

Legislative Council Panel on Transport

MTR Fare Adjustment for 2015

This paper briefs Members on the MTR fare adjustment for 2015.

Fare Adjustment Mechanism

2. The existing Fare Adjustment Mechanism (“FAM”) of the MTR Corporation Limited (“MTRCL”) has been put in place since the rail merger in 2007, to replace the fare autonomy MTRCL hitherto enjoyed. During the legislative process of the rail merger, this change was extensively discussed in the Legislative Council and approved by the independent shareholders of MTRCL, after much deliberation and consideration, and as a condition for approving the rail merger. The FAM forms part of the rail merger agreement between the Government and MTRCL, and is included in the Operating Agreement signed between the two parties. It is legally binding.

3. The FAM adopts a direct-drive formula. Fares are adjusted in accordance with the economic figures released by the Government. It is an open, objective and transparent mechanism.

Outcome of the Review on FAM in 2013

4. According to the Operating Agreement entered into by the Government and MTRCL in August 2007, the FAM of the MTRCL shall be reviewed every five years. The Government and MTRCL announced the outcome of the first review on the FAM of the MTRCL in April 2013. The Government has two major objectives when conducting the review with MTRCL. They are:

- (i) reviewing the original fare adjustment formula and expanding the scope of consideration under the FAM by incorporating factors such as MTRCL’s profitability and service performance as well as public affordability; and
- (ii) relieving the fare burden on medium and long-distance passengers living in remote areas.

5. Details of the new FAM announced in April 2013 are as follows:

- (i) annual Overall Fare Adjustment Rate from 2013 to 2017 will be calculated according to the following direct-drive formula:

Overall Fare Adjustment Rate

= $(0.5 \times \text{change in Composite Consumer Price Index ("CCPI") in December of the previous year})$

+ $(0.5 \times \text{change in Nominal Wage Index (Transportation Section) in December of the previous year})$

– Productivity Factor (value set at 0.6% from 2013 to 2017)

According to the outcome of the review, the Productivity Factor value in the formula has been improved from 0.1% to 0.6%. The enhanced Productivity Factor value can thus moderate any fare increase by 0.5 percentage point each year from 2013 to 2017, benefitting all passengers;

- (ii) monthly passes and related concessions have been comprehensively enhanced to address the need and affordability of frequent medium and long-distance MTR passengers. MTRCL has launched a number of new ticket schemes, including a new “MTR City Saver” for frequent medium to long journey MTR passengers commuting within the urban zone (passengers are entitled 40 MTR rides within 30 days between designated stations in the urban area at a price of \$400), “Monthly Pass Extra” which offers additional 25% fare discount for onward domestic journeys reaching stations not covered by the particular monthly pass benefitting passengers riding on different railway lines, and a new “Tung Chung – Nam Cheong Monthly Pass Extra” in response to passengers’ need;
- (iii) an “Affordability Cap” has been introduced where no matter the outcome of the direct-drive formula in future, the fare increase rate of that year will not be higher than the change in Median Monthly Household Income (“MMHI”) for the corresponding period to address public affordability;
- (iv) a “Profit Sharing Mechanism” has been introduced to address the public concern on MTRCL’s profitability.

MTRCL will, based on its underlying business profits each year, provide fare concessions and share the Corporation's operational success with passengers as well as relieve their burden from fare increase. The underlying business profits include profits from all businesses of MTRCL. Those from property developments and overseas businesses are also covered; and

- (v) a "Service Performance Arrangement" has been put in place whereby a fine will be imposed for serious service disruptions (defined as disruptions of 31 minutes or above) caused by factors within MTRCL's control. Any fine imposed will be given back to passengers through fare concessions.

Calculation methods for the "Profit Sharing Mechanism" and "Service Performance Arrangement" are at Annex 1.

Overall Fare Adjustment Rate for 2015

6. MTR fare adjustment for 2015 will be implemented in accordance with the new FAM. According to the figures released by the Census and Statistics Department on 22 January and 27 March 2015 respectively, the year-on-year increase of the CCPI for December 2014 over that for December 2013 is 4.9% and the year-on-year increase of the Nominal Wage Index (Transportation Section) for December 2014 over that for December 2013 is also 4.9%.

