

Legislative Council Panel on Transport

MTR Fare Adjustment for 2016

This paper briefs Members on the MTR fare adjustment for 2016.

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. 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.

3. During the legislative process of the rail merger, the FAM and its formula were extensively discussed in the Legislative Council and approved by the minority 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 (“OA”) signed between the two parties. It is legally binding.

Outcome of the Review on FAM in 2013

4. According to the OA entered into between the Government and MTRCL in August 2007, the FAM of the MTRCL may be reviewed every five years. The Government and MTRCL conducted the first review on the FAM of the MTRCL in 2012-13 and announced the review outcome in April 2013. The Government has two major objectives when conducting the review. They are:

- (i) reviewing the original fare adjustment formula and expanding the scope of consideration under the FAM by incorporating factors such as profitability and service performance of MTRCL 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 FAM, as revised after the first review in 2013, are as follows:

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

Overall Fare Adjustment Rate

= (0.5 × change in Composite Consumer Price Index (“CCPI”) in December of the previous year)

+ (0.5 × 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 launched a number of new ticket schemes, including a new “MTR City Saver” for frequent travellers commuting within the urban area (passengers are entitled to 40 MTR rides within 30 days between designated stations in the urban area), “Monthly Pass Extras” which replace the Monthly Passes and offer a 25% discount for connecting domestic journeys beyond the specified stations on top of the unlimited rides between specified stations within the month purchased, and a new “Tung Chung – Nam Cheong Monthly Pass Extra” in response to passengers’ need. The average number of “MTR City Saver” beneficiaries is around 80 000 persons while that of “Monthly Pass Extras” reach over 120 000 persons;

- (iii) **an “Affordability Cap” has been introduced** where no matter the outcome of the direct-drive formula, 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, relieving their burden from fare increase. The underlying business profits include profits from all MTRCL businesses, including those from property developments and overseas businesses; and

(v)a **“Service Performance Arrangement”** was put in place whereby MTRCL will set aside an amount, ranging from \$1 million to \$15 million, for each serious service disruption (defined as disruptions 31 minutes or above) caused by factors within its control. The amount set aside 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 2016

6. MTR fare adjustment for 2016 will be implemented in accordance with the FAM as revised in 2013. According to the figures released by the Census and Statistics Department (“C&SD”) on 21 January 2016, the year-on-year increase of the CCPI for December 2015 over December 2014 is 2.5%, which was subsequently adjusted to 2.4% on 29 April 2016. On 29 March 2016, C&SD published that the year-on-year increase of the Nominal Wage Index (Transportation Section) for December 2015 over December 2014 is 4.1%.

7. Applying the formula as set out in paragraph 5(i) above, the Overall Fare Adjustment Rate for 2016 is +2.65%. Detailed calculation is as follows:

Year-on-year % change in CCPI for December 2015	Year-on-year % change in Nominal Wage Index (Transportation Section) for December 2015	Productivity Factor value (from 2013 to 2017)	Overall Fare Adjustment Rate for 2016
2.4%	4.1%	0.6%	
$(0.5 \times 2.4\%) + (0.5 \times 4.1\%) - 0.6\% = +2.65\%$			

8. As the year-on-year percentage change in MMHI for the fourth quarter of 2015 is +3.3% and it is higher than the formula outcome of +2.65%, 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 2016 is +2.65%. Details will be announced by MTRCL in due course, before implementation in June 2016 as per the OA’s requirement.

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 in April 2013. In addition, MTRCL will offer additional fare concessions of \$175 million from the “Profit Sharing Mechanism” and \$11 million from the “Service Performance Arrangement” to passengers. These fare concessions totalling \$186 million will be provided through the “10% Same-Day Second-Trip Discount” promotion. Details are at Annex 2. MTRCL is currently reviewing its various existing fare promotions with a view to working out the fare promotions for 2016/17.

MTRCL’s On-going Fare Promotions

10. MTRCL has been offering a wide range of fare concessions and promotional schemes every year (such as the Fare Concession for the Elderly, Fare Concession for Children, Student Travel Scheme, Day Pass and other interchange discounts) to benefit and encourage different sectors of the community to use the railways including the elderly, children, eligible students and persons with disabilities. These on-going fare promotions amounted to about \$2.4 billion in 2015. Details are at Annex 3.

Railway service enhancement

11. MTRCL is committed to providing the public with safe, reliable and highly efficient railway service. MTRCL spent more than \$7 billion in 2015 in maintaining, upgrading and renewing railway assets to ensure the continued delivery of safe and reliable high performance railway. This represents a substantial increase from around \$6 billion spent in 2014. MTRCL has been providing railway service for nearly 40 years and is planning to renew major railway assets gradually in the coming few years. MTRCL's most recent major projects include the signalling system upgrade, purchase of new trains and replacement of chiller plants. The investment in upgrading the railway systems is expected to continue to increase in the coming years.

Early Review of FAM

12. The Government and MTRCL may review the FAM every five years. The last review was completed in 2013 and the next scheduled review is originally due for completion in 2018. Now, the Government and MTRCL are going to advance the review. The main direction of the review is for the operation of the FAM to better respond to the public concern about the Corporation's profitability and passengers' affordability, whilst still respecting the financial prudence required of the Corporation as a listed company.

13. The Government will launch a three-month public consultation exercise on this review of FAM of MTR. A consultation document will be published in due course. Upon the completion of the review, the outcome will be implemented in the fare adjustment starting from 2017.

