

立法會
Legislative Council

LC Paper No. CB(1)689/12-13
(These minutes have been seen
by the Administration)

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Panel on Transport

**Minutes of meeting held on
Friday, 14 December 2012, at 10:45 am
in Conference Room 1 of the Legislative Council Complex**

Members present : Hon CHAN Kam-lam, SBS, JP (Chairman)
Hon Gary FAN Kwok-wai (Deputy Chairman)
Hon LEE Cheuk-yan
Hon James TO Kun-sun
Hon WONG Kwok-hing, MH
Hon Jeffrey LAM Kin-fung, GBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHAN Hak-kan, JP
Hon Mrs Regina IP LAU Suk-yee, GBS, JP
Hon LEUNG Kwok-hung
Hon Albert CHAN Wai-yip
Hon Michael TIEN Puk-sun, BBS, JP
Hon NG Leung-sing, SBS, JP
Hon Frankie YICK Chi-ming
Hon WU Chi-wai, MH
Hon CHAN Han-pan
Dr Hon KWOK Ka-ki
Dr Hon Elizabeth QUAT, JP
Hon POON Siu-ping, BBS, MH
Hon TANG Ka-piu
Ir Dr Hon LO Wai-kwok, BBS, MH, JP
Hon CHUNG Kwok-pan
Hon Christopher CHUNG Shu-kun, BBS, MH, JP
Hon Tony TSE Wai-chuen

**Public Officers
attending : Agenda item III**

Mr YAU Shing-mu, JP
Under Secretary for Transport and Housing

Mr Patrick CHAN, JP
Deputy Secretary for Transport and Housing
(Transport)³

Mr Josiah TAU
Principal Assistant Secretary for Transport and
Housing (Transport) Financial Monitoring

Agenda item IV

Mr YAU Shing-mu, JP
Under Secretary for Transport and Housing

Mr Andy CHAN
Deputy Secretary for Transport and Housing
(Transport)²

Miss Carrie CHANG
Principal Assistant Secretary for Transport and
Housing (Transport)¹

Mr Josiah TAU
Principal Assistant Secretary for Transport and
Housing (Transport) Financial Monitoring

Mr Ken HUI
Assistant Commissioner/Bus and Railway
(Acting)
Transport Department

Miss Rachel KWAN
Principal Transport Officer/Bus and Railway

Agenda item V

Mr Patrick CHAN, JP
Deputy Secretary for Transport and Housing
(Transport)³

Miss Gillian LAM
Principal Assistant Secretary for Transport and
Housing (Transport)² (Acting)

Mr Albert SU
Assistant Commissioner/Management &
Paratransit
Transport Department

Mr CHEUNG Ping-kuen
Assistant Director/1
Electrical & Mechanical Services Department

Attendance by invitation : Agenda item III

Mr WONG Tze-kin
General Manager
Tate's Cairn Tunnel Company Limited

Ms Rowena LEE
Head of Finance & Administration Department
Tate's Cairn Tunnel Company Limited

Ms Donna YIP
Corporate Affairs Manager
Tate's Cairn Tunnel Company Limited

Agenda item IV

Mr Edmond HO
Managing Director
The Kowloon Motor Bus Company (1933)
Limited

Mr Evan AU YANG
Deputy Managing Director
The Kowloon Motor Bus Company (1933)
Limited

Ms Vivien CHAN
Corporate Affairs Director
The Kowloon Motor Bus Company (1933)
Limited

Clerk in attendance : Ms Sophie LAU
Chief Council Secretary (1)2

Staff in attendance : Ms Macy NG
Senior Council Secretary (1)2

Ms Clara LO
Legislative Assistant (1)9

Miss Ariel SHUM
Clerical Assistant (1)2

Action

- I Information papers issued since last meeting**
- | | |
|----------------------------------|---|
| (LC Paper No. CB(1)280/12-13(01) | - Submission from a member of the public on taxi fares |
| LC Paper No. CB(1)280/12-13(02) | - Submission from Our Bus Terminal on parking spaces for coaches) |

Members noted the above papers issued since the last meeting.

- II Items for discussion at the next meeting scheduled for 18 January 2013**
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| (LC Paper No. CB(1)249/12-13(01) | - List of outstanding items for discussion |
| LC Paper No. CB(1)249/12-13(02) | - List of follow-up actions) |

2. Members noted that the Secretary for Transport and Housing ("STH") would brief members on the transport policy initiatives featuring in the Chief Executive's 2013 Policy Address at the next regular meeting of the Panel on Transport ("the Panel") to be held on 18 January 2013. Members also agreed to discuss "Certificate of Particulars of Motor Vehicle" at the same meeting.

(Post-meeting note: Agenda item on "Certificate of Particulars of Motor Vehicle" was subsequently replaced by "Amendments to the Schedule to The Road Traffic (Driving-offence Points) Ordinance (Cap. 375)" vide LC Paper No. CB(1)376/12-13 issued on 3 January 2013.)

3. In response to the Chairman's invitation for views on the agenda of the next meeting, Mr TANG Ka-piu and the Deputy Chairman said that the Administration should be invited to brief members on the progress of the review of MTR Corporation Limited ("MTRCL")'s fare adjustment mechanism ("FAM"). Mr TANG added that as the latest statistics relevant to components of the formula of FAM would be published soon, MTRCL might apply for fare increase according to the current mechanism. As such, there was a pressing need to revisit the matter.

