

Annex

**Administration's response to questions about fare issues
raised by Hon. LAU Kong-wah**

- 1. The Administration has allowed MergeCo to adjust flexibly individual fares within the range of ± 10 percentage points from the overall fare adjustment rate under the FAM. What are justifications for setting the range at ± 10 percentage points? Will the range be reduced?**

For the justifications for providing MergeCo with the flexibility to adjust individual fares within the range of ± 10 percentage points from the overall fare adjustment rate under the FAM, please refer to our letter to the Legislative Council Secretariat dated 10 November 2006 responding to questions (e), (f) and (g) raised by Bills Committee members.

The two railway corporations currently enjoy fare autonomy under which they in fact have full discretion in adjusting their individual fares. In the merger discussions, we have substantially reduced the flexibility. The final proposal adopted for the merger was to limit the flexibility to within the range of ± 10 percentage points.

- 2. In accordance with the above-mentioned flexibility of adjusting fare, will the Administration explain whether or not railway fares for remote districts will be subject to higher rates of fare increase? In what way can the Administration ensure that the financial burden of the public will not be increased?**

MTRCL advised that competition, economic conditions and whether the service is value for money are the key factors that would be taken into account in finalizing adjustments of individual fares in future. Using long-distance journeys as examples, railways have to face competition from the other public transport modes and railway fares have to be competitive. Since early this year, franchised bus companies have provided fare concessions to passengers of long-distance journeys which demonstrates that competition exists in long-distance services. MergeCo needs to retain certain flexibility to cope with market changes.

- 3. What are the formulae adopted by the two railway corporations for calculating fares and what are the details of the structure of fare? Will the fares be set according to distance in kilometres?**

Whilst both MTR and KCR fares are largely distance-based, they are not simply calculated according to a fixed formula of fare per kilometer. When determining railway fares in the past, they would take account of competition with other public transport services within the area concerned, whether their services are value for money, and the need to cover operating costs in the short term and operating costs plus depreciation in the long run.

- 4. What were the factors considered by the two railway corporations in adjusting fares? What is the weighting of the profit from property development?**

The key factors that the two railway corporations would consider when adjusting fares in the past were competition, economic conditions and whether the services are value for money.

- 5. As the FAM formula does not include any factor that reflects MergeCo's profit from property development, will the Administration explain whether it is different from the situation in the past? If so, what are the reasons for the change?**

The FAM is a price control regime based on a formula. The reasons for not making reference to property profits in the FAM are explained in our letter to the Legislative Council Secretariat dated 10 November 2006 responding to question (h) raised by Bills Committee members. As explained in paragraph (4) above, there is no question of changing past practice with regard to whether fare adjustments take into account the profits from property development.

- 6. Will the Administration consider asking MergeCo to take into account the two major factors namely affordability of the public and socio-economic changes when adjusting fares? If not, what are the reasons?**

Fares of MergeCo would be adjusted according to a formula which is linked to changes in consumer price index and wage index as well as a pre-determined productivity factor. In general, this formula can reflect economic conditions in Hong Kong and affordability of the public.