Conclusion

14. Members are invited to note the information set out in this paper.

**Transport and Housing Bureau
MTR Corporation Limited
May 2016**

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 amount to be set aside for fare concession for each serious service disruption under the “Service Performance Arrangement” is as follows:

<u>Train Service Disruption</u>	<u>Amount 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 the control of MTRCL such as passengers’ behaviours and bad weather) are excluded under the “Service Performance Arrangement”.

Fare Concessions under the FAM as Revised in 2013

“MTR City Saver”

MTRCL introduced a new “MTR City Saver” in 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”. Holders of “MTR City Saver” tickets are entitled to 40 rides within 30 days 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 \$186 million for the “10% Same-Day Second-Trip Discount” promotion under the “Profit Sharing Mechanism” and “Service Performance Arrangement” in 2016. Details are set out below:

(i) “Profit Sharing Mechanism”

Since 2013, MTRCL has been sharing its yearly underlying business profit 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 \$175 million will be shared with passengers in 2016 through the “10% Same-Day Second-Trip Discount” promotion.

(ii) “Service Performance Arrangement”

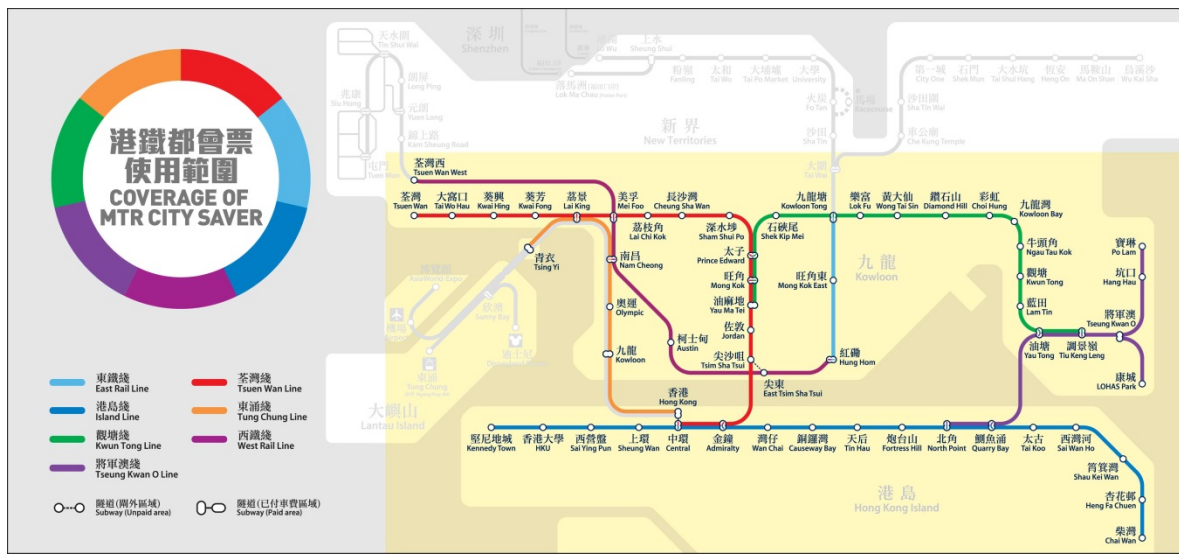
According to the outcome of the FAM review in 2013, a “Service Performance Arrangement” has been introduced whereby MTRCL will set aside an amount, ranging from \$1 million to \$15 million, for each serious service disruption, defined as disruptions of 31 minutes or above which are within the control of the MTRCL. There were 8 such disruptions in 2015. Passengers will receive additional fare concessions of \$11 million through the “10% Same-Day Second-Trip Discount” promotion.

“Monthly Pass Extras”

After purchasing “Monthly Pass Extra”, passengers are entitled to unlimited rides between the specified stations within a month. In addition, they enjoy a 25% discount for connecting domestic journeys beyond the specified stations. Current prices are set out below:

Pass	Current Price
Tung Chung – Hong Kong Monthly Pass Extra	\$605
Tung Chung – Nam Cheong Monthly Pass Extra	\$385
Sheung Shui – East Tsim Sha Tsui Monthly Pass Extra	\$465
Tuen Mun – Nam Cheong Monthly Pass Extra	\$485
Tuen Mun – Hung Hom Monthly Pass Extra	\$570

Coverage of “MTR City Saver”



MTRCL's On-going Fare Promotions

Day Pass promotion

The promotion period for Day Pass is from 1 July 2015 to 30 June 2016. The price of Tuen Mun – Nam Cheong Day Pass is \$26.

Apart from the above promotion, MTRCL continues to offer a wide range of fare concessions and promotional schemes to benefit and encourage different sectors of the community to ride on MTR. 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 local students. • 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). • The average daily number of passenger trips in the MTR network enjoying the student fare concession is about 495,000.
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. • In addition, the \$2 fare concession to and from Racecourse Station enjoyed by Elderly Octopus

Promotion	Details
	<p>holders is funded by MTRCL.</p> <ul style="list-style-type: none"> The average daily number of passenger trips in the MTR network enjoying the elderly fare concession is about 400,000.
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. The average daily number of passenger trips in the MTR network enjoying the child fare concession is about 164,000.
Fare Concession for Persons with Disabilities#	<ul style="list-style-type: none"> 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. MTRCL funds with its own resources half-fare concessions for Persons with Disabilities while the Government pays for the difference between half fare and \$2. The average daily number of passenger trips in the MTR network enjoying the fare concession for persons with disabilities is about 59,000.
Fare Savers	<ul style="list-style-type: none"> Currently, there are 33 fare savers available offering discounts at pre-designated MTR stations.
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 journey 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

Promotion	Details
	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 \$4.7 and \$2.3 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 \$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 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 route.

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 service.