Chairman

4. The Chairman said that subsequent to Mr TANG Ka-piu's proposal at the meeting on 16 November 2012, the Research Division of the Legislative Council ("LegCo") Secretariat had been requested to carry out a study to collect information on the monthly travel tickets offered by railway operators in major cities of the world. He said that the research report would provide useful reference when the Panel revisited the matter. He undertook to liaise with the Administration on when the matter should be reported to the Panel.

Admin

5. The Deputy Chairman referred to a submission from Our Bus Terminal on parking spaces for coaches [LC Paper No. CB(1)280/12-13(02)], which was issued to members on 7 December 2012. He requested that the matter be discussed at the next regular meeting. The Chairman directed that the Administration's response to the submission should be sought first before further consideration of discussing the issue at a future meeting. Members agreed.

Clerk

6. Mr TANG Ka-piu referred to his letter [LC Paper No. CB(1)325/12-13(01)] tabled at the meeting raising his concern on the specifications of vehicle body and safety equipment of taxis. He requested that the matter should be discussed by the Panel. Members

noted Mr TANG's request.

(Post-meeting note: On the instruction of the Chairman, the Administration had been requested to provide response to the concern raised by Mr TANG Ka-piu in his letter. The Administration's response was issued vide LC Paper No. CB(1)413/12-13(01) (Chinese and English versions issued on 14 January and 16 January 2013 respectively.)

III Application for toll increase by Tate's Cairn Tunnel Company Limited

(LC Paper No. CB(1)249/12-13(03)	- Administration's paper on application for toll increase by Tate's Cairn Tunnel Company Limited
LC Paper No. CB(1)282/12-13(01)	Tate's Cairn Tunnel Company Limited's paper on toll increase application
LC Paper No. CB(1)249/12-13(04)	- Paper on applications for toll increases by Tate's Cairn Tunnel Company Limited prepared by the Legislative Council Secretariat (Updated background brief))

7. Upon invitation, General Manager of Tate's Cairn Tunnel Company Limited ("GM/TCTC") made a powerpoint presentation to brief members on Tate's Cairn Tunnel Company Limited ("TCTC")'s application for toll increase. In brief, TCTC applied for increasing the tunnel tolls by \$2 for all types of vehicles and additional axle except for motorcycle; and \$1 increase for motorcycle. It was reported that at the end of June 2011, TCTC had accumulated profit of \$625 million, compared to the projected one of \$4,067 million according to the expected Internal Rate of Return ("IRR") of 13.02% in its base case projection. GM/TCTC added that if the toll increase was approved, TCTC would achieve an IRR of 6.76% over the 30-year franchise period. He stressed that the increase was sought according to the guiding principle of reasonable but not excessive remuneration and that the weighted average rate of increase was proposed to be 11.1%, which was lower than the cumulative change in Composite Consumer Price Index ("CCPI") since the last toll increase from December 2010 up to end June 2013. The change was estimated to be 11.3%.

8. Under Secretary for Transport and Housing ("USTH") reported that upon receipt of TCTC's toll increase application in March 2012, the Administration had urged TCTC to reconsider the need for any toll increase and had persuaded TCTC to reduce the magnitude of the toll increase being applied for so as to minimize the impact of the toll increase on public transport services. He said that TCTC had subsequently agreed to reduce the magnitude of toll increase from the original weighted average rate of 19.6% to 11.1% and submitted a revised toll increase application on 8 November 2012. According to TCTC's application for toll increase, the new toll levels would come into effect on 1 July 2013. USTH further said that the Administration would follow the established mechanism in considering TCTC's applications for toll increase. It would seek the views of the Panel and the Transport Advisory Committee ("TAC") before submitting the toll increase application for consideration by the Chief Executive-in-Council ("CE-in-Council").

General views on TCTC's toll increase application

9. Mr WONG Kwok-hing considered the weighted average rate of toll increase of 11.1% considerable and had far exceeded the inflation rate. As the proposed toll increase would induce a spate of fare increases by other public transport operators, he considered that the Administration should reject TCTC's application for toll increase. Given the increasing profits earned by TCTC in the past ten-odd years, he considered it unacceptable if TCTC increased its tolls in order to achieve its expected cumulative profit of \$4,067 million in its base case projection. He opined that TCTC should consider increasing only \$1 for all types of vehicles.

10. GM/TCTC said that when submitting the toll increase application, TCTC had duly considered the affordability of the public and made reference to the cumulative change in CCPI for 2.5 years, i.e. since the last toll increase in December 2010 up to end June 2013, which was estimated to be 11.3%. He explained that TCTC, as the investor of Tate's Cairn Tunnel ("TCT"), had a need to achieve a reasonable remuneration over the 30-year franchise period with an investment of \$2 billion. Being mindful to shoulder its social corporate responsibility, TCTC had not asked for a toll increase rate which would enable the company to achieve an accumulated profit of \$4,067 million in its base case projection.

11. Mr WU Chi-wai asked how TCTC derived the 11.3% cumulative change in CCPI. GM/TCTC said that the percentage was estimated based on authentic data. He agreed to provide the relevant information after the meeting.

