of increase by MergeCo and mandates MergeCo to reduce fares under specified circumstances. We need to strike a balance between the request for extending the fare freeze period and the need for the corporation to maintain its ability to provide good services and continued improvements to service levels. • MTRCL reiterated that they had already made considerable concession by agreeing to replace fare autonomy with FAM upon the merger. By reason of the on-going discussion of the rail merger, the corporation has frozen its fares for more than three years since February 2004. MTRCL indicated that it is very difficult for the corporation to absorb the impact of a prolonged period of fare freeze following the proposed fare reduction on its operation. • We understand the request for extending the effective period of fare reduction as well as the concern of the corporation. We are now discussing with the corporation possible ways to address the request.

Issue	Response
(B) Shatin-Central Link (SCL)	
(4) MTRCL to disclose the three property development sites which MTRCL required Government to grant property development rights in its bidding proposal for SCL.	<ul style="list-style-type: none"> • The three proposed property sites are located at Ho Man Tin, Admiralty and Kai Tak.
(5) To advise the legal status of granting the award of the SCL project to KCRC and to report the progress of the planning work of the SCL and the estimated implementation timetable.	<ul style="list-style-type: none"> • In response to concerns raised by some members about the future of the SCL project, we wish to emphasize the following points: <ul style="list-style-type: none"> - The SCL remains a committed project recommended for implementation in the Railway Development Strategy 2000 (RDS-2000). - The SCL will, as recommended in the RDS-2000, comprise a rail link across the harbour. - We are considering the Draft Final Proposal for the SCL project submitted by the KCRC and the SCL scheme jointly developed by KCRC and the MTR Corporation Limited in the context of their merger discussion. We are considering the finalisation of a final scheme for the SCL in light of the current progress of the Kai Tak Planning Review and the Wan Chai Development Phase II Review. - We hope to work out an implementation programme for the project as soon as possible. • A paper on the subject is at Annex 2.

Fare adjustment mechanism: Hypothetical example for fares of KCRC bus service within the North-west Transit Service Area (the TSA bus)

- The overall fare adjustment rate by MergeCo would be capped at the overall fare adjustment rate derived from the FAM formula, i.e. the adjustment rate of weighted average fare of all individual rail and TSA bus fares must equal to the overall fare adjustment rate derived from the FAM formula.
 - Total revenue before fare adjustment ‘X’ = $\sum (a)*(b)$
 - Total revenue after fare adjustment ‘Y’ = $\sum (a)*(c)$
 - Under the FAM in this hypothetical case, $\frac{Y - X}{X} = 2.0\%$
- Assumptions in this scenario:
 - Overall FAM fare rate = 2.0%
 - MergeCo would freeze the fares of bus routes #4, #5 and #6, slightly adjust upward the fares for the other bus routes by 1.5% to 2.7%, increase the rail fare for journey A – B by 2.6% whereas all other rail fares at the FAM rate of 2.0%.

	TSA Bus Route							Rail Fare	Overall average of fare adjustment rate = 2.0%
	#1	#2	#3	#4	#5	#6	#7	A-B	
(a) No. of Passengers	2,800	3,200	1,100	800	1,100	1,300	500	3,000	
(b) Existing Fare	\$3.7	\$3.7	\$3.7	\$3.7	\$3.7	\$3.8	\$6.5	\$3.9	
(c) New Fare	\$3.8	\$3.8	\$3.8	\$3.7	\$3.7	\$3.8	\$6.6	\$4.0	
% Change in Fare = $\frac{(c)}{(b)} - 1$	2.7%	2.7%	2.7%	0.0%	0.0%	0.0%	1.5%	2.6%	

Implementation of the Shatin to Central Link Project

Purpose

This note briefs members on the design development and other implementation-related matters for the Shatin to Central Link (SCL) project.

Design Development and Further Work Done by KCRC

2. When inviting the Kowloon-Canton Railway Corporation (KCRC) and the MTR Corporation Limited (MTRCL) to bid for the SCL project in 2001, the Government made it clear to the two corporations that subsequent to the bidding, the Government may discuss aspects of any proposed changes and ask for supplementary information/documents, and thereafter a Final Proposal should be developed by incorporating those additional and/or revised details submitted by the successful bidder and accepted by Government, together with revised details required by Government.

3. On 25 June 2002, KCRC was asked to proceed with the further planning of the project based on its conforming proposal. Government and KCRC would further consider how to refine and improve KCRC's conforming proposal to address certain important issues.

4. We are considering in detail the technical, operational and financial implications of the draft Final Proposal on the SCL project which KCRC presented to the Legislative Council (LegCo) in 2005.

Merger Study

5. As a result of the merger discussion between KCRC and MTRCL in 2004, KCRC has further reviewed the interchange arrangement between the SCL and the MTR system at the proposed SCL stations at Diamond Hill, Exhibition and Admiralty. The two corporations agreed that cross-platform interchange will be provided at these stations if the rail merger is implemented. The proposal is being assessed in conjunction with the KCRC's SCL scheme.

Planning Review at Kai Tak and Wan Chai

6. In light of the current Kai Tak Planning Review, KCRC has responded to the draft Outline Zoning Plan and also undertaken a review on the railway tunnel alignment within the Kai Tak area and the location of the proposed Kai Tak Station. Furthermore, Government has asked KCRC to study the technical feasibility of relocating the SCL depot from Kai Tak to Diamond Hill. Government departments are also in discussion with KCRC regarding the Wan Chai Development Phase II (WDII) Review, in particular, the interface issues with the Central-Wan Chai Bypass.

Other Major Technical Issues Being Addressed

7. Other major technical issues being addressed include the environmental and traffic impacts of the SCL depot at Diamond Hill, the need for the To Kwa Wan Station and the Ma Tau Wai Station in lieu of a single Ma Tau Kok Station along To Kwa Wan Road, the planning of the South Ventilation Building at Causeway Bay, the interface issue between the SCL Exhibition Station and the WDII development, and the reprovisioning of the International Mail Centre at Hung Hom.

Funding Approach

8. We will consider the funding approach to be adopted for the SCL project at the same time when we decide on the final SCL scheme. It should be noted that if the rail merger is implemented, the Government would have the discretion in deciding whether to adopt the ownership approach¹ or the concession approach² for implementing the SCL.

Next Steps

9. Government and KCRC have not yet agreed on a Final Proposal. Hence, there is not yet a legally binding agreement between the two parties on the terms for the SCL Project. From the legal perspective, KCRC does not have contractual obligation to design, construct (whether

¹ Under the ownership approach, the post merger corporation (MergeCo) would be invited to plan, design, construction and operate the SCL under its own funding arrangement. MergeCo and the Government would negotiate the amount of funding support required.

² Under the concession approach, the MergeCo would be granted a service concession to operate the railway.

with or without Government funding support), operate and finance the SCL.

10. We are giving thoughts to the financial arrangements under different funding approaches and in the light of the development of the SCL scheme. The mode of financing and construction of the SCL will be decided after the merger exercise is completed. We hope to work out an implementation programme for the project as soon as possible.

Environment, Transport and Works Bureau

May 2007