7. Applying the formula as set out in paragraph 5(i) above, the Overall Fare Adjustment Rate for 2015 is +4.3%. Detailed calculation is as follows:

Year-on-year % change in CCPI for December 2014	Year-on-year % change in Nominal Wage Index (Transportation Section) for December 2014	Productivity Factor value (from 2013 to 2017)	Overall Fare Adjustment Rate for 2015
4.9%	4.9%	0.6%	
$(0.5 \times 4.9\%) + (0.5 \times 4.9\%) - 0.6\% = +4.3\%$			

8. As the year-on-year percentage change in MMHI for the fourth quarter of 2014 is +6.7% and it is higher than the formula outcome of +4.3%, the “Affordability Cap” mechanism (see paragraph 5(iii) above) will not be applicable in the fare adjustment this year. The Overall Fare Adjustment Rate for MTR fares in 2015 is +4.3%. Implementation details will be announced by MTRCL in due course.

9. As mentioned in paragraph 5(ii) above, MTRCL will continue to launch “MTR City Saver” and various “Monthly Pass Extras” in accordance with the outcome of the review on FAM announced in April 2013. In addition, MTRCL will offer additional fare concessions of \$200 million from the “Profit Sharing Mechanism” and \$20 million from the “Service Performance Arrangement” to passengers. These fare concessions will be provided through the “10% Same-Day Second-Trip Discount” promotion. Details are at Annex 2.

MTRCL’s On-going Fare Promotions

10. MTRCL has been offering a wide range of fare concessions and promotional schemes each year to thank passengers for their support and encourage different sectors of the community to use the railways including the elderly, children, eligible students and persons with disabilities, such as the Student Travel Scheme, Fare Concession for the Elderly, Fare Concession for Children, “Monthly Pass Extras”, Day Pass and other interchange concessions. These on-going fare promotions amount to over \$2.2 billion in 2014. Details are at Annex 3.

Conclusion

11. Members are invited to note the information set out in this paper. MTRCL is currently reviewing its various fare promotions with a view to designing the fare promotions next year.

**Transport and Housing Bureau
MTR Corporation Limited
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Calculation Methods for “Profit Sharing Mechanism” and “Service Performance Arrangement”

“Profit Sharing Mechanism”

MTRCL will decide the amount to be shared with passengers each year under different profit levels according to a pre-determined tiered table. Details of the pre-determined tiered table are as follows:

<u>Underlying Business Profit per Year</u>	<u>Amount for Fare Concessions</u>
Below \$5 billion	0
\$5 billion to <\$6 billion	\$50 million
\$6 billion to <\$7 billion	\$75 million
\$7 billion to <\$8 billion	\$100 million
\$8 billion to <\$9 billion	\$125 million
\$9 billion to <\$10 billion	\$150 million
\$10 billion to <\$11 billion	\$175 million
\$11 billion to <\$12 billion	\$200 million
\$12 billion to <\$13 billion	\$225 million
>=\$13 billion	\$250 million

“Service Performance Arrangement”

The levels of financial penalty to be imposed under the “Service Performance Arrangement” are as follows:

<u>Train Service Disruption</u>	<u>Level of Penalty per Incident (subject to a maximum of \$15 million per incident)</u>
Equal to or more than 31 minutes but less than or equal to one hour	\$1 million
More than one hour but less than or equal to two hours	\$2 million
More than two hours but less than or equal to three hours	\$3 million
More than three hours but less than or equal to four hours	\$5 million
Each additional hour (or part thereof) exceeding four hours	\$2.5 million

Note: “Exemption Events” (i.e. events which are outside MTRCL’s control, such as passengers’ behaviours and bad weather) are excluded under the “Service Performance Arrangement”.

Fare Concessions under the New FAM

“MTR City Saver”

MTRCL introduced a new “MTR City Saver” at a price of \$400 on 8 June 2014 to benefit medium and long-distance frequent travellers commuting within the urban area, i.e. essentially the zone not covered by the existing “Monthly Pass Extras”. Ticket holders of “MTR City Saver” are entitled to 40 rides within 30 days from the day of first use between the designated stations in the urban area. The coverage of “MTR City Saver” is at Appendix.