12. In respect of Mr WONG Kwok-hing's concern on the implications of the toll increase to inflation, USTH said that the impact of the toll increase at TCT, if implemented, would be insignificant on inflation as tunnel tolls (including all tunnels in Hong Kong) and related expenditure such as vehicle licence fees or car insurance, etc, constituted only about 1.58% of CCPI.

13. Mr LEE Cheuk-yan remarked that if no toll increase was to be made before the end of the franchise, TCTC would still be able to achieve an IRR of 6.61%. He considered such a return rate good enough in the current economic climate. He asked about the amount of profit earned by TCTC in 2011-2012 and why TCTC considered the IRR of 6.61% inadequate. Mr WU Chi-wai raised similar enquiry.

14. GM/TCTC advised that the audited account of 2011-2012 had not been finalized but the profit earned in 2011-2012 would be comparable to that of 2010-2011, which was about \$200 million. He stressed that although TCTC started to make an operating profit in 2000-2001, it had only eliminated its loss in its 20th year in 2007. By the end of June 2011, TCTC had accumulated a profit of only \$625 million. He said that the amount was small if compared with the investment of \$2 billion for a period of 30 years.

15. Mr CHAN Hak-kan considered that the proposed toll increase by TCTC unacceptable as it would drive up inflation and affect the livelihood of the general public and drivers. Noting that the franchise of TCT would expire in five years' time, he expressed concern on whether TCTC would increase the tolls in each of the remaining years of the franchise to maximize its profits. Mr CHAN Han-pan and Mr TANG Ka-piu shared similar concern.

16. GM/TCTC reiterated that TCTC had duly considered the affordability of public before it submitted its toll increase application. He said that the originally proposed toll increase of \$3 for private cars, and proportionate increases for other vehicles types had been revised to \$2 for all types of vehicles and additional axle, except for motorcycle. He added that TCTC had at present no concrete plan on the toll levels in the future.

17. USTH said that the Administration had not yet formed a view on TCTC's application for toll increase. He informed members that Section 36(3) of the Tate's Cairn Tunnel Ordinance (Cap. 393) ("the TCT Ordinance") provided that the tolls specified in the Schedule to the TCT Ordinance might be varied by agreement between CE-in-Council and the

tunnel company. If an agreement on the toll increase could not be reached, either party might resort to arbitration. The TCT Ordinance had not set out the criteria for determining toll adjustments. It only stipulated that if the matter was submitted for arbitration, the arbitrators should be guided by the need to ensure that the company was reasonably but not excessively remunerated for carrying out its obligations, or exercising its rights under the TCT Ordinance.

18. Mr TANG Ka-piu was dissatisfied that although TCTC had earned a profit of \$189 million in 2010-2011, it still sought to increase the tolls of TCT by 11.1%. He considered the rate of toll increase significant and would provide a reason for bus companies to increase their fares shortly. As the toll increase might lead to decrease in patronage, he queried why TCTC still applied for toll increase.

19. GM/TCTC responded that the toll increase application by TCTC was well-justified and reasonable. He said that the accumulated profit of \$625 million as at 2011 had far lagged behind the base toll proposal in which an accumulated profit of \$4,067 million had been projected.

20. Mr CHAN Han-pan cast doubt on whether the expected cumulative profit of \$4,067 million in TCTC's base case projection was realistic with an investment of \$2 billion for constructing TCT. He asked about the Administration's approach when TCTC's current franchise expired in July 2018.

21. USTH said that TCTC's base case projection was made having regard to the circumstances and economic situation back in 1980s when it bade for the franchise. It was inappropriate to judge whether the projection was reasonable according to the current situation. He said that the shortfall of TCTC's expected cumulative profit was due to reasons beyond TCTC's control, for instance, the relocation of the airport to Chek Lap Kok in 1998 was unexpected but the relevant patronage had already been taken into account in TCTC's base case projection. He added that TCT's franchise was awarded on a "Build-Operate-Transfer" ("BOT") basis and the Administration would own TCT upon the expiry of the current franchise.

22. Mr POON Siu-ping expressed reservation for TCTC's toll increase application and considered the proposed increase rate of 11.1% considerable. He noted from the annual report of TCTC that it had succeeded in reducing its operating costs, and the amount for 2010-2011 represented a reduction of \$23.4 million from that of the financial year

ended June 1997. As such, he considered that there was indeed room for toll decrease by TCTC.

23. Dr Elizabeth QUAT considered the rate of toll increase by 11.1%, which was higher than the inflation rate, unacceptable. She said that although there were alternative routes for residents of New Territories traveling to Hong Kong Island, they had indeed no choice as those alternative routes were either very congested (e.g. the Lion Rock Tunnel ("LRT") and via Cross Harbour Tunnel) or very expensive (e.g. Western Harbour Crossing). Mr CHAN Han-pan shared similar views.

24. Mr Frankie YICK noted the projection from TCTC that it would be able to achieve an IRR of 6.76% over the 30-year franchise period should the revised toll increase application be approved. He considered such a return not high and opined that with such a low IRR, the Administration would be difficult to attract investment from private sector for building any infrastructure project in Hong Kong in BOT mode in the future, unless there was a guaranteed profit. He understood that any toll increase would not be welcome and that the Administration had been carefully examining each toll increase application and would not allow tunnel operators to increase tolls lightly. He pointed out that if the matter was submitted for arbitration, the arbitrators would only be guided by the need to ensure that TCTC was reasonably but not excessively remunerated.

