

Deputation on the proposed Railways Merger Bill

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Professor Tony Ridley, Imperial College London

- Emeritus Professor of Transport
- President, Railway Technology Strategy Centre
- Managing Director of Hong Kong MTRC, 1975-1980
- Chairman and Chief Executive, London Underground Ltd, 1980-1988
- Head, Department of Civil and Environmental Engineering, Imperial College 1997-1999

- Imperial: Recently ranked within the top 10 universities in the world (London Times, 2006)

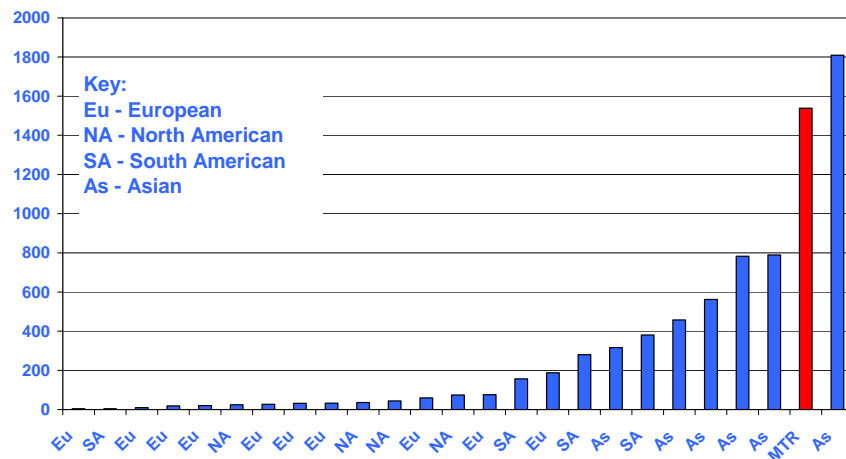
**MTR Corporation a founding member of CoMET Benchmarking Group
Imperial: Mass Transit Benchmarking since 1994**



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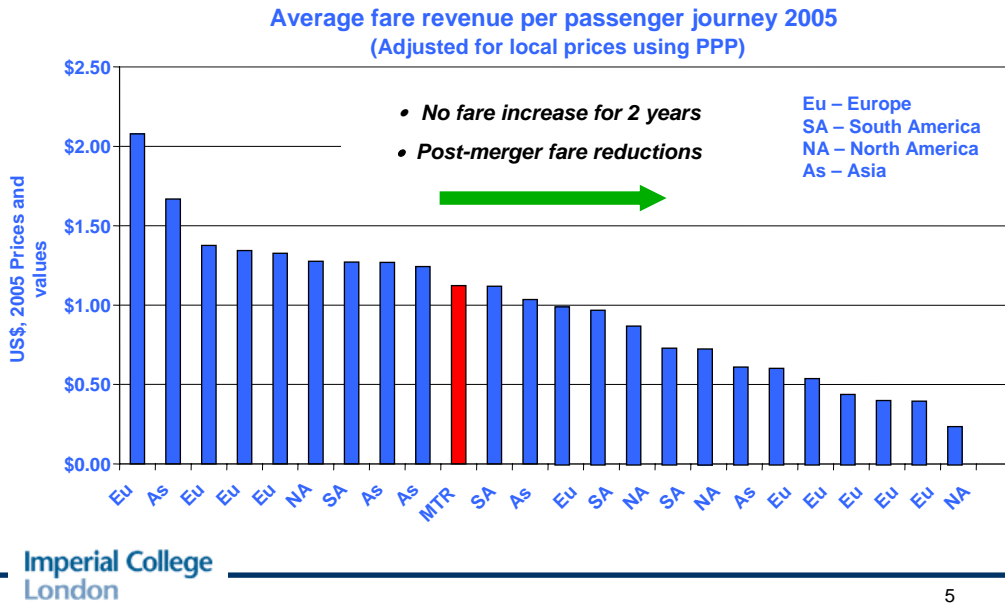
The MTR has consistently out-performed most other metros

Revenue car kilometres (thousands) between incidents causing a delay to service of 5 minutes or more (Year: 2005)



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MTR fares are moderate by world standards



MTR Performance

- Benchmarking: MTR arguably the best metro in the world
- Stable funding central to MTR success
 - Provides predictability in income which is essential for good management, maintenance and enhancements of assets
- Moderate fares compared with other metros
- Property income - no government financial support

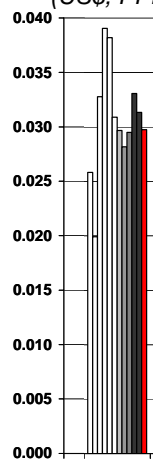
Basis of good price formulae

- Price formulae employed in rail, water, gas, electricity
- Good price formulae:
 - Balance the interests of government, taxpayers, consumers, the industry and shareholders
 - Facilitate efficiency and growing quality – asset stewardship
 - Prevent price increases which are unaffordable to the public
 - Fairly reflect changing price of inputs (notably labour, wages)
 - Have an appropriate review period (5 years)
 - Are free from political intervention
 - Political intervention = declining quality

American Metro with annual intervention in fare setting

Fare per passenger km

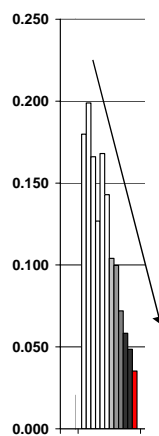
(US\$, PPP)



Changeable fares:
difficult to plan improvements

Car kilometres between delay incidents

(millions)



Political intervention:
changeable fares and declining service quality

□ 1994 □ 1995 □ 1996 □ 1997 □ 1998 □ 1999 □ 2000 □ 2001 □ 2002 □ 2003 □ 2004 □ 2005

Poor fare regulation reduces quality

- Prices pushed down relative to CPI and costs:
 - Mistaken assumptions about productivity/efficiency gains (UK Rail)
 - Reduces capital expenditure (US Energy)

- Prices unstable
 - Where lack of formula / intervention in fare setting
 - Management can only manage the short term (many European metros)
 - Asset management impossible, reduces service quality (America)

- No automatic annual adjustment will lead to the above problems

Conclusions

- The Fare Adjustment Mechanism is fair and transparent
- The review period exists to protect the public's interest
- Fare formula should be implemented in full, on an annual basis
- "Rail + property" the envy of the world – seen as a successful model for mass transit development
- If the merged railway is to continue as the world's best metro
 - Financial self sufficiency should be protected, supported by property
 - Retain certainty in stable revenues - fares should keep pace with costs