“10% Same-Day Second-Trip Discount” promotion

MTRCL will offer a total of \$220 million for the “10% Same-Day Second-Trip Discount” promotion under the “Profit Sharing Mechanism” and “Service Performance Arrangement” in 2015. Details are set out below:

(i) “Profit Sharing Mechanism”

Since 2013, MTRCL has been sharing its profits from underlying business with passengers by way of the “10% Same-Day Second-Trip Discount” promotion. For this purpose, a pre-determined tiered table is used to decide on the amount to be shared with passengers under different profit levels with such amount being put into a fare concession account. According to the tiered table, an amount of \$200 million will be shared with passengers in 2015 through the “10% Same-Day Second-Trip Discount” promotion.

(ii) “Service Performance Arrangement”

According to the outcome of the FAM review, a “Service Performance Arrangement” has been introduced whereby an amount, ranging from \$1 million to \$15 million, will be collected from MTRCL for serious service disruptions, defined as disruptions of 31 minutes or above. There were 12 such disruptions in 2014. Passengers will receive additional fare concessions of \$20 million through the “10% Same-Day Second-Trip Discount” promotion.

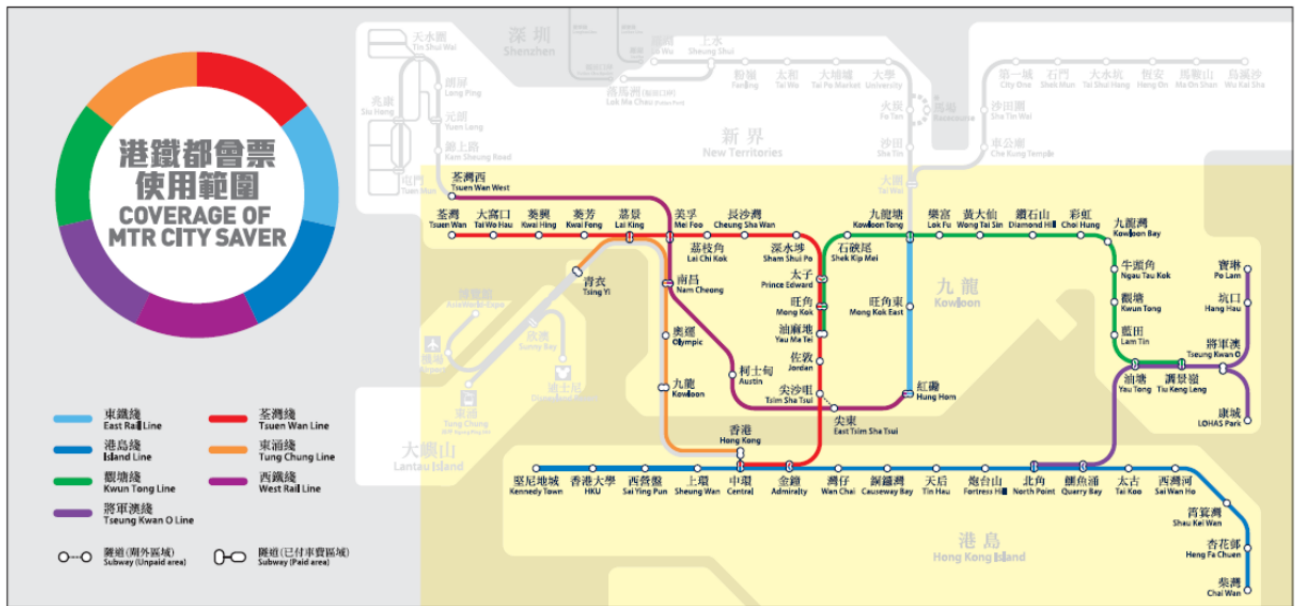
“Monthly Pass Extras”

“Month Pass Extra” users are entitled to unlimited rides between the specified stations within the effective month. In addition, they can enjoy

25% discount for onward journeys to and from unspecified stations.
Current prices are set out below:

Pass	Current Price
Tung Chung – Hong Kong Monthly Pass Extra	\$580
Tung Chung – Nam Cheong Monthly Pass Extra	\$370
Sheung Shui – East Tsim Sha Tsui Monthly Pass Extra	\$445
Tuen Mun – Nam Cheong Monthly Pass Extra	\$465
Tuen Mun – Hung Hom Monthly Pass Extra	\$545

Coverage of “MTR City Saver”



MTRCL's On-going Fare Promotions

Day Pass promotion

The promotion period for Day Pass is from 1 July 2014 to 30 June 2015. The price of Tuen Mun – Nam Cheong Day Pass is \$25.