Administration's assessment on TCTC's toll increase application

25. Mr LEE Cheuk-yan asked how the Administration would assess TCTC's toll increase application according to the guiding principle of allowing TCTC to earn a "reasonable but not excessive remuneration" during the franchise period. Dr KWOK Ka-ki asked whether the Administration had undertaken that TCTC would be able to earn the expected cumulative profit of \$4,067 million in TCTC's base case projection.

26. USTH said that the TCT Ordinance had not set out the criteria for determining a "reasonable remuneration" for TCTC. However, on two previous occasions that the franchisee of the Eastern Harbour Crossing ("EHC") sought arbitration on its toll increase applications, the arbitrator had ruled that the band of reasonable remuneration for the franchisee of EHC was an IRR between 15% and 17% over the period of the franchise. He said that although the above range might vary depending on different circumstances, the Administration would make reference to the above percentages while considering the toll increase application by TCTC.

USTH added that it might not be in the best interest of TCT users if the Administration rejected TCTC's application for toll increase without a good reason. According to the experience of EHC's arbitrations, the Arbitral Tribunal had awarded greater toll increase for EHC than that originally proposed. He said that the Administration would consider a basket of factors when assessing TCTC's toll increase application.

27. The Deputy Chairman noted that on the basis of the base toll proposal which accompanied TCTC's franchise bid, TCTC expected that it would achieve an IRR of 13.02% over the 30-year franchise period. He also noted that in considering TCTC's franchise bid in 1988, the Government had agreed to the initial tolls but gave no undertaking in respect of subsequent toll adjustments; and neither was there any agreement on a guaranteed rate of return. He opined that TCTC should not use its expected IRR to rationalize its toll increase application. He asked how the Administration would consider the affordability of the public in assessing the toll increase application by TCTC.

28. USTH said that in assessing the toll increase application by TCTC, the Administration would take into account the financial performance of TCTC, the economic environment of Hong Kong, including the inflation rate, as well as the implications of rejecting TCTC's toll increase application.

29. Some members, including Mr CHAN Hak-kan, Mr WONG Kwok-hing, Mr TANG Ka-piu, Dr Elizabeth QUAT and Dr KWOK Ka-ki, expressed concern on how the Administration would duly perform its gate-keeping role in respect of TCTC's toll increase application.

30. In response, USTH said that the Administration had all along been playing its gate-keeping role in assessing toll increase applications by tunnel operators and quoted the case of CE-in-Council rejecting an application for toll increase for EHC in 2011. He said that the Administration would closely monitor the financial performance of all tunnel operators under the BOT mode.

Traffic implications

31. In response to Mr POON Siu-ping and Dr Elizabeth QUAT's concern on the traffic implications of the proposed toll increase, USTH said that TCTC had estimated that with its proposed toll increase, about 500 vehicles would be diverted to LRT and less than 100 vehicles would be diverted to Tai Po Road and Route 8 between Cheung Sha Wan and Shatin

respectively per day. The Administration considered that there would not be significant impact on traffic resulting from TCTC's toll increase.

32. USTH added that according to the experience of the last toll increase by TCTC in December 2010, the increase in patronage of LRT as a result of TCT's toll increase was expected to be temporary. He believed that as a result of the diversion effect of Route 8, the traffic implications on LRT arising from the proposed toll increase would not be as great as that of previous toll increases of TCT.

33. The Chairman pointed out that there were traffic congestions at both TCT and LRT during peak hours in the morning. He urged the Administration to critically examine the traffic implications of TCT's toll increase and work out effective measures as necessary to lessen adverse traffic impacts on LRT.

34. Sharing the Chairman's view, Dr Elizabeth QUAT considered that apart from assessing the traffic implications of TCT's toll increase, the Administration should also assess its impacts on public transport fares and public's transportation cost. In respect of the traffic congestion at TCT, she asked whether the problem was due to the low utilization rate of Autotoll and the absence of other payment methods.

35. GM/TCTC said that Autotoll was an alternative to manual toll collection and about 50% of TCT's users used Autotoll for payment. USTH added that the Administration was studying the feasibility of adopting various electronic means for toll collection.

Alternative options

36. Mr CHAN Hak-kan considered that TCTC should take measures to generate more non-toll revenue, such as letting of advertising panels, to subsidize TCTC's operation with a view to alleviating its pressure for toll increase. Mr Frankie YICK echoed with Mr CHAN.

37. GM/TCTC said that although the revenue generated from letting advertising panels had increased last year, non-toll revenue only accounted for about 5% of TCTC's total revenue. He explained that the core business of TCTC was tunnel operation and TCTC had already tried its best in generating more non-toll profits within its purview. He advised that although the take-up rate of TCT's advertising panels was satisfactory, the revenue concerned would still be incomparable to that of other tunnels in the future.

38. Mr POON Siu-ping suggested that TCTC could increase its profits by adopting a strategy to increase patronage by lowering the toll levels. GM/TCTC responded that TCTC had studied Mr POON's suggestion before. Given the difficulties in determining a reasonable rate of toll reduction and the possibility that reduced tolls might not necessarily lead to an increase in patronage, the option was not adopted.

39. Mr TANG Ka-piu asked whether the Administration would consider using the royalties paid by tunnels to moderate the rate of toll increase or not. USTH advised that the royalties paid to the Government by tunnels should be considered as general revenue. In considering whether public money should be used to moderate the rate of toll increase, the Administration would have to consider whether there was a genuine need to subsidize the transport cost of tunnel users and the availability of alternative routes for these users.

