

LCQ10: Operating arrangements for Hong Kong Section of Guangzhou-Shenzhen-Hong Kong Express Rail Link

Following is a question by the Hon Tanya Chan and a written reply by the Secretary for Transport and Housing, Mr Frank Chan Fan, in the Legislative Council today (November 14):

Question:

The land needed for the operation of the Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) and the related interests have been vested in the Kowloon-Canton Railway Corporation (KCRC) by the Government. KCRC has granted the MTR Corporation Limited (MTRCL) a concession to operate XRL under a supplemental agreement to the service concession agreement (SSCA). On August 23 this year, the Government submitted to the Panel on Transport of this Council a paper on the operating arrangements for XRL (the Paper), and MTRCL issued, on the same day, an announcement explaining the relevant arrangements (the Announcement). Details of the operating arrangements for XRL include: (i) the average daily patronage (patronage) forecast for XRL in 2018 is 80 100 (set out in Annex 2 to the Paper), (ii) the projected operating profit and operating margins of XRL based on the patronage forecasts in Annex 2 to the Paper are set out in Annex 5 to the Paper, (iii) SSCA has provided for a "Patronage Cap-and-Collar Mechanism", i.e. if the actual patronage deviates from the projected patronage by more than 15 per cent, MTRCL and KCRC will bear the risk or share the return according to a specified ratio, (iv) the total amount of Additional Concession Payments to be paid by MTRCL to KCRC over the ten-year concession period will be a net of \$2.7 billion, which comprises an amount of \$10.7 billion to be paid by MTRCL to KCRC, and an amount of around \$8 billion to be paid by KCRC to MTRCL, and (v) SSCA provides that the Additional Concession Payments will be paid in the form of "fixed annual payments" and "variable annual payments". In this connection, will the Government inform this Council:

(1) whether it knows the daily patronage of XRL since its commissioning on September 23 this year, with a tabular breakdown by whether the passengers were (i) Hong Kong residents, (ii) business visitors, and (iii) travelling northbound or southbound;

(2) whether the patronage forecasts adopted in SSCA (the former) are consistent with the patronage forecasts in Annex 2 to the Paper (the latter); if not,

(i) set out the former in a table of the same format as that in Annex 2 to the Paper; if such figures may not be disclosed, whether the patronage forecasts for 2018, 2021 and 2031 in SSCA are lower than the corresponding figures in Annex 2 to the Paper, as well as of a rough estimate of the extent

of the difference between the two;

(ii) of the method for arriving at the former and the reasons for adopting such a method;

(iii) of the purpose and effect of setting out in Annex 2 to the Paper patronage forecasts which are different from those in SSCA;

(iv) of the relation between these two sets of figures;

(v) of the reasons why an account of the difference between the two was not given in the Paper; and

(vi) of XRL's projected operating profit and operating margins based on the former (set out in a table of the same format as that in Annex 5 to the Paper); if such figures may not be disclosed, whether XRL's projected operating profit and operating margins based on the former are lower than the projected figures in Annex 5 to the Paper and whether they are positive figures, as well as of a rough estimate of the extent of the difference between the two;

(3) of the respective upper and lower limits under the Patronage Cap-and-Collar Mechanism as set out in SSCA; the respective numbers of days on which the patronage touched the upper or the lower limit during the first 30 days of operation of XRL; for how long the patronage touching the upper or the lower limit has last before MTRCL and KCRC will bear the risk or share the return according to the specified ratio;

(4) as it is mentioned in the Paper that MTRCL will pay KCRC \$10.7 billion, whether that amount is equivalent to the total "variable annual payments" to be paid by MTRCL to KCRC each year during the ten-year concession period, as calculated by the method set out in the Announcement; whether the method for arriving at that amount is based on the patronage forecasts in SSCA or the patronage forecasts in Annex 2 to the Paper; and

(5) as it is mentioned in the Paper that the total amount of Additional Concession Payments to be received by KCRC from MTRCL will be a net of about \$2.7 billion, whether that amount is equivalent to 90 per cent of the Discounted Net Cashflow of the XRL project; whether the method for arriving at the amount of around \$8 billion of "fixed annual payments" to be paid by KCRC to MTRCL is as follows: by deducting from the aforesaid \$10.7 billion an amount equivalent to 90 per cent of the Discounted Net Cashflow of the XRL project?