Light Rail and MTR Bus promotions

The promotion period for Light Rail Personalised Octopus Frequent User Bonus Scheme, Free Light Rail/MTR Bus Connection with MTR, and Free MTR Bus Connection with Light Rail using Octopus is from 1 July 2014 to 30 June 2015.

Apart from the above promotions, MTRCL offers the Student Travel Scheme, Fare Concession for Children and other interchange promotions, etc. Details are set out below:

Promotion	Details
Student Travel Scheme	<ul style="list-style-type: none"> • MTRCL is the only public transport operator in Hong Kong providing full-year fare concessions to eligible students studying full-time at recognised Hong Kong institutions. • Eligible full-time students aged between 12 and 25 can enjoy about half-fare concessions with their Personalised Octopus encoded with Student Status (not applicable on journeys to/from Lo Wu and Lok Ma Chau stations, East Rail Line First Class, MTR Feeder Bus and Airport Express).
Fare Concession for the Elderly#	<ul style="list-style-type: none"> • Elderly persons aged 65 or above can enjoy about half-fare concessions using Elderly Octopus, Personalised Octopus or Concessionary Single Journey Tickets. • MTRCL funds the difference between half fare and \$2 for Elderly Octopus users travelling in the domestic network on Wednesdays, Saturdays and public holidays (except Sundays), while the other days are funded by Government.

Promotion	Details
	<ul style="list-style-type: none"> • In addition, the \$2 fare concession to and from Racecourse Station enjoyed by Elderly Octopus holders is paid for by MTRCL.
Fare Concession for Children	<ul style="list-style-type: none"> • Children aged 3 to 11 can enjoy about half-fare concessions using Child Octopus or Concessionary Single Journey Tickets.
Half Fare for Eligible Persons with Disabilities#	<ul style="list-style-type: none"> • MTRCL is one of the few public transport operators in Hong Kong that provides concessions to eligible persons with disabilities. • Eligible persons with disabilities are defined as recipients aged 64 or below under the Comprehensive Social Security Assistance Scheme with 100% disability or recipients of Disability Allowance.
Light Rail Personalised Octopus Frequent User Bonus Scheme	<ul style="list-style-type: none"> • Adults, children or senior citizens who travel on Light Rail using a Personalised Octopus can accumulate bonus points for discounted travel on Light Rail.
Interchange between West Rail Line and Light Rail/MTR Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between designated West Rail Line stations and designated Light Rail stops/MTR Bus routes within a specified time period can enjoy free rides on Light Rail (applicable on Light Rail journeys with Adult and Concession Octopus fares lower than or equal to \$4.5 and \$2.2 respectively) or MTR Bus routes.
Interchange between Light Rail and MTR Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between Light Rail and designated MTR Bus routes within a specified time period can enjoy the MTR Bus ride for free.
Interchange between MTR and MTR Feeder Bus	<ul style="list-style-type: none"> • Passengers using the same Octopus to transfer between MTR and MTR Feeder Bus routes at designated MTR stations within a specified time period can enjoy interchange discounts equal to

Promotion	Details
	\$4.0, or the MTR fare, whichever is lower.
Interchange discount between MTR and New Lantao Bus	<ul style="list-style-type: none"> Adult passengers using the same Octopus to transfer between MTR and designated New Lantao Bus routes at Tung Chung Station within a specified time period can enjoy an interchange discount of \$1.0.
Interchange discount between MTR and Citybus	<ul style="list-style-type: none"> Adult passengers using the same Octopus to transfer between MTR and Citybus Route No. 43M at Kennedy Town Station within a specified time period can enjoy an interchange discount of \$0.5.
Interchange discount with Green Minibuses	<ul style="list-style-type: none"> Passengers using the same Octopus to transfer between MTR and designated Green Minibus routes at designated MTR stations within a specified time period can enjoy interchange discounts ranging from \$0.3 to \$3.0 depending on the individual routes.

- # Under the Public Transport Fare Concession Scheme for the Elderly and Eligible Persons with Disabilities implemented by the Government since 28 June 2012, Elderly and eligible Persons with Disabilities enjoy the concessionary fare of \$2 per trip for MTR domestic services. MTRCL continues to fund with its own resources half-fare concessions for Eligible Persons with Disabilities while the Government pays for the difference between half fare and \$2.