Admin

40. At the request of Mr TANG Ka-piu, USTH agreed to provide information on the amount of royalties paid to the Government by TCTC in past years after the meeting.

41. Mr LEUNG Kwok-hung suggested that arbitration should be sought each time TCTC applied for toll increase and expressed objection to the Administration's policy of adopting BOT approach for constructing tunnels. He considered allowing the private sector to operate public facilities on a monopoly basis not appropriate because as it would only allow the private sector to make profits to the utmost from the public. He said that the League of Social Democrats had been advocating the buying back of TCT by the Government. Sharing similar concern, the Deputy Chairman considered that the Administration should study the feasibility of buying back TCT and consult the public on extending TCTC's franchise or buying back TCT in return for a limited rate of toll increase by TCTC. USTH noted the views of Mr LEUNG and the Deputy Chairman.

42. The Chairman hoped that the Administration would take into account members' views when assessing TCTC's toll increase application. USTH pledged to act with discretion in assessing the toll increase application.

IV Fare increase application from The Kowloon Motor Bus Company (1933) Limited

(LC Paper No. - Administration's paper on
CB(1)249/12-13(05) fare increase application from

			The Kowloon Motor Bus Company (1933) Limited
LC Paper CB(1)249/12-13(06)	No. -	Paper on fare adjustment arrangement for franchised buses prepared by the Legislative Council Secretariat (Updated background brief)	
LC Paper CB(1)249/12-13(07)	No. -	Letter dated 30 November 2012 from Hon TANG Ka-piu	
LC Paper CB(1)249/12-13(08)	No. -	Submission from a member of the public)	

43. Upon invitation, Mr Edmond HO, Managing Director of The Kowloon Motor Bus Company (1933) Limited ("MD/KMB") made a powerpoint presentation to brief members on the fare increase application from the Kowloon Motor Bus Company (1933) Limited ("KMB"). In brief, MD/KMB said that KMB had been incurring financial losses due to factors beyond the company's control, including high fuel prices and substantial drop in ridership due to the shift of passengers to the expanded railway network. In order to restore KMB's financial viability for the provision of sustainable quality services, the company had applied for a fare increase of 8.5%.

Discussion

General views on KMB's fare increase application

44. Members in general were dissatisfied with KMB's fare increase application and considered the proposed rate of fare increase of 8.5% too high. The Deputy Chairman and Mr TANG Ka-piu respectively indicated that they would move a motion to oppose the fare increase application by KMB.

45. Mr WONG Kwok-hing pointed out that KMB's fare increase application, if approved, would definitely increase the financial burden of the public and lead to a spate of increases in the charges of public utilities and fares of other public transport services, thereby arousing public's resentment. He said that he would support any motions moved by members objecting to KMB's fare increase application.

46. Sharing with Mr WONG, Mr LEE Cheuk-yan said that the Labour Party was opposed to KMB's fare increase application. He pointed out

that KMB's current fare increase application of 8.5% had far exceeded the outcome of the formula adopted under the fare adjustment arrangement ("the FAA") for franchised buses, which was, based on the then latest data, only +4.34%.

47. Despite members' objection to KMB's fare increase application at a rate of 8.5%, Mr Michael TIEN believed that the Chief Executive-in-Council ("CE-in-Council") would duly perform its gate-keeping role in respect of KMB's current fare increase application as in the past. He understood that KMB had last submitted a fare increase application by 8.6% in 2010 but CE-in-Council had only approved an overall average fare increase rate of 3.6%.

48. In response, USTH said that the Administration would make reference to a basket of factors under the FAA, as well as take into account views of members of the Panel and TAC before submitting its recommendation to the Executive Council ("ExCo").

KMB's franchise account

49. Some members, including the Deputy Chairman, Mr TANG Ka-piu, Mr WONG Kwok-hing, Dr Elizabeth QUAT, Mr LEE Cheuk-yan, Mr Albert CHAN, Dr KWOK-ka-ki, Mr CHAN Hak-kan and Mr WU Chi-wai, criticized that KMB had used financial tactics to present financial figures to support its case. For instance, income earned from property development, in particularly the re-development of the former Lai Chi Kok depot site into residential blocks by KMB's related company, and income of RoadShow Holdings Limited ("RoadShow"), also KMB's related company, were excluded from KMB's franchise account. They considered that if the aforesaid income were included in KMB's franchise account, KMB would not have suffered a loss and there was no need to apply for any fare increase. They urged the Administration to request KMB to make public those income earned by KMB or its related companies, and the Administration should take into account those income in vetting KMB's fare increase application.

50. In response, USTH explained that for the property development on the former bus depot site, the land in question was acquired by the shareholders of KMB from the open market at prevailing market price a long time ago without any Government subsidy. As such, according to the relevant franchise clauses, gain/loss arising from disposal of land would not be included in KMB's franchise account, and would not be considered under the FAA. He added that the Administration had to respect the right

of ownership of private properties while handling the application for disposal of land acquired by the company. He said that arrangement of the former Lai Chi Kok depot was explained in a LegCo Brief in 1997.

51. MD/KMB added that the site for the development of "Manhattan Hill" at Lai Chi Kok was purchased by KMB from a private entity in 1955 and was then used as a depot, namely Lai Chi Kok depot. He stressed that the land concerned was not granted or subsidized by the Government and the relevant information on the land transaction could be readily retrieved from the Land Registry. He pointed out that currently KMB was the only franchised bus operator which used its own land for franchised bus operations and that annual valuation of such land had not been allowed for the company to earn a market return.

52. MD/KMB further said that the former Lai Chi Kok depot had in fact been used for many decades up to the 1990s and the facilities were outdated. For instance, the depot, which was built to accommodate 9-metre buses, could no longer cope with KMB's modern fleet consisted of mainly 12-metre buses. In addition, the location of the depot was also a source of constant complaints of environmental nuisance by residents of Mei Foo Sun Chuen. There was a genuine need for reconstruction of the depot, and a replacement site on the West Kowloon reclamation area was available for constructing a new depot by KMB under a short term tenancy subject to payment of market rental. He added that as the former Lai Chi Kok depot site concerned was zoned as "Comprehensive Development Area" under the Town Planning Ordinance (Cap. 131), there was no restriction on the land use and therefore payment of extra land premium to the Government was not required for the residential development.

53. Mr Albert CHAN asked why profits of MTRCL generated from property development were included in MTRCL's financial account whereas that for KMB was not. He also criticized the Secretary for Transport and Housing for not having come to attend the discussion of this agenda item. USTH said that unlike KMB, the Government used property development to provide financial support to new railway projects which otherwise would not be financially viable. As such, it was not appropriate to compare the financial arrangements of these two companies.

54. Dr KWOK Ka-ki asked whether it was the Government's fault to make an agreement with bus companies in the past on implementation of the profit control scheme ("PCS"), which provided for the permitted return that a franchised bus company could earn in an accounting year, calculated by reference to an annual rate of return on the average net fixed asset as

specified in the franchise. He noted that "fixed assets" meant the stocks of capital items of stores and spares, investments in land, buildings, buses and other motor vehicles used or kept by a franchisee for the purposes of or in connection with its franchised bus operation. He said that PCS had encouraged the franchised bus companies to over-expand and inflate the value of their assets in the past.

55. USTH replied that when considering whether the land sale proceeds should be included in the franchise account, the Administration had taken into account the fact that bus companies had their own right to develop their own private land. If KMB were required by the Administration to use its land for a specific purpose, the Administration would have needed to compensate KMB for such a requirement, for example, by reflecting the market value of the land acquired by KMB in the franchise account, which would inevitably lead to higher fares. USTH said that the Government did not consider doing so was in the interest of the passengers. Therefore, the land sale proceeds were not included in the franchise account. Otherwise, any gain or equally possible loss from property development might affect the bus operation.

56. The Deputy Chairman noted that the profit earned by RoadShow in the first half of 2012 was about \$15 million. According to the financial performance of KMB for the same period, it had recorded an after-tax loss of \$15.2 million. He opined that if the profit of RoadShow was included in KMB's franchise account, KMB would not be suffering any loss. He also noted that profit earned by Long Win Bus Company Limited ("LW"), KMB's sister company, was not included in KMB's franchise account. He pointed out that this financial arrangement was different from that of Citybus Limited ("Citybus"), which was operating two franchises but the franchise accounts of both franchises were not separated. He also noted that although the number of buses owned by New World First Bus Services Limited ("NWFB") and Citybus was lower than that of KMB, the profit-making capacity of each bus route of NWFB and Citybus had far exceeded that of KMB.

57. USTH explained that the core business of franchised bus companies was bus operation and advertising income constituted only a relatively small part of their total income. Also, it was common for bus companies to outsource their advertising sales on revenue-sharing basis through open tender and KMB adopted the same practice. He said that all income that KMB received from its advertising agents had been included in its franchise account.

Admin 58. Mr WU Chi-wai requested the Administration to provide written information on whether the income of RoadShow generated from placing advertisements in KMB's buses was included in KMB's franchise account or not.

Review on FAA

59. Dr LO Wai-kwok pointed out that the formula adopted under the FAA contained a factor on productivity gain, which aimed at encouraging bus companies to improve their efficiency and productivity. However, he noted that CE-in-Council had approved in December 2009 that the value of productivity gain be set at zero until the next review in three years' time. He enquired about the rationale behind and the schedule of the review. Mr POON Siu-ping raised similar enquiry.

60. USTH said that the outcome of the formula adopted under the current FAA only provided a reference indicator for the Administration in considering whether the fare adjustment rate was fair and justifiable at a given time. He advised that the Administration was about to review the FAA. He explained that when ExCo reviewed the FAA for franchised buses in 2009, it had taken into account the fact that productivity gain had dropped to a negative value due to the drastic upsurge of fuel costs and increasingly keen competition from other transport modes, particularly railway with an expanding network. In the interest of the passengers, the Administration had proposed that the value of productivity gain in the formula should be set at zero until the next review.

61. Mr TANG Ka-piu opined that, in the course of reviewing the FAA, the Administration should consider including the factors on profits earned by franchised bus companies from property development and advertising for assessing applications for bus fare adjustment. USTH noted his view.