Reply:

President,

The Hong Kong Section of the Guangzhou-Shenzhen-Hong Kong Express Rail Link (XRL) officially came into operation on September 23, 2018 and has been operating smoothly in general. The MTR Corporation Limited (MTRCL) as its operator will keep improving various operating arrangements (such as ticketing, station facilities and services). Meanwhile, passengers are also

getting used to using XRL as a cross-boundary transport mode.

My reply to the various parts of the Hon Tanya Chan's question is as follows:

(1) Since the commissioning of the West Kowloon Station, the Hong Kong Section of the XRL has a total patronage of 1 985 937, comprising 954 172 outbound passengers and 1 031 765 inbound passengers as at October 31, 2018. During this period, the average daily patronage for the Hong Kong Section of the XRL was 50 921 and the highest patronage for a day (October 5, 2018) was 80 020. Hong Kong passengers accounted for about 30 per cent of the total patronage while those from the Mainland and other nationalities about 70 per cent. We will compile statistics on the types of passengers and purposes of travel (such as business or tourism) for the XRL as well as the patronage of other cross-boundary transport modes and announce in due course.

XRL is a brand new cross-boundary transport mode for Hong Kong. Passengers will need time to adapt to this new means of travelling. We cannot make a conclusive forecast on the long-term demand for XRL just on the basis of the patronage and the proportion of Hong Kong passengers for around the first six weeks after the commissioning of the Hong Kong Section of the XRL. We trust that patronage will increase progressively with increasing number of passengers enjoying the convenient services of XRL.

(2) The Government's earlier forecast of the average daily patronage at the initial commissioning stage (i.e. 2018) and 2021 of the Hong Kong Section of the XRL would be 80 100 and 95 000 respectively. Based on an established transport model, we have input the latest figures and considered the latest planning data and development of Hong Kong and the Mainland to forecast the daily patronage for the XRL. Since the XRL is a brand new cross-boundary transport mode, for the purpose of ensuring the financial stability of the operation of Hong Kong Section of the XRL, the Government, the Kowloon-Canton Railway Corporation (KCRC) and the MTRCL has adopted a more prudent daily patronage forecast for the Hong Kong Section of the XRL in the business case (including the Patronage Cap-and-Collar Mechanism) for the Supplemental Service Concession Agreement (SSCA) As the MTRCL is operating on commercial principles, it would not be appropriate to disclose the commercially-sensitive financial projection method and data in the SSCA. The Government had explained the matters in detail when announcing the operating arrangements for the Hong Kong Section of the XRL on August 23, 2018.

(3) Since the commissioning of the Hong Kong Section of the XRL, the patronage has never touched the lower limit under the Patronage Cap-and-Collar Mechanism as set out in SSCA. In other words, the KCRC does not need to pay any compensation to MTRCL. The said mechanism is calculated on the basis of a calendar year and will not be triggered by the patronage fluctuation of individual days.

(4) and (5) Our overall target is that the Hong Kong Section of the XRL should be financially healthy and stable over the ten-year concession period, so that it does not require subsidises from KCRC on the one hand, and enable the MTRCL as a listed company to obtain reasonable commercial return, on the

other. The net revenue (i.e. additional concession payments) is calculated entirely according to the established mechanism under the Operating Agreement, viz. calculated by taking 90 per cent of the Discounted Net Cashflow of each year of the new project (i.e. the Hong Kong Section of the XRL) during the concession period. The MTRCL will only retain the remaining 10 per cent. In this regard, it is estimated that the KCRC will receive about \$10.7 billion of total concession payment (i.e. Variable Annual Payment) from the MTRCL over the ten-year period. This estimate is based on the patronage forecast as set out in SSCA. For accounting purpose, the KCRC has to pay a fixed amount of about \$8 billion to the MTRCL for meeting the expenses for the asset replacement of the Hong Kong Section of the XRL. According to the terms of SSCA, even if adopting the more prudent daily patronage forecast as set out in SSCA, the KCRC will still be able to receive a net revenue (i.e. additional concession payments) of \$2.7 billion over the ten-year period. The Hong Kong Section of the XRL will also see positive overall operating profit (in terms of earnings before interest, taxes, depreciation and amortisation) and positive operating margin during the ten-year period.