Bus route rationalization

62. The Deputy Chairman and Dr Elizabeth QUAT were dissatisfied that KMB had put the blame on District Councils ("DC") for unsuccessful bus route rationalization, which had, as claimed by KMB, led to an increase in pressure for fare increase. Dr Elizabeth QUAT pointed out that DC had in fact made reasonable proposals on bus route rationalization with a view to improving KMB's financial viability, but KMB had sometimes claimed that the relevant proposals were turned down by the Administration. She said that the related traffic congestion problem had existed for a long time and the Administration had the responsibility to solve the problem.

63. The Deputy Chairman noticed that KMB's proposal to rationalize 156 duplicated bus routes earlier in 2012 would only enable it to increase its income slightly by 2%. He considered it unreasonable that KMB attributed one of the reasons for the fare increase to unsuccessful bus route rationalization. He suspected that KMB was trying to shift the political burden on DCs in next year's consultations on bus route development programmes ("RDPs").

64. Dr LO Wai-kwok and Mr CHUNG Kwok-pan considered bus route rationalization necessary to avoid bus fare increase. Given the difficulties in implementing the relevant plans due to objections by residents in the district, Dr LO proposed that KMB should take measures, such as deploying different types of buses, to increase the efficiency and profits of those routes pending to be rationalized.

65. In response, MD/KMB said that KMB had been trying to implement bus route rationalization through redirecting resources from under-utilized routes to routes with keen demand. He also hoped that more discussions would be held with the Administration and DCs, so that more proposals on bus route rationalization could be approved in the coming RDPs consultations in 2013. USTH pointed out that when assessing the bus route rationalization plan submitted by bus companies, the Administration would require the retention of those routes which were socially desirable, though they might not be profit-making.

66. In response to Mr WU Chi-wai's enquiry, USTH said that the Administration had made sustained efforts on bus route rationalization. Apart from the annual consultations on RDPs, which involved proposals to cancel, improve or adjust the existing bus services and introduce new services, Transport Department ("TD") would also study how public transport services could be reorganized upon the commissioning of new transport infrastructure, such as the West Island Line and South Island Line (East) in the future.

Admin

67. Mr WU Chi-wai requested the Administration to provide written information on any problems encountered with regard to bus route rationalization apart from objections by DCs; and the Administration's measures to solve the problems. He suggested that the Administration could discuss with the bus companies concerned to reduce the bus fares with a view to providing an incentive for DCs to support the relevant proposals. He also requested the Administration to provide written information on whether the Administration would set a target for the bus route rationalization exercise.

(To allow sufficient time for discussion, the Chairman extended the meeting by 15 minutes.)

KMB's service performance

68. Some members, including Dr Elizabeth QUAT, Mr LEE Cheuk-yan, Mr POON Siu-ping and Mr CHAN Hak-kan, were dissatisfied with KMB's poor service performance in the past, in particular its previously high lost trip rate. They urged KMB to improve its service performance before seeking for fare increase. Mr LEE Cheuk-yan considered that although figures had shown that KMB's lost trip rate had dropped from 8.0% in 2011 to 3.22% in September 2012, the relevant figures might have been manipulated by KMB by arranging empty despatches between the two bus terminals.

69. USTH said that the Administration had been very concerned about KMB's lost trip situation and had warned KMB to take effective remedial actions in different areas. MD/KMB supplemented that there were many factors contributing to a high lost trip rate, for example, traffic congestion and diversions as well as road closure and manpower problems. Some of them were beyond the control of KMB. However, with an active recruitment of bus captains and Government's assistance in improving the traffic congestion problem, the lost trip rate had decreased to about 3% in September 2012.

70. Mr Michael TIEN asked whether TD measured the lost trip rate at the beginning or at other points of the bus journey. In his view, TD should measure the lost trip rate at a certain stop or end of the bus journey as the relevant figure would be more realistic from the view of passengers. He considered that, instead of investigating the lost trip problem upon receipt of passenger complaints, TD should consider conducting surprise checks on bus frequency and publicly announce the relevant result.

71. Assistant Commissioner/Bus and Railway (Acting) of TD replied that upon receipt of complaints on lost bus trips, TD would investigate each case by checking across the actual bus frequency with that stipulated in the Schedule of Service approved by TD at the beginning of the bus journey. Mr Michael TIEN urged TD to critically review the existing arrangement. TD noted his view.

72. Mr LEUNG Kwok-hung suggested that bus companies should use information technologies to record the bus arrival time at bus stops to

facilitate measurement of the lost trip rate. The Administration and KMB noted his view.

Other views

73. Mr LEUNG Kwok-hung said that as MTR benefitted from the Government's policy of using railways as the backbone of Hong Kong's transport system, proceeds from MTRCL should be used to subsidize the operation of other modes of public transport. He opined that the transportation system should be operated by the Government, so that it would be able to manage the resources in a flexible manner.

74. USTH responded that given the limited road space in Hong Kong, the Government's established transport policy was to use railways as the backbone of Hong Kong's public passenger transport system, complemented by other public transport services in a coordinated manner. He said that such a policy was well-received by members of the public.

75. Mr POON Siu-ping asked whether KMB had considered introducing monthly tickets to attract more passengers with a view to enhancing its financial viability.

76. MD/KMB said that only with the successful implementation of bus route rationalization plan, would KMB be in a position to introduce additional fare concessions for passengers. As KMB was already suffering a loss, introducing additional fare concessions would aggravate the deficit; and would affect KMB's future investments for improving the service. Nevertheless, KMB would study the feasibility of Mr POON's suggestion.

(To allow sufficient time for discussion, the Chairman further extended the meeting by 15 minutes.)

Motion

77. The Chairman ruled that the motions proposed by the Deputy Chairman and Mr TANG Ka-piu were directly related to the agenda item under deliberation. Members agreed to deal with them one by one. The Deputy Chairman moved the following motion –

"由於九龍巴士(一九三三)有限公司未有披露詳細財務資料及未有足夠理據的情況下申請加價，本委員會反對九巴在現階段申請加價。"

(Translation)

"That as the Kowloon Motor Bus Company (1933) ("KMB") has applied for fare increase without disclosing its financial information in detail and providing sufficient justifications, this Panel objects to the fare increase application from KMB at this stage."

78. The Chairman put the motion to vote. Seven members voted for and no member voted against it. The Chairman declared that the motion was carried.

79. Mr TANG Ka-piu moved the following motion –

"本會反對九巴公司申請大幅加價8.5%，要求政府審批九巴加價以市民接受程度及負擔能力，及九巴的服務表現為主要考慮因素。儘快敦促九巴落實全面路線重組、分段收費，及解決嚴重脫班問題。同時，政府有責任主動展開檢討現時的票價調整安排，將九巴及其母集團的租賃收益和媒體收益納入票價考慮因素。"

(Translation)

"That this Panel objects to the application for substantial fare increase by 8.5% from the Kowloon Motor Bus Company (1933) ("KMB"), and requests that the Government should place public acceptance and affordability, as well as the performance of KMB as the primary considerations when vetting the latter's fare increase application, and that the Government should urge KMB to expeditiously implement comprehensive bus routes rationalization, introduce section fares, and solve the serious problem of lost bus trips. Meanwhile, the Government has the responsibility to initiate a review of the existing fare adjustment arrangement, with a view to including the proceeds obtained by KMB and its parent company from their leasing and media business in fare level consideration."

80. The Chairman put the motion to vote. Seven members voted for and no member voted against it. The Chairman declared that the motion was carried.

81. The Chairman hoped that the Administration would take into account members' views when assessing KMB's fare increase application.

V Replacement of Tunnel Lighting System and Monitoring and Management Supervisory Systems in the Shing Mun Tunnels

(LC Paper No. - Administration's paper on replacement of Tunnel Lighting System and Monitoring and Management Supervisory Systems in the Shing Mun Tunnels)
CB(1)283/12-13(01)

82. Deputy Secretary for Transport and Housing (Transport)3 ("DS(T)3") briefed members on the Administration's paper which proposed to replace the existing Tunnel Lighting System ("TLS") and Monitoring and Management Supervisory Systems ("MMSS") in the Shing Mun Tunnels ("the replacement project") at an estimated cost of \$131,970,000 to ensure safe, reliable and efficient operation. The project was expected to start in February 2013 and be completed in about 44 months.

Discussion

83. Mr WONG Kwok-hing expressed support for the Administration's funding proposal and considered the relevant replacement works necessary. Referring to a recent fatal accident happened overseas due to the collapse of ceiling parts in a tunnel, he asked whether the Administration would regularly inspect the conditions of tunnel ceilings in Hong Kong to ensure their safety. He also enquired whether there were any contingency plans for handling fire incidents happened inside tunnels.

84. DS(T)3 replied that the Administration attached great importance to tunnel safety; and that the relevant government departments would regularly inspect the facilities of tunnels, including the ceiling, to ensure safe operation.

85. Assistant Commissioner/Management & Paratransit ("AC/M&P") of TD supplemented that the maintenance works of tunnels had been outsourced to contractors, who would carry out the cleaning and maintenance works at night when the traffic volume was lower and the one-tube-two-way operation was put in place. He further said that apart from visual inspection of tunnel facilities by tunnel operators, TD and other relevant government departments would regularly inspect the structure of tunnels. In respect of concern on fire incidents inside tunnels and warnings to users, he said that TD and relevant government departments, as well as all tunnel operators had drawn up contingency plans for handling fire and other emergency incidents inside tunnels. In addition, fire drills would be

conducted regularly to ensure efficient and prompt execution of the contingency plans.

86. Ir Dr LO Wai-kwok remarked that the public would welcome the Administration's plan to procure new equipment of higher quality and energy efficiency for TLS and MMSS. He asked whether light emitting diode ("LED") would be adopted for TLS. Mr WU Chi-wai also asked about the amount of energy consumption which could be saved after adopting those energy efficient equipment.

87. Assistant Director/1 of Electrical & Mechanical Services Department ("AD/1") and AC/M&P replied that the Administration planned to adopt high-efficiency T5 fluorescent tubes, which would save about 20% of the electricity consumption compared to the existing lighting system. DS(T)3 and AD/1 supplemented that although LED was more energy efficient, the cost of which was three- to four-fold of that of T5 fluorescent tubes. The Administration therefore recommended using T5 fluorescent tubes, which were overall more cost effective. The Chairman suggested that the cost of LED might come down over the contract period and requested the Administration to further consider the feasibility of adopting LED for the replacement project as appropriate.

88. The Chairman concluded that the Panel supported in principle the funding proposal and the submission of it to the Finance Committee for further discussion in January 2013.

VI Any other business

89. There being no other business, the meeting ended at 1